



2011 Annual Report

BAOSHAN IRON & STEEL CO., LTD.

Disclaimer:

The information contained in this English version of 2011 Annual Report is provided as a reference only with the understanding that Baoshan Iron & Steel Co., Ltd. makes no warranties, either expressed or implied, concerning the accuracy of the translation. For full information, please refer to Baosteel's Chinese version of 2011 Annual Report.

To Our Investors

2011 saw the beginning of the “Twelfth Five-year Plan”, as well as the severe tests for the steel industry. Especially in the second half of the year, affected by the downturn of the international economy, China also experienced an economic slowdown. The shrinking market demands posed serious difficulties for the steel industry. In 2011, the total revenue from China’s major large-and-medium-scale steel corporations was RMB 87.53 billion, a 4.51% fall from that of the previous year; while the operating profit margin from sales of the whole industry registered a mere 2.42%, a drop of 0.49 pts from that of the previous year.

In the face of complex and changeable market situation, the Company vigorously focused on the three core tasks of “product management, cost improvement, and capability upgrading”. It took rational measures to overcome all difficulties, and tap on its potential. As a result, the Company maintained a best performance among its peers. In 2011, it sold 25.8 million tons of finished products, 2.1% higher than the previous year; and realized a total operating revenue of RMB 222.86 billion, 10.01% higher than the previous year. The gross profit was RMB 9.26 billion, and the net profit attributable to the Company’s stockholders was RMB 7.36 billion, with the EPS of RMB 0.42 per share.

In response to the operational difficulties, both the Company and the Baosteel Group introduced measures for several times to strengthen the investors’ confidence and enhance the Company’s stock value, such as encouraging the management of the Company to increase their shareholdings, the parent company-Baosteel Group’s announcement to add no more than 2% of the company’s shareholdings, and selling the less profitable business units of stainless steel and special steel.

The year 2012 is witnessing more uncertainties in the global economy as it continues to slow down, the European and American economies are experiencing slump conditions and the European sovereign debt crisis is spreading. The global economy is expected to contract, affecting China’s economic growth. China will adhere to its sound monetary policies and pro-active fiscal policies, and taking the structural adjustment as the core task of the macro-economic control policies.

In terms of the industry development, the steel industry still faces the heavy task of structural adjustment. Such problems as the slowdown of demands, further squeeze of the profit margin by the upstream industries, and the increasingly intensified homogeneous competition will continue to cloud the operating of the industry.

2012 will be full of challenges just as 2011 was eventful for the steel industry. While giving full play to its existing advantages, the Company will work determinedly to innovate and forge new competitive advantages and strive to achieve best operating performance among its peers. In the future, the company will focus on the flat carbon steel business with a differentiating advantage, draft a new round of business plan, with the aim to distinguish itself as the most competitive steel enterprise, and the most valuable listed steel company.

Important Notice

The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter “the Company”), along with their directors, supervisors and senior executives, hereby guarantee that the *2011 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*.

Eight of the nine directors attended the board meeting. While Director Wu Yaowen was absent from the board meeting due to occupation of other work, Director Buck Pei was entrusted, by Mr. Wu himself, to vote on his behalf.

Deloitte Touche Tohmatsu Certified Public Accountants Limited gave standard unqualified audit report for the Company.

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

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

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

Table of Contents

●	Important Notice	001
●	I. Company Profile	002
●	II. Accounting and Financial Highlights	003
●	III. Capital and Shareholders	005
●	IV. Directors, Supervisors, Senior Executives, and Employees	009
●	V. Corporate Governance	016
●	VI. Shareholders' Meetings	022
●	VII. Directors' Report	023
●	VIII. Supervisors' Report	046
●	IX. Significant Events	048
●	X. Financial Statements	058
●	XI. Documents Available for Reference	160

I. Company Profile

1. Chinese Name: 宝山钢铁股份有限公司
Chinese Abbreviation: 宝钢股份
English Name: Baoshan Iron & Steel Co., Ltd.
English Abbreviation: Baosteel
2. Legal Representative: He Wenbo
3. Secretary to Board of Directors: Chen Ying
Representative of Securities Affairs: Yu Hong
Address: Board of Directors of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Zip Code: 201900
Telephone: 86-21-26647000
Fax: 86-21-26646999
Email: ir@baosteel.com
4. Registered Address: Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Zip Code: 201900
Office Address: Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Zip Code: 201900
Company Website: <http://www.baosteel.com>
Email Address: ir@baosteel.com
5. Company Announcements or Disclosures published in *China Securities News*, *Shanghai Securities News*, and *Securities Times*
Annual Report Website Designated by China Securities Regulatory Commission: <http://www.sse.com.cn>
Copies of the *Report* can be obtained from Baosteel Secretariat, Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai.
6. Stock type: A share
Stock listed at: Shanghai Stock Exchange
Stock name: 宝钢股份
Stock code: 600019
Stock abbreviation before alteration: G宝钢
7. Other related information

Date of Incorporation		3 February 2000
Place of Incorporation		Guoyuan, Fujin Road, Baoshan District, Shanghai
Initial Change	Date of Change of Registration	30 November 2000
	Address of Change of Registration	Guoyuan, Fujin Road, Baoshan District, Shanghai
	Corporate Business License	3100001006333
	Tax Identification Number	310041631696382
	Organization Code	63169638-2
Latest Change	Date of Change of Registration	14 October 2010
	Address of Change of Registration	Baosteel Tower, 885 Fujin Rd. Baoshan District, Shanghai.
	Corporate Business License	310000000074519
	Tax Identification Number	310113631696382
	Organization Code	63169638-2
Accounting Firm		Deloitte Touche Tohmatsu Certified Public Accountants Limited
Office Address of Accounting Firm		30th Floor, Bund Center, 222 Yan An Rd. East, Shanghai, China (200002)
Changes in Registration		Changes in registration were made on 30 November 2000, 11 May 2005, 1 September 2005, 1 June 2006, 23 April 2007, 18 January 2008, 22 June 2009, 23 April 2010, 23 August 2010 and 14 October 2010.

II. Accounting and Financial Highlights

(I) Major Accounting Data

(RMB Million)	
Item	Amount
Operating profit	8,839
Pre-tax profit	9,260
Net profit attributable to shareholders of the listed Company	7,362
Net profit attributable to shareholders of the listed Company less non-recurring gains and losses	7,009
Net cash flow from operating activities	12,142

(II) Non-recurring Gains and Losses

(RMB Million)			
Item	2011	2010	2009
Profit and loss from disposal of non-current assets	-121	-123	-342
Investment income from disposal of available-for-sale financial assets	42	8	428
Net increase from other non-operating activities	581	534	383
Effect of income taxes	-119	-98	-117
Effect of minority interest	-30	-17	33
Total of non-recurring gains and losses	353	304	385

II. Accounting and Financial Highlights

(III) Major Accounting Data and Financial Indicators for the Latest Three Years

(RMB Million)				
Major accounting data	2011	2010	Increase/Decrease from the previous year (%)	2009
Total operating revenue	222,857	202,413	10.10	148,525
Operating profit	8,839	16,646	-46.90	7,254
Pre-tax profit	9,260	17,056	-45.71	7,295
Net profit attributable to shareholders of the listed Company	7,362	12,869	-42.79	5,816
Net profit attributable to shareholders of the listed Company less non-recurring gains and losses	7,009	12,565	-44.22	5,431
Net cash flow from operating activities	12,142	18,856	-35.60	23,993

(RMB Million)				
Major accounting data	As at end of 2011	As at end of 2010	Increase/Decrease from the previous year (%)	As at end of 2009
Total asset	231,100	216,065	6.96	201,143
Total liability	117,630	104,743	12.30	99,923
Owners' interest (shareholders' equity) attributable to the listed Company	106,495	104,726	1.69	95,137
Total capital stock	17,512	17,512	-	17,512

(RMB Million)				
Major financial indicators	2011	2010	Increase/Decrease from the previous year (%)	2009
Basic earnings per share (RMB)	0.42	0.73	-42.79	0.33
Diluted earnings per share (RMB)	0.42	0.73	-42.79	0.33
Earnings per share calculated with the latest capital stock (RMB) (Note)	N/A	N/A	N/A	N/A
Basic earnings per share less non-recurring gains and losses (RMB)	0.40	0.72	-44.22	0.31
Weighted average return-on-equity (%)	7.02	12.93	-5.91 ppts	6.27
Weighted average return-on-equity less non-recurring gains and losses (%)	6.69	12.62	-5.93 ppts	5.89
Net cash flow per share from operating activities (RMB)	0.69	1.08	-35.60	1.37

(RMB Million)				
Major financial indicators	As at end of 2011	As at end of 2010	Increase/Decrease from the previous year (%)	As at end of 2009
Book value per share attributable to the listed Company (RMB)	6.08	5.98	1.69	5.43
Asset-liability ratio	50.90	48.48	2.42 ppts	49.68

Note: If during the period from the end of the reporting period to the date when the report is disclosed, the Company's capital stock changes and the owner's equity is affected because of the increase issues in stocks, stock allotment, the exercise of equity incentive, and share repurchase, the "Earnings per share calculated with the latest capital stock" of the reporting period should be disclosed.

III. Capital and Shareholders

(I) Changes in Share Capital

1. Changes in share capital

	(Share)								
	Beginning of year		Changes in the period (+, -)					End of year	
	Shares	%	Shares issued	Bonus share	Share transferred from reserve	Others	Sub-total	Shares	%
I. Shares subject to conditional sales									
II. Shares not subject to conditional sales	17,512,048,088	100						17,512,048,088	100
1. RMB ordinary shares	17,512,048,088	100						17,512,048,088	100
2. Domestic listed international investment shares									
3. Overseas listed international investment shares									
4. Others									
III. Total	17,512,048,088	100						17,512,048,088	100

2. Changes in shares subject to conditional sales

The Company has no shares subject to conditional sales in the reporting period.

(II) Issuance of Securities

1. Issuance of securities in the previous three years

In the previous three years, there is no issuance of securities.

2. Changes of the Company's total shares and share structure

No changes of the Company's total shares and share structure occurred during the reporting period due to complimentary shares or share allotment.

3. Status of existing employee stocks

During the reporting period, no shares for employees of the Company were in issue.

III. Capital and Shareholders

(III) Shareholders and Actual Controllers

1. Shareholders and their shares

(Unit: Share)

Number of shareholders in the end of 2011	601,660
Number of shareholders in the end of the previous month before this disclosure of this report	588,168

Top 10 shareholders

Name	Type of Investor	Percentage (%)	Total shares	Increase during the period	Shares subjected to conditional sales	Shares pledged or frozen
BAOSTEEL GROUP CORP.	State-owned	74.87	13,111,255,230	157,737,789	0	None
RUGAO CHANGRONG ORE STORAGE LIMITED	Others	0.40	70,185,347	12,955,835	0	None
ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD.	Others	0.36	63,419,861	40,809,317	0	None
ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD.	Others	0.33	58,626,601	24,403,417	0	None
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND	Others	0.32	56,389,527	2,891,925	0	None
UBS AG (Bank, Switzerland)	Others	0.30	52,959,082	-17,969,311	0	None
BANK OF COMMUNICATION—E FUND 50 INDEX SECURITIES INVESTMENT FUND	Others	0.30	51,875,729	-19,400,000	0	None
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD.	Others	0.29	51,612,776	14,980,855	0	None
INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD.)	Others	0.27	47,747,549	35,255,453	0	None
ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD.	Others	0.24	42,414,158	14,811,871	0	None

Top 10 tradable-share holders

Shareholders	Shareholdings of unconditional share	Share type
BAOSTEEL GROUP CORP.	13,111,255,230	RMB ordinary share
RUGAO CHANGRONG ORE STORAGE LIMITED	70,185,347	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD.	63,419,861	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD.	58,626,601	RMB ordinary share
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND	56,389,527	RMB ordinary share
UBS AG (Bank, Switzerland)	52,959,082	RMB ordinary share
BANK OF COMMUNICATION—E FUND 50 INDEX SECURITIES INVESTMENT FUND	51,875,729	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD.	51,612,776	RMB ordinary share
INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD.)	47,747,549	RMB ordinary share
ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD.	42,414,158	RMB ordinary share

Remarks on affiliation, alliance or collusion among the aforementioned top ten shareholders	According to the Medium-term Notes Prospectus published by Jiangsu Shagang Group Co., Ltd. (Shagang Group) in May and November of 2011, Rugao Changrong Ore Storage Limited is the joint stock company of the subsidiary controlled by Shagang Group; the shareholders of Zhangjiagang Free Trade Zone Qianxing Investment & Trading Co., Ltd. is Shagang Group's shareholders; the actual controllers of Zhangjiagang Free Trade Zone Lixin Investment Co., Ltd., and Zhangjiagang Free Trade Zone Rixiang International Trade Co., Ltd. are both the major shareholders of Shagang Group. The controlling shareholder of Zhangjiagang Hongda Transportation Co., Ltd. is the shareholder of Shagang Group. The Company is not aware of any connection among or between the top ten shareholders and top ten shareholders of shares without selling restrictions or that they are persons acting in concert as provided for in the Measures for the Administration of Acquisitions by Listed Companies.
---	--

Note:	During the period from 27 September 2011 to 28 December 2011, Baosteel Group purchased 157,737,789 more shares of the Company through the trading system of Shanghai Stock Exchange, increasing its holding of the Company's share to 74.87%. On 16 January 2012, Baosteel Group purchased another 17,570,037 shares of the Company through the same trading system. After the two purchases, the Group owns 13,128,825,267 shares of the Company, accounting for 74.97% of the total issued shares of the Company.
-------	---

Baosteel Group planned to continue purchasing shares of the Company in its own name from the secondary market in the following 12 months after its first increase of shares on 27 September 2011. The accumulated share increase holding percentage shall not exceed 2% of the Company's issued shares (including this increase). Baosteel Group promised that during the share increase period and the legal time limit, they would not reduce its holding of shares.

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

2. Holding company and actual controller

(1) Holding company

Name	Shanghai Baosteel Group Corporation
Legal representative:	Xu Lejiang
Date of incorporation	17 November 1998
Authorized capital	RMB 51,082,620,998.89
Principal businesses and operations	As a governmental authorized investment vehicle and a state-owned holding company, Baosteel Group Corporation mainly deals with state-owned assets within the authorized scope set by the State Council. The Corporation has also been involved in investments in areas of iron & steel manufacturing, metallurgy and mineral products, non-toxic chemicals, electricity, piers, warehousing, transportation, and steel-related business, technological development, technology transfer, technical supporting, and technical management consulting, as well as in areas of import and export businesses approved by the Ministry of Foreign Trade & Economic Cooperation (MOFTEC), domestic and international trading where allowed, and import and export services of products and technology.

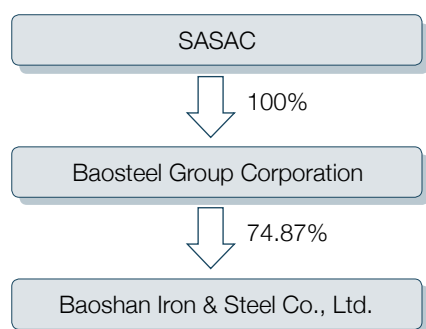
(2) Actual controller

Baosteel's actual controller is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

(3) Changes of the holding company and actual controller

The holding company and actual controller remained unchanged in the reporting period.

(4) The enterprise property rights and controlling relationship between the Company and its actual controller



3. Other corporate shareholders holding over 10% shares

As at the end of the reporting period, the Company has no other corporate shareholders holding over 10% shares.

III. Capital and Shareholders

(IV) Information of Convertible Corporate Bonds

1. Issuance of convertible bonds

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

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

Approved by Shanghai Stock Exchange in the document [2008] 11, a total of 1,600,000,000 stock warrants after separation were listed in Shanghai Stock Exchange on July 4, 2008. The stock warrant was abbreviated as "Baosteel CWBI" 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 CWBI" 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 CWBI" stock warrants were delisted in Shanghai Stock Exchange.

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

Number of holders of convertible bonds at the end of the reporting period	9,474
Underwriter of the Company's Convertible Bonds	Baosteel Group Corp.

Top ten holders of Baosteel Convertible Bond

Holders	Bonds held at the end of the reporting period (RMB)	Percentage (%)
China Pacific Life Insurance Co., Ltd.	1,690,577,000	16.91
New China Insurance Co., Ltd.	1,449,378,000	14.49
National Council for Social Security Fund—305 Combo	499,158,000	4.99
China National Petroleum Corporation Enterprise Annuity Plan—Industrial and Commercial Bank of China	400,000,000	4.00
Huatai Life Insurance Company Ltd. — Dividend-unit-linked product	388,749,000	3.89
Bank of Communications Co., Ltd. — ICBC Ruixin bond security investment fund	385,336,000	3.85
New China Life Insurance Co., Ltd. — Wanneng-Deyi financial bond, fund account	384,108,000	3.84
China Petroleum Finance Co., Ltd.	383,936,000	3.84
China Petroleum Finance Co., Ltd.	377,073,000	3.77
Citic Securities Co., Ltd.	355,249,000	3.55

3. Changes of the convertible bond price

Date of adjustment	Price after adjustment	Disclosure date	Disclosure media	Notes
15 June 2009	12.16	15 June 2009	China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn)	Dividend distribution
24 May 2010	11.80	24 May 2010	China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn)	Dividend distribution
Closing price for the convertible bond of the period		The exercise for "Baosteel CWBI" was ended		

4. The profitability, assets status and credit rating of Baosteel Group, the guarantee of the Company's "08 Baosteel Bond", have not experienced significant changes.

5. At the end of the reporting period, the asset-liability ratio was 47.9%, an indication of a stable capital structure. In the coming years, the Company would repay its due bonds by its own capital and debt financing.

IV. Directors, Supervisors, Senior Executives and Employees

(I) Shareholding Status of the Directors, Supervisors, and Senior Executives

Name	Position	Gender	Age	Term of office	Shares held at beginning of the year	Shares held at end of the year	Reason for the changes
He Wenbo	Chairman of Board of Directors	M	56	2010.03-2012.04	80,000	80,000	
Ma Guoqiang	Director, President	M	48	2009.04-2012.04	60,000	100,000	Purchased at the secondary market
Liu Zhanying	Director	F	56	2010.04-2012.04			
Zhao Zhouli	Director	M	55	2011.04-2012.04			
Zhu Junsheng	Director	M	51	2011.04-2012.04	0	40,800	Purchased at the secondary market
Wu Yaowen	Director	M	68	2009.04-2012.04			
Buck Pei	Independent Director	M	54	2009.04-2012.04			
Katherine Tsang	Independent Director	F	54	2009.04-2012.04			
Edward C. Tse	Independent Director	M	55	2009.04-2012.04			
Li Li	Chairwoman of Board of Supervisors	F	58	2009.04-2012.04	30,000	30,000	
Lin An	Supervisor	M	55	2010.04-2012.04	0	35,800	Purchased at the secondary market
Zhou Guiquan	Supervisor	M	56	2009.04-2012.04			
Zhang Pijun	Supervisor	M	53	2009.04-2012.04			
Zhu Keping	Supervisor	M	37	2009.04-2012.04			
Li Yongxiang	Vice President	M	51	2009.04-2012.04	0	38,000	Purchased at the secondary market
Jiang Licheng	Vice President	M	53	2009.04-2012.04	0	41,900	Purchased at the secondary market
Chen Ying	Vice President, Secretary to Board	F	40	2009.04-2012.04	60,000	60,000	
Lou Dingbo	Vice President	M	49	2009.04-2012.04	0	35,000	Purchased at the secondary market
Pang Yuanlin	Vice President	M	48	2009.04-2012.04	0	38,800	Purchased at the secondary market
Zhou Jianfeng	Vice President	M	48	2009.04-2012.04	0	35,000	Purchased at the secondary market
Wang Jing	Vice President	F	48	2010.08-2012.04	36,000	36,000	

Notes: The term of office will end at the date when the 2012 Annual Shareholders' Meeting is finished.

IV. Directors, Supervisors, Senior Executives and Employees

(II) Annual Remunerations of the Directors, Supervisors, and Senior Executives

The annual remunerations of directors and supervisors will be set and approved by Board of Directors in accordance with their annual performance and with the "Remuneration Management for Advanced Managerial Staff", and the "Rules for Rewarding the Special Contributions by Advanced Managerial Staff".

The remunerations of the Directors, Supervisors and Senior Executives for the year 2011 totaled RMB 16,274,800 (pre-tax, the same in the following sheet).

(RMB Ten Thousand)

Name	Position	Compensation from share-holders or affiliated companies	Remuneration from the Company in reporting period (pre-tax)	Non-yearly remuneration from the Company
He Wenbo	Chairman of Board of Directors	Yes	-	
Ma Guoqiang	Director, President	No	150.8	
Liu Zhanying	Director	Yes	-	
Zhao Zhouli	Director	Yes	-	
Zhu Junsheng	Director	No	135.1	
Wu Yaowen	Director	No	2.5 (Note 1)	
Buck Pei	Independent Director	No	35	
Katherine Tsang	Independent Director	No	35	
Edward Tse	Independent Director	No	35	
Li Li	Chairperson of Board of Supervisors	No	35	
Lin An	Supervisor	No	123.5	
Zhou Guiquan	Supervisor	Yes	-	
Zhang Pijun	Supervisor	No	124.3	
Zhu Kebin	Supervisor	Yes	-	
Li Yongxiang	Vice President	No	133.1	
Jiang Licheng	Vice President	No	136.1	
Chen Ying	Vice President, Secretary of the Board of Directors	No	133.1	
Lou Dingbo	Vice President	No	134.1	
Pang Yuanlin	Vice President	No	134.1	
Zhou Jianfeng	Vice President	No	133.1	
Wang Jing	Vice President	No	133.1	
Sun Haiming	Retired Independent Director	No	14.58	2011.01-2011.05
Dai Zhihao	Retired Director	Yes	-	
Fu Zhongzhe	Retired Director	Yes	-	
Total			1627.48	

Note: "Compensation from share-holders or affiliated companies" refers to whether the Director or Supervisor or any other senior executive is paid by a shareholder or an affiliated company.

Note 1: According to "Interim Measures for the Remuneration and Treatment of the Board of Directors of a Central Enterprise in the Pilot Program on Board of Directors", Director Wu Yaowen stopped to get his yearly pension from Baoshan Iron & Steel Co., Ltd. from January 2010. Instead, he will be paid meeting allowance according to the standard set by the State-owned Assets Supervision and Administration Commission of the State Council.

When the directors, supervisors, and senior executives attend the Directors' Meeting, Supervisors' Meeting and the Shareholders' Meeting, the Company will cover their traveling and hotel expenses.

(III) Profile of Directors, Supervisors, and Senior Executives in Last Five Years

He Wenbo (born in June 1955), Senior Engineer, Director and President of the SBGC, and Chairman of the Board of Directors of Baoshan Iron & Steel Co., Ltd.

Mr. He is highly experienced in manufacturing, marketing, management and human resources in the field of iron and steel industry. Since he started to work for Baoshan Iron & Steel Co., Ltd. in 1982, Mr. He held various positions with the company, including vice manager and, later, manager of the blooming plant, manager of the hot rolling plant and director of the department of the technology of Shanghai Baoshan Iron & Steel Co., Ltd. General Plant; assistant to the president and, later, vice president of the SBGC; vice president of Baosteel International Trading and chairman of the board of directors and president of Baosteel International; director of the board of directors and vice general manager of Shanghai Baosteel Group, vice president of the SBGC; director of the first, second and Third Boards of directors. Director and president of the SBGC since April, 2008; Chairman of the board of the directors of Guangdong Iron and Steel (Group) Corporation since June, 2008; Vice chairman of the Fourth Board of directors of Baoshan Iron & Steel Co., Ltd. since April, 2009; Chairman of the Fourth Board of directors of Baoshan Iron & Steel Co., Ltd. since March 2010.

Mr. He was graduated from Northeast University in 1982 and he obtained his EMBA from Sino-European International Management Institute in 2001.

Ma Guoqiang (born in November 1963), Senior Accountant, is currently director of the board of directors and president of the Company

Mr. Ma is highly experienced in industrial accounting, finance, investment marketing, management in the field of iron and steel industry. Since he started to work for Baoshan Iron & Steel Co., Ltd. in July 1995, Mr. Ma held various positions with the company, including vice director of department of finance of Baoshan Iron & Steel Co., Ltd. (Group) Corporation; vice director and, later, director and vice president of the department of planning and accounting of Shanghai Baosteel Group; Vice president as well as general accountant of the SBGC; and Director of the Fourth Board of directors and president of Baoshan Iron & Steel Co., Ltd. since April 2009. Mr. He also serves as independent director of the board of directors of Societe General (China) Limited.

Mr. Ma was graduated from Beijing University of Science and Technology in 1986 and obtained his EMBA degree from a programme jointly managed by Arizona State University and National Institute of Accounting in Shanghai in August 2005.

Liu Zhanying (born in October 1955), Senior Political Officer, is currently Secretary of CPC Committee for Disciplinary Inspection of Baosteel Group as well as Secretary of CPC committee for Disciplinary Inspection, and the Chairperson of Board of Supervisors of Guangdong Iron & Steel Group, and member of the Board of Directors of Baoshan Iron & Steel Co., Ltd.

Ms. Liu has rich experience of working in the domain of disciplinary inspection. She worked for the Central Commission for Discipline Inspections of the CPC, Ministry of Supervision, and Central Work Committee for Enterprises. Before joining Baosteel, Ms. Liu was the deputy secretary of the CPC committee and the secretary of the committee for disciplinary inspection of the State-owned Assets Supervision and Administration Commission of the State Council. In October 2005, she assumed the secretary of the committee for disciplinary inspection and standing member of CPC committee of Baosteel Group Corporation. She once assumed the secretary of the committee for disciplinary inspection of Baoshan Iron & Steel Co., Ltd. concurrently. In August 2008, she assumed the chairperson of the Board of Supervisors, and the secretary of the committee for disciplinary inspection of Guangdong Iron & Steel Group concurrently. In April 2010, she assumed the director of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd. concurrently.

Ms. Liu was graduated from Shandong College of Oceanography in 1979, and got her master degree on Sociology from the Party School of the Central Committee CPC in January 2004.

Zhao Zhouli (born in April 1956), senior engineer at professor level, is currently vice president of Baosteel Group Corp., member of the BOD of Baoshan Iron & Steel Co., Ltd., director of Baosteel Engineering technology committee, President of Baosteel Zhanjiang Iron & Steel Co., Ltd. (Zhanjiang Iron & Steel), and command-in-chief of Zhanjiang Iron & Steel Engineering Headquarters.

Mr. Zhao is highly experienced in manufacturing, equipment and management in the iron and steel industry. Since he started to work for Baosteel in 1982, Mr. Zhao held various positions with the company, including assistant to manager of the blooming mill; vice director and, later, director of the department of the equipment; assistant to president of the Group and assistant to president of the Company. He was also president of the Company and chairman of Shanghai Baosteel Engineering & Technology Group Co., Ltd. He has been director of Baosteel Engineering Technology Committee since August 2009, and vice president of Baosteel Group Corp. since July 2010. He became president of Zhanjiang Iron & Steel Co., Ltd. and command-in-chief of Zhanjiang Iron & Steel Engineering Headquarters since March 2011. In April 2011, he assumed the director of the Fourth Board of Baoshan Iron & Steel Co., Ltd. concurrently.

Mr. Zhao was graduated from Northeast University in 1982 and he obtained his PhD in Engineering from the same university in 2002.

Zhu Junsheng (born in November 1960), Senior Engineer, is currently member of the BOD and deputy secretary of CPC committee of the Company.

Mr. Zhu is highly experienced in management of production planning, cost, and human resource. Since he started to work for the Company in 1983, Mr. Zhu held various positions with the company, including director of the department of production planning, vice director and, later, director of the department of cost management, vice director of the personnel department of Shanghai Baosteel Group, director of the personnel department of the Company and assistant to the president of the Company, and vice president of the Company. He has been deputy secretary of CPC committee of the Company since March 2010. In April 2011, he assumed the position of a director of the Fourth BOD of Baoshan Iron & Steel Co., Ltd. concurrently.

Mr. Zhu was graduated from Maanshan Institute of Iron and Steel in July 1983 and he obtained his EMBA from China Europe International Business School in 2007.

IV. Directors, Supervisors, Senior Executives and Employees

(III) PROFILE OF DIRECTORS, SUPERVISORS, AND SENIOR EXECUTIVES IN LAST FIVE YEARS

Wu Yaowen (born in September 1943), is currently outsider director of the Group and BOD member of the Company.

Mr. Wu is highly experienced in industrial business management. He held various positions with the large companies in China, including the chief representative of Mixed Commission for Cooperation with Other Countries in Offshore Petroleum, Shengli Oilfield; vice president of Southern Huanghai Company of China Offshore Petroleum; director of Oil Administration of Qinghai Province; general engineer in petroleum of Ministry of Energy of China; director of the energy department of National Planning Committee of China; director of the international cooperation department and, later, assistant to president and vice president of China Petroleum & Natural Gas (Group) Corporation; vice chairman of the BOD of China Petroleum & Natural Gas Co., Ltd. Mr. Wu is currently the chairman (external director) of China National Coal Group Corporation and the external director of the Group. He has been on the Fourth Board of the directors of the Company since April 2009.

Mr. Wu was graduated from Beijing Institute of Petroleum in 1967.

Buck Pei (born in March 1957) is currently independent director of the Company.

Mr. Pei is well known in the field of accounting in the USA. Among the various posts he held were assistant professor, associate professor and full professor of Arizona State University; chair of the Chinese Accounting Professors' Association of North America; and Chairman of Global Committee of American Accounting Association. He is currently professor of accountancy at Arizona State University and associate dean of W. P. Carey School of Business and supervisor of the doctoral program at the university. He has been independent director of the Fourth Board of directors of the Company since April 2009.

Mr. Pei was graduated from National Taipei University and he obtained his MA from Southern Illinois University and his PhD from the University of North Texas.

Katherine Tsang (born in May 1957) is currently independent director of the Company.

Ms. Tsang is highly experienced in decision-making and employee administration. She worked for Kowloon-Canton Railway and Hong Kong Government, among others. In 1992, Ms. Tsang started to work for Standard Chartered Bank, first as HR Inspector General of Equitor Group (the later Standard Chartered Bond Trusteeship Business Department), inspector of the department of human resource, inspector of human resource in Asia-Pacific area, and group head of organization learning. She served later on as president, chief acting president and vice chairperson of the BOD of Standard Chartered Bank (China) Ltd. Ms. Tsang is currently chairperson of Greater China, Standard Chartered Bank (China) Ltd. and chairperson of the BOD of Standard Chartered Bank (China) Ltd. She has been an independent director of the Company since April 2009.

Ms. Tsang received her Bachelor degree in business from University of Alberta, Canada.

Edward C. Tse (born in June 1956) is currently independent director of the Company.

Mr. Tse has worked as senior executives consultant and senior administrator for more than twenty years. The posts he held included Global Vice President of Boston Consulting Group and managing partner of the Chinese branch of the company; executive vice president of the planning and development department of Hong Kong Telecom and president and acting director of the Greater China, Hong Kong Telecom. He served as independent director of the Company. Currently president of Booz & Company (Greater China), Mr. Tse has been an independent director on the Fourth Board of directors of the Company since April 2009.

Mr. Tse obtained his MSc in Civil Engineering from Massachusetts Institute of Technology and his MBA PhD in Civil Engineering from the University of California at Berkeley.

Li Li (born in December 1953) is currently chairperson of board of supervisors of the Company.

Ms. Li is now Beijing Office Director of Cleary Gottlieb Steen & Hamilton LLP. Prior to joining Cleary Gottlieb, Ms. Li was a Partner of Debevoise & Plimpton LLP and Chief Representative of Debevoise & Plimpton LLP (Shanghai), before which she was partner and lawyer of a well-known international law firm in New York and Hong Kong. Li is highly experienced in management in areas of investment, financing and business combination. In New York Ms. Li specializes in asset-based lending, airplane financing, Mortgage-backed security and project financing. In China, she is involved in cooperation with international companies, Chinese companies, and fund management companies in areas of securities issuing, business combination, private equity fund management and international investment in China. Ms. Li was on the Third Board of supervisors and has been on the Fourth Board since April 2009.

Ms. Li obtained her MSc in Economics from Duke University and her PhD in law from Columbia University.

Lin An (born in April 1956), Senior Engineer, member of board of supervisors of the Company, and Chairman of the Labor Union.

Mr. Lin is experienced in iron and steel manufacturing, energy and environmental protection, and management of the Labor Union. Since he started to work for Baosteel in August 1982, Mr. Lin held various positions with the Company, including Assistant to factory director of Baosteel Blooming Mill, vice factory director of Cold Rolling Mill, vice group leader of the cold rolling team of Baosteel Project Command, vice factory director, and then director of Baosteel Blooming Mill, director of the Bar Steel Department, director of the Steelmaking Department, factory director of the Steelmaking plant, Assistant to the general manager of Baoshan Iron & Steel Co., Ltd., vice general manager of Baosteel branch, the person in charge of the Labor Union of Baoshan Iron & Steel Co., Ltd., and chairperson of the Labor Union. He has been the member of board of supervisors of the Company and Chairman of the Labor Union since April 2010.

Mr. Lin was graduated from Wuhan Institute of Iron and Steel in October 1978.

Zhou Guiquan (born in August 1955) is currently vice secretary of CPC committee for disciplinary inspection and director of department of supervision of the Group as well as member of board of supervisors of the Company.

Mr. Zhou is experienced in human resource management and disciplinary inspection. Since he started to work for Baoshan Iron & Steel Co., Ltd. in August 1983, Mr. Zhou held various positions with the company, including director of enterprise management division, director of supervision division, the secretary of CPC committee at hot rolling plant. He was on the Third Board of directors. Currently he serves as vice secretary of CPC Committee for disciplinary inspection and director of supervision department of the Group, and vice secretary of CPC committee for disciplinary inspection of the Company. He has been on the Fourth Board of supervisor since April 2009.

Mr. Zhou Guiquan holds a Bachelor degree.

Zhang Pijun (born in March 1958), Senior Engineer at professor level, is currently on the board of supervisors of the Company and president (director) of Baosteel Institute (Technical Center) of the Company.

Mr. Zhang is experienced in technical research and production management in the field of iron and steel industry. Since he started to work for the Company in January 1982, he held various positions with the company, including vice director and, later, director of research center for steel products at Baosteel Institute, assistant to president (director) and, later, vice president of Baosteel Institute (Technical Center). He was also vice director of the department of silicon steel at Baosteel branch. Mr. Zhang is currently president (director) of Baosteel Institute (Technical Center). He has been on the Fourth Board of supervisors since April 2009.

Mr. Zhang was graduated from Beijing University of Science and Technology in 1982 and he obtained his MSc from Beijing University of Science and Technology in January 1989 and his PhD from Northeast University in March 2006.

Zhu Kebing (born in October 1974), Senior Accountant, is currently on the board of supervisors of the Company and general manager of department of operation and finance of the Company.

Mr. Zhu is experienced in enterprise finance and investment management. Since he started to work for the Company in July 1997, he held various positions with the company, including vice director of the department of finance and accounting of the Company as well as the Group. He has been general manager of department of operation and finance of the Company since May 2009 and on the Fourth Board of supervisors since April 2009.

Mr. Zhu was graduated from Northeast University in 1997.

Li Yongxiang (born in October 1960), Senior Engineer, is currently vice president of the Company.

Mr. Li is highly experienced in steel production, marketing and management. Since he started to work for Meishan Company of Metallurgy in 1982, Mr. Li held various positions with the Company, including vice manager and, later, manager of Meishan Company of Metallurgy, member of board of directors and vice president of Shanghai Meishan (Group) Co., Ltd.; member of board of directors, vice president, chairman of the board of directors, and president of Baosteel Group Shanghai Meishan Co., Ltd. as well as member of board of directors and vice president of Shanghai Meishan Iron and Steel Co., Ltd.; member of board of directors and vice president of Baosteel Group Shanghai Meishan Co., Ltd. as well as chairman of board of directors and president of Shanghai Meishan Iron and Steel Co., Ltd.; president of Baosteel Group Shanghai Meishan Co., Ltd. as well as chairman of board of directors and president of Shanghai Meishan Iron and Steel Co., Ltd.; assistant to president of Baoshan Iron & Steel Co., Ltd. as well as chairman of board of directors and president of Shanghai Meishan Iron and Steel Co., Ltd. He has been vice president of Baoshan Iron & Steel Co., Ltd. since March 2008.

Mr. Li obtained his bachelor's degree of engineering in iron making from Northeast University in 1982, his EMBA from Sino-European International Management Institute in 2001, and his master's degree of engineering in metallurgy from Northeast University in 2003.

Jiang Licheng (born in July 1958), Engineer, is currently vice president of the Company and general manager of Steel Pipe, Tube and Bar Business Unit concurrently.

Having involved himself in industries of iron and steel for years, Mr. Li is highly experienced in equipment management, construction, and business management. Since he started to work for the Company in 1980, Mr. Jiang held various positions with the company, including manager of the Baosteel examination and testing company, vice director and, later, director of the equipment department of the Company; assistant to president and director of the equipment department of the Company; vice president of Meishan Iron & Steel Co., Ltd.; president of Baosteel Group Pudong Steel. He has been vice president of the Company as well as manager of the Company's Baosteel Branch since March 2008 to April 2009, when he switched to general manager of the management department of tubes and strips of the Company.

Mr. Jiang obtained his EMBA from Sino-European International Management Institute in 2004.

Chen Ying (born in March 1971), Senior Accountant, is currently Vice President and Secretary to the Board of Directors of the Company.

Mrs. Chen is highly experienced in finance and accounting, cost and budget management, corporate governance, information disclosure and investor relations in the iron and steel industry. Since she started her career in Baosteel in 1993, she held various positions with the company, including vice director and, later, director of the finance department of Baoshan Iron & Steel Co., Ltd. and director of the cost management department of the company. She became secretary to Baosteel Secretariat and financial controller of the company in October 2003. She has been Vice President of Baoshan Iron & Steel Co., Ltd. since March 2008.

IV. Directors, Supervisors, Senior Executives and Employees

(III) PROFILE OF DIRECTORS, SUPERVISORS, AND SENIOR EXECUTIVES IN LAST FIVE YEARS

Mrs. Chen obtained her bachelor's degree in public finance and banking from People's University of China in 1993, her MBAs from Maastricht School of Management, Holland, in 2003, and Fudan University, China, in 2005.

Lou Dingbo (born in July 1962), Senior Economist, is currently vice president and of the Company as well as the general manager of Stainless Steel Business Unit.

Mr. Lou is highly experienced in manufacturing and marketing of iron and steel products. Since he started to work for Baoshan Iron & Steel Co., Ltd. in 1983, Mr. Lou held various positions with the company, including vice director of marketing section cold-rolled products in department of marketing; general manager of Baosteel Southern Company; manager of the Sales Center of the Company; Assistant to President as well as Manager of the department of stainless steel products of the Company from March 2008, to April 2009. He has been vice president of the Company as well as general manager of the stainless products department of the Company since April 2009.

Mr. Lou obtained his bachelor's degree of engineering in mechanics from Northeast Institute of Technology in 1983 and his EMBA from Sino-European International Management Institute in 2003.

Pang Yuanlin (born in September 1963) Senior Engineer; is currently Vice President the Company as well as the general manager of Special Steel Business Unit.

Having involved himself in production management and scientific research management in iron and steel industry for years, Mr. Pang is highly experienced in business management and techniques in steel making. Since he started to work for Baoshan Iron & Steel Co., Ltd. in July 1985, Mr. Pang held various positions with the company, including vice manager of Baosteel hot-rolling plant; vice director of planning section of Baosteel Finance Department; vice director of department of construction and finance of the company; executive vice director and, later, director of department of hot-rolled products of the company as well as manager of the hot-rolling plant; assistant to President of the company and president (director) of Baosteel Institute of Iron and Steel Research. He has been Vice President of Baoshan Iron & Steel Co., Ltd. since March 2008 and General Manager of Special Steel Business Unit since January 2010.

Mr. Pang obtained his bachelor's degree of engineering in steel making from Wuhan Institute of Iron and Steel in 1985 and his MBA from Shanghai University of Finance and Economics in 1997.

Zhou Jianfeng (born in September 1963), Senior Engineer; is currently Vice President of the Company.

Mr. Zhou is highly experienced in production and business management in the field of iron and steel industry. Since he started to work for Baoshan Iron & Steel Co., Ltd. in August 1984, Mr. Zhou held various positions with the company, including vice manager and, later, manager of Baosteel hot rolling plant; assistant to president of the Group, assistant to the Company; vice manager of Baosteel Group; business supervisor of the Group and vice president of Han-Bao Iron and Steel Company. He has been vice president of the Company since April 2009.

Mr. Zhou was graduated from Beijing Institute of Iron and Steel in July 1984 and he obtained his EMBA from China Europe International Business School in April 2002.

Wang Jing (born in October 1963), Senior Economist, is currently Vice President of the Company.

Ms. Wang has rich experience in marketing and business management. She joined Baosteel in 1985 and has successively held positions of Vice President and President of Tianjin Baosteel Northern Trading Co., Ltd., Assistant to President of Baosteel International Trading Co., Ltd., President of Bsteel Online Co., Ltd., CIO of Baosteel International Trading Co., Ltd., President and Chief Representative of Baosteel America Inc, President of Baosteel International Trading Co., Ltd. She has been working as Vice President of Baoshan Iron & Steel Co., Ltd. since August 2010.

Ms. Wang graduated from Wuhan Institute of Iron and Steel in 1985. She received her EMBA degree from Guanghua School of Management, Beijing University in 2000 and her PhD degree in engineering from Northeastern University in 2009.

Posts in the shareholding company

Name	Shareholding company	Post held	Start of term	End of term	Remuneration from the Company
He Wenbo	Baosteel Group Corp.	Chairman of Board of Directors, President	April 2008		Yes
Liu Zhanying	Baosteel Group Corp.	Secretary of Committee for Disciplinary Inspection	October 2005		Yes
Zhao Zhouli	Baosteel Group Corp.	Vice President	July 2010		Yes
Wu Yaowen	Baosteel Group Corp.	External Director	October 2005		Yes
Zhou Guiquan	Baosteel Group Corp.	Vice Secretary of Committee for Disciplinary Inspection & Director of Supervision	May 2006		Yes
Zhu Kebing	Baosteel Group Corp.	General manger of Department of Operation and Finance	May 2009		Yes

Posts in others companies

Name	Name of company	Position	Start of term	End of term	Remuneration from the Company
Ma Guoqiang	Societe General (China) Limited	Independent Director	August 2008		Yes
Wu Yaowen	China National Coal Group Corp.	Chairperson of Board of Directors	October 2008		Yes
Buck Pei	W. P. Carey School of Business, Arizona State University	Associate Dean, Professor of Accountancy and Supervisor of Doctoral program	May 2003		Yes
Katherine Tsang	Greater China, Standard Chartered Bank (China) Ltd.	Chairperson	September 2009		Yes
Katherine Tsang	Standard Chartered Bank (China) Ltd.	Chairperson of Board of Directors	September 2009		No
Katherine Tsang	Gap Inc	Independent Director	August 2010		Yes
Edward C. Tse	Greater China, Booz & Company Edward	Chairperson of Board of Directors	November 2009		Yes
Li Li	Debevoise & Plimpton LLP	Partner	July 2005	February 2011	Yes
Li Li	Shanghai Office, Debevoise & Plimpton LLP	Head	September 2002	February 2011	No
Li Li	Cleary Gottlieb Steen & Hamilton LLP Beijing Office (USA)	Director	February 2011		Yes

(IV) Recruitment and Termination of Directors, Supervisors and Senior Executives

The Board of Directors received a resignation letter from Mr. Sun Haiming, the independent director, on 2 April 2011. According to the "Provisions of Shanghai Municipality on Curbing Corruption and Upholding Integrity among High-Ranking Leaders with Higher Education", leaders in the field of higher education should not hold concurrent posts such as enterprise leaders or independent directors in an economic entity either in or outside of the university. Taking into consideration of his current work situation, Mr. Sun Haiming applied to resign from the post of independent director of the Company and the post of member of the Audit Committee subordinate to the Board of Directors. But according to the rule No. 104 of the Articles of Company, "The Board of Directors is composed of 9 to 15 directors." With Mr. Sun's resignation, the members of the Board would be less than 9, the minimum requirement, during a certain period. Therefore, Mr. Sun Haiming had to carry on his duties in accordance with relevant laws, rules and the Articles of Company, until 29 April 2011, when new director candidates would be approved by the General Shareholders' Meeting.

The Company held the eleventh meeting of the Fourth Board of Directors. Director Mr. Fu Zhongzhe and Director Mr. Dai Zhihao, due to other occupation of work, applied to resign from the post of director of the BOD and other posts in the BOD.

As approved by the 2010 General Shareholders' Meeting held on 29 April 2011, Mr. Zhao Zhouli and Mr. Zhu Junsheng were elected as additional members of the Fourth Board of Directors.

(V) Employees

As at the end of the reporting period, the total number of the employees of the Company and its controlled companies was 41,919, including 25,839 who were involved in production, 12,169 in technical functions, and 3,911 in administration and management departments. Among them, 25,334 held three-year college or higher degrees. The staff members of the Company totaled 26,653, including 18,048 that were involved in production, 6,357 in technical functions, and 2,248 in administration and management departments. Among them, those held three-year college degrees or higher ones numbered 17,229. The company did not incur any expense for the retired employees in the period.

V. Corporate Governance

(I) Progress in Corporate Governance

Ever since listed at the stock exchange in 2000, with its goal of becoming a first-class international enterprise and an international public company, the Company has endeavored to create and execute, by means of standardizing its management and regulating its operation, a thorough and comprehensive corporate governance system, which features operational transparency in information publication, interactive relationship with investors, and strict and effective internal auditing and monitoring system, risk-controlling systems, sound credit and transparency in management, in strict compliance with the *Company Law*, the *Securities Law*, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the *Rules of Shanghai Stock Exchange for Stock Listing*. Efforts have also been made for further improvement in its corporate governance system by means of keeping abreast with domestic and international progress in management and continuously enhance the efficiency of the board of directors, while focusing on creativity and innovation. The Company has been endeavoring in developing a strategic leading company governance system that combines the characteristics of Baosteel, of the steel industry and of Chinese characteristics.

1. Strict corporate governance structure

The Company established its basic management framework and a top-down approval procedure must be followed in making decisions of great significance. The Shareholders' Meeting, the Board of Directors, the Executive Directors, and the presidents have their own distinctive and respective rights, making an interactive and balanced system among the departments of power, decision-making, management, and supervision.

2. Board of Directors with enterprising spirit

(1) Overview of the Board of Directors

The Company attaches great importance to the Board of Directors and efforts have been made to improve the operating efficiency of the Board. The Board of Directors grows along with the Company's development. It moves toward a board with strategic importance in governance based on the standardized operation and by taking the following measures: constructing basic management system, clarifying the important decision-making powers for each level of management, establishing executive directors, emphasizing the function of independent directors in the strategic planning of the Company, deepening the function of special committees, and practicing the closed-loop management for board decisions.

The Board of Directors has 9 directors, including three independent ones. In addition, Mr. Wu Yaowen has been trusted by the State-owned Assets Supervision and Administration Commission of the State Council as the Outside Director of the Baosteel Group Corp. He is also one of the directors of the Company, and is comparatively independent from the Company.

Three special committees have been formed to be responsible for the Board of Directors: Committee for Strategic Development and Risk Management, Auditing Committee and Compensation and Performance Evaluation Committee. Effort has been made to expand the functions of the committees.

(2) Mature independent director system

As one of the first few companies in China which introduced the practice of independent directors, the Company attaches great importance to the role of independent directors and enjoys a mature system of independent directors both in institution and practice. The independent directors, senior experts in security, finance and accounting, and management at home or abroad, are well-known professionals in corporate strategy, business management, finance, commerce, and human resources. Their devotion, independent stands, professional perspectives and experiences have contributed greatly to the management, significant decision-making and corporate governance system of the Company.

The Independent Directors are found to be active in bettering the special committees, playing an important role in the special committees of the Board of Directors. With Mr. He Wenbo as the director of the Committee for Strategic Development, one seventh of its members are independent directors. Mr. Buck Pei, an accounting professor, acts as the director of the Auditing Committee, whose independent directors take up two third of its members. Ms. Katherine Tsang is the director of the Compensation and Performance Evaluation Committee, whose members are all outside directors, with three fourth of its members are independent directors. With independent directors serving as the directors of Auditing Committee and Compensation and Performance Evaluation Committee, the independency and justness of the auditing and evaluation work can be effectively ensured.

(3) Innovative measures of the Board of Directors

The Company understood very well the link between theory and practice. It highly emphasized the innovation in systems and constantly improved the decision-making pattern of the Board of Directors. Many innovative mechanisms for communication arose from practice, such as the outside directors' meetings and the directors and senior executives exchange meetings, and so on.

In August 2011, BOD of the Company began to try the "Offsite meeting for the directors of the Group and the Company", carrying out a "brainstorming" among the top management of the Company. The core topic for the meeting was Company's strategy. During the meeting, directors of BOD had in-depth and open discussion about such strategic issues as increasing Company's competitiveness, and enhancing the value of investment in capital market.

Based on the successful experience of foreign countries, the Company made a pioneering innovation to the "Offsite meeting" by combining this pattern with the characteristics of China's state-owned listed companies. To be specific, the Company enabled the organic connection between the two communication mechanisms: one being the communication with the controlling shareholder Baosteel Group, and the other the offsite meeting mechanism for directors of the Company's BOD, facilitating the strategic information exchange between controlling shareholders and the BOD of the listed company, and the cooperation between these two parties.

(4) Honor for the BOD

In the reporting period, the Company received the "2011 Board of Directors Award" conferred by the "Tenth Forum for China's Corporate Governance", which was co-sponsored by Shanghai Stock Exchange and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Organization of Economic Cooperation and Development (OECD).

3. Full and transparent information disclosure

During the reporting period, the Company had combined as usual the compulsory and voluntary disclosures of information, treated all the shareholders on the principle of openness, impartiality, and justice, and increased its transparency through the timely disclosure of sensitive information about its stock price following the relevant rules strictly.

During the reporting period, the Company published four regular reports, and 28 interim announcements, and realized zero mistakes in information disclosure.

4. Fine and interactive relation with investors

During the reporting period, the Company had taken the initiative to improve its work on investor relation (hereinafter referred to as IR), making good communication with the investors. During this period, the Company had received a total of 437 domestic fund managers and securities analysts in 104 batches who came to the Company for investigation and research; the Company had also arranged for 27 batches of investors to visit the factory areas, hosted teleconferences for 28 times. Meanwhile, upon invitation, the Company had attended 11 large-scale investor exchange meetings at home and abroad hosted by such international investment banks as UBS AG, Mogan Stanley, and Merrill Lynch. Through keynote speeches, panel meetings and one-to-one communication, the Company had in-depth exchange with foreign investors on such areas as the prospect for employment, economic trend, raw material market, and corporate planning.

The Company stuck to active and pertinent communication and service to investors. For many medium-small investors, the Company published performance report on the Internet after the publication of regular reports. For institutional investors, the Company held meetings of annual and semi-annual performance analysis. Chairman, president, vice president of financial affairs, and secretary to the Board took part in the above-mentioned activities, having real-time communication with the investors, learning about the investors' ideas, and answering the urgent questions from the investors. The Company also conducted surveys about IR service, collecting the preference and opinions from investors through questionnaires. The Company endeavors to improve and optimize its IR service.

The Company made effective use of the Internet to enable the fair information disclosure and continued to raise its level of informationalization. In 2011, the IR team made adjustment to the website structure: added the FrontPage with IR column, the page of "Notice of Significant Events" to facilitate the users, and the analysts' report in addition to the special column of analysts. These additions further enriched the Company's website. In the meantime, the Company had uploaded videos of performance briefing for analysts and the materials for conferences to the company website. During the period, the Company videotaped the analysts' meeting, uploaded the video with slides to the IR column of the Company's website. This has facilitated the fair information disclosure because those who were unable to make onsite investigation due to various reasons such as time and place limit, and the limited reception capacity of the Company could watch the video and get online reports.

5. Special activities on corporate governance

As early as August, 2007, the Company had completed the relevant work on the three stages of corporate governance, namely, self-check, public assessment, and rectification and improvement, as required in *Notice on the Relevant Items on Strengthening the Special Activities of Corporate Governance of Listed Companies*, winning the acknowledgement of Shanghai Securities Regulatory Bureau and Shanghai Stock Exchange. In addition, the Company had published *Report on the Rectification and Improvement of the Special Activities of Corporate Governance of Baosteel*, and would continue to improve its independent director system and internal control system in the reporting period. It would also establish and improve a mid- and long-term incentive mechanism that combined incentive and restriction.

6. Awards in 2011

Date	Awards	Issued by
April 2011	"Top 100 of China Corporate Social Responsibility", ranked third among 50 domestic companies and first among 12 domestic raw material industry companies.	<i>Fortune</i> (Chinese version)
April 2011	Chen Ying: "7th XCF Golden Board Secretary of Listed Companies in China"; and member of "Board Secretary's Hall of Fame" awarded by <i>New Fortune</i>	XCF publishing house
May 2011	"Outstanding Board" Award (41 winners); independent director Buck Pei won the title of "Most Influential Independent Director" and Baoshan Iron & Steel Co., Ltd. Board Secretary Chen Ying won the title of "Most Innovative Board Secretary".	Chinese Listed Company Board Forum 7th "Golden Round Table" Award ceremony chaired by Board magazine
July 2011	Baoshan Iron & Steel Co., Ltd. ranked the 16th on the List of 2011 Top 500 Chinese Enterprises	<i>Fortune</i> (Chinese version)
August 2011	Awarded "Top 10 Social Responsible Companies" by CCTV finance channel	CCTV finance channel's "2011 CCTV China's Listed Companies Summit & CCTV Finance 50 Index Release Ceremony"
Dec. 2011	"Most socially responsible listed company" in China's Listed Company Reputation Ranking	2011 China Listed Company's Summit & "2011 China's Listed Company Reputation Ranking" chaired by the "Daily Economic News"
Dec. 2011	"2011 BOD Award"	"The Tenth China Corporate Governance Forum" chaired by Shanghai Stock Exchange and co-sponsored by SASAC and OECD

V. Corporate Governance

(II) Performance of Directors' Duties

1. Directors' attendance of the board meetings

Name	Independent director	Required number of board meetings	Attendance in person	Attendance by correspondence	Entrusting a representative	Absence	Two consecutive absence
He Wenbo	No	6	6	2	0	0	No
Ma Guoqiang	No	6	6	2	0	0	No
Liu Zhanying	No	5	5	2	1	0	No
Zhao Zhouli	No	3	3	0	0	0	No
Zhu Junsheng	No	3	3	0	1	0	No
Wu Yaowen	No	6	4	2	2	0	No
Buck Pei	Yes	6	5	3	0	0	No
Katherine Tsang	Yes	6	5	2	1	0	No
Edward C. Tse	Yes	6	5	2	1	0	No
Total number of board meetings in 2011						6	
Including: On the spot regular meetings						4	
Board meeting by correspondence						2	
On-site Board Meetings combined with other ways of communication						1	

2. Dissents from independent directors

No independent directors have voiced their dissents on proposals of the Board of Directors and other proposals in the reporting year.

3. Establishment and improvement of the relevant work systems and main content of the independent directors and the fulfillment of the directors' duties

In *Articles of Association* and its appendix *Rules and Procedures for the Meeting of Board of Directors*, the Company specified its independent director system. The Company had signed *Agreement on the Employment of Independent Directors* with the independent directors to clarify their rights and duties. In the reporting period, the Company sorted out relevant laws and regulations about independent directors and organized them according to topics. The Company made some changes to these rules and regulations in accordance with the Company's reality and then published *Standards for Independent Director Management*.

On March 26, 2008, the Company passed *Proposal on the Work System of the Annual Report of Independent Directors of the Company* at the 11th board meeting of the 3rd session, specifying that the independent director should perform his rights and obligations and work diligently in the compilation and disclosure of the annual report.

The independent director, in performing his duties, is free from the influence of the Company's main stockholders, actual controllers, or units or individuals that have a stake with the main stockholders and actual controllers.

All related transactions that should be approved by the Board of Directors of the Company or by the Shareholders' Meeting have to obtain a written document of transaction consent and independent opinion from independent directors before the transaction.

The independent director have fulfilled his trust, attending the board meetings actively, performing his special powers in accordance with the law and the administrative rules and regulations, voicing his opinion on key issues like the Company's related transactions, external guarantee, and incentive by stock right, providing professional and constructive suggestions for the Company's major decisions, carefully supervising the work of the management, and safeguarding the legitimate rights and interests of the Company and all the shareholders.

In accordance with *Work System on the Annual Report of Independent Directors*, the Company organized the independent directors to pay an on-the-spot investigation of Baosteel during the period of making the annual report. This enabled the independent directors to have a deeper understanding of the Company, provided them with information support in their decision-making, and helped them increase the efficiency of decision-making.

(III) Independence of the Company as against the Controlling Shareholder in Respect of Business, Personnel, Assets, Institutions and Finance

- (1) Sales and operations: The Company has full authority over its sales and operations management.
- (2) Personnel: The Company is totally independent of and separate from Baosteel Group Corporation in regard to production, human resources and payroll management. The senior executives, including the President, the Vice Presidents, and the Board Secretary, do not hold any concurrent positions in Baosteel Group.
- (3) Assets: The Company owns all of its production processes, including raw materials processing, sintering, coking, iron smelting, steel manufacturing and steel rolling, as well as related infrastructure and facilities, such as ships and ports. The Company also exercises complete authority over its research and technology, manufacturing, procurement and sales processes.
- (4) Organizational structure: The Company is totally independent of and separate from Baosteel Group Corporation with none of the Company's departments overlapping with those of or reporting to the holding company.
- (5) Finance: Equipped with its own finance and accounting department, the Company has independent accounting, auditing and financial management systems. All bank accounts of the Company are independent of the holding company and taxed separately.

(IV) Establishment and Improvement of the Corporate Internal Control System

As a listed company for pilot project of standardized internal control, in 2011, the Company planned and implemented the pilot project with its goal of "Intensify internal control, and standardize the Company's operation", following the concept of simple and high-efficiency and the principle of consistency. The project plan had been approved by the Board of Directors.

According to the *Basic Standard for Enterprise Internal Control and the Guide to Enterprise Internal Control*, the Company conducted a thorough examination of its internal control system, laying emphasis on reexamining the procedures of various businesses and recognizing major risk point and key control factors. The Company added 11 articles about internal control related to the financial statements.

In terms of the supervision and evaluation of internal control, based on a review of the previous work of self-evaluation regarding the internal control, and in accordance with the requirement of the *Guide for Enterprise Internal Control Evaluation*, the Company established a supervision and evaluation system for internal control that enables the functions of both the internal auditing and self-evaluation of internal control. The Company conducted the supervision for internal control and self-evaluation of the internal control on a project basis "on different levels and for varied categories". The Internal Control Self-evaluation Report was approved by the Board of Directors.

On the front of internal control audit, the company employed Deloitte Touche Tohmatsu Certified Public Accountants Limited to conduct internal control audit for the pilot department of the Company, and provided audit report for the internal control of the parent and important subsidiaries of Baoshan Iron & Steel Co., Ltd. The audit report shows that the parent and important subsidiaries of Baoshan Iron & Steel Co., Ltd. maintained effective internal control for the financial statements in all major aspects in line with the *Basic Standard for Enterprise Internal Control* and related regulations.

(V) Examination and Incentive of the Senior Executives

The Company enjoys a well-formed structure of corporate governance, with an assessment and appraisal mechanism for senior executives, which was approved by the Remuneration and Appraisal Committee and the Board of Directors. The compensations of senior executives are dependent upon the performances of the Company as a whole and of themselves, and normative procedures have been well established with regards to their targets, daily compensation management, achievements, assessments and achievement-assessment relationship.

(VI) Self-evaluation Report of the Board of Directors on the Company's Internal Control and the Report on Performance of Corporate Social Responsibility

1. The 18th meeting of the 4th Board of Directors of the Company examined and passed the *Self-Evaluation Report of the Board of Directors of Baosteel on the Company's Internal Control*. Deloitte Touche Tohmatsu Certified Public Accountants Limited issued its evaluation, which was disclosed at www.sse.com.cn.
2. The 18th meeting of the 4th Board of Directors of the Company examined and passed the *2011 Sustainability Report*, which was disclosed at <http://www.sse.com.cn>.

V. Corporate Governance

(VII) The Establishment of the System of Looking into the Responsibility of Major Mistakes in the Disclosure of Information of the Company's Annual Report

The 4th meeting of the 4th Board of the Company held on March 30-31, 2010 examined and passed the revision of *Methods of Information Disclosure Management* pursuant to the requirements set out in CSRC Document [2009] No.34 *Circular on Properly Handling the 2009 Annual Reports of Listed companies and the Related Work*, in which the accountability system for major errors in information disclosure in annual reports was added.

According to the accountability system for major errors in information disclosure in annual reports, if the person liable violates the stipulations of such state laws and regulations as *Company Law*, *Securities Law*, *Administrative Measures on Information Disclosure by Listed Companies*, *the Rules of Shanghai Stock Exchange for Stock Listing*, *Accounting Standards for Business Enterprises*, intentionally or due to gross negligence, which has resulted in the false record, misleading statement, or major omission in the annual report, the Board of Directors shall punish the person(s) directly liable and other persons liable dependent upon the seriousness of the case and shall disclose the reasons for the correction, supplement and revision as well as the influences thus caused truthfully following the relevant stipulations by China Securities Regulatory Commission and Shanghai Stock Exchange. It shall also disclose information about the accountability measures and punishment of the relevant persons liable by the Board of Directors.

No correction of major accounting errors, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reporting period.

(VIII) Horizontal Competition & Related Transactions

1. Horizontal competition

During the reporting period, the Company's controlling shareholder Baosteel Group also has 69.56% shareholding of Baosteel Group Bayi Iron and Steel Co., Ltd., 56.15% shareholding of Ningbo Iron & Steel Co., Ltd., 70% shareholding of Desheng Iron & Steel Co., Ltd., three of which are also involved in the iron and steel manufacturing and transaction.

Bayi Iron and Steel Co., Ltd. mainly produces bar steel and section steel, and a certain amount of hot-rolled steel and planks. As for the product structure, the major products of Baoshan Iron & Steel Co., Ltd. are steel sheets and tubes, while the major products of Bayi Iron & Steel are long steel products. In the light of region, Bayi Iron & Steel, located in Xinjiang, has distinctive features of a regional market, and its client market is quite far away from that of Baoshan Iron & Steel Co., Ltd. There is almost no overlapping in their end users. Therefore, the two companies are not in substantial horizontal competition. As for Ningbo Iron & Steel, compared with the "Premium Product" strategy of Baoshan Iron & Steel Co., Ltd., it has limited products of hot-rolled coil aimed for the medium and low-end market. Therefore, there is no substantial horizontal competition between Ningbo Iron & Steel and Baoshan Iron & Steel Co., Ltd.

The fourteenth meeting of Board of Directors held on March 28, 2006 approved the "Proposal about the subject implementing domestic reorganization of iron and steel industry and build new steel plants", and selected Baosteel Group as a pilot to carry out domestic reorganization of iron and steel industry. Baoshan Iron & Steel Co., Ltd. reserves the right to acquire the related assets from Baosteel Group, and may choose to do so at any time it thinks appropriate.

Commitments made in Issuance Prospectus by Baosteel Group:

- (1) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses that may be in competition with the Company;
- (2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until the Company gives up the commercial opportunities;

As one of the engines of domestic iron and steel industry, Baosteel has been taking an active part in the reorganization of the industry in accordance with the national policies on iron and steel industry. By way of various capital operation including acquisition, merging, and transfer for free, Baosteel has quickly enlarged its production scale, and strengthened its comprehensive power, enhancing its core competitive power.

In the long run, the Company will choose to acquire, at appropriate time, high-quality iron and steel assets that are under the control of Baosteel Group and have undergone reorganization and cultivation. Baosteel Iron and Steel, through following standard procedures, protecting the interest of medium and small investors, and ensuring full disclosure of information. The specific measures taken for this purpose include that the controlling shareholders consults with the related parties and makes commitments of non-competition, and allows the listed company to reserve the right to acquire, at any time it thinks appropriate, the Group's assets and business which may be in competition with the Company.

In order to avoid any possible substantial horizontal competition, Baoshan Iron & Steel Co., Ltd. will keep in line with the commitments made by Baosteel Group and continue to carry out the following measures to avoid horizontal competition:

- (1) After obtaining business opportunities such as investment and business combination of the iron and steel industry, the Company will submit the issue to the Board of Directors for examining. The directors with conflicting interests will withdraw from the voting process.
- (2) The Company will continue to closely observe the investment by Baosteel Group that is similar to the business of the Company. When potential substantial competition arises, and when the business in competition coincides with the objectives and interest of the Company, the Company will acquire this business or assets from Baosteel Group at a fair price according to the standard procedures stipulated by the *Articles of Association*. The directors/shareholders with conflicting interests will withdraw from the voting process of the proposal in the Board meeting/shareholder's general meeting.

2. Related transactions

Refer to (IX) "Significant Events (VI) Significant Related Party Transactions)" for additional information about the related transactions in the reporting period.

The party that has related transactions with the Company is Baosteel Group and legal entities directly or indirectly under control of it. Baosteel Group is the parent company of the Company and is the substantial controller of the Company.

Related transactions with the related parties are conducted under the market principle with maximum benefit and operation efficiency. They are reflecting professional cooperation and win-win situation.

The related transactions of the Company are carried out according to the open, fair, and just principles and do not harm the interest of the two parties concerned. At examining of the related transactions at the Board meetings, the related directors waived from voting, and independent directors provided independent opinions.

VI. Shareholders' Meetings

Shareholders' General Meeting

Session	Date of the meeting	Disclosure media	Disclosure date
2010 Shareholders' General Meeting of the Company	April 29, 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	April 30, 2011

The 2010 Shareholders' General Meeting of the Company was held at 2pm, on 29 April 2011, in Shanghai Parkview Hotel, and the Announcement of the Resolutions of the 2010 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd. was posted in the next day's *China Securities News, Shanghai Securities News, and Securities Time*.

VII. Board of Directors' Report

(I) Review of the Company's Operation During the Reporting Period

2011 is the beginning year of the national "Twelfth Five Year" plan. Affected by a series of unfavorable factors such as the Japanese Earthquake and the European debt crisis, the national economy managed to maintain a stable and comparatively fast development. The steel industry made remarkable progresses in eliminating the obsolete facilities, merging and restructuring, and overseas investment. The industry centralization level was higher than the previous year. In 2011, the national crude steel and exported steel totaled 683 million tons and 49 million tons respectively, registering a YoY increase of 8.9% and 14.9% separately.

In 2011, opposite to the high yield, the steel industry operated with a high cost and low profit. Prices of major raw materials including iron ore, scrap steel, and coke experienced a sharp rise, and the price of the imported iron ore rose by 28.2% from the previous years, in particular. Due to the extensive economic slump in the major developed countries, the monetary restraint at home, the housing adjustment and control as well as the slower growth of the downstream manufacturing industries, the demand for steel decreased greatly, the steel price fluctuated, and the problem of the product structure became more prominent. In the meantime, the price of steel and price of ore became more attached to their financial attributes and more intertwined with each other, resulting in a further decrease of the profitability of the steel industry. In fact, the profitability of steel industry is one of the lowest among national industries. It's not exaggerating that China's steel industry entered a "Meager Profit Era".

Faced with complicated economic situation and market environment, the Company took rational measures to overcome the pressures on both ends: the purchase and the sales, so as to ensure stable production and balanced production and sales. In the meantime, the Company stuck to the differentiated competition strategy, continued to strengthen the measures in reducing cost, and dealt with the pressure of operational cash flow. As a result, the Company maintained a good overall performance. In 2011, the sales of steel totaled RMB 25.803 billion, realizing an operating revenue of RMB 222.86 billion, and a total profit of RMB 9.26 billion. The Company achieved the best operating results among the peers again.

1. Business scope and company strategies

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

The Company implemented a competition strategy guided by value creation for customers, based on manufacture of premium products with cost improvement, with product and service differentiation as the major advantages and approaches.

2. Company priorities

(1) Strengthening the product management, and enhancing the Company's overall profitability

In the first half of 2011, availing itself of the relatively booming market demand, the Company maximized its steel production capacity, balanced and allocated the iron & steel resources according to the priority of product profitability in pursuit of profit maximization. In the second half of 2011, the Company timely adjusted the policies for production and operation in line with the changes of the steel market, further reduced the operating cost with the principle of optimization of system cost.

Furthering the efforts in new product development. In view of the needs of the key industries, the Company sped up developing the environmental friendly new products with strong competitiveness and large profit margin, enforced the research and development of the user application technology, promoted the package solutions, and consolidated the differentiated competitive advantages of Baosteel.

Increasing the market share of strategic and exclusive leading products. The Company cemented the competitiveness of automotive sheets, selling 4.548 million tons of cold-rolled automotive sheets in the year, accounting for 50% of the market share.

(2) Intensified the cost improvement and furthered the risk control

Strengthened the backward cost deduction mechanism, and optimized the structure of fuel and raw materials. The Company optimized the plan for coal ore blending by reducing the purchase of expensive imported coal and increasing the purchase of domestic ones; optimizing the alloy types, and using more low-cost alloys; as well as using more mixed scrap steel and less pure scrap steel. Enhanced the price linkage between sales and purchase system, made more accurate market prediction, and improved the price contribution from the bulk purchase of fuel and raw materials and from the sales market.

Practiced strict control over various expenses, promoted cost reduction with technologies and low-cost manufacturing. The Company furthered the control over the maintenance fee, subcontracting fee, plant overheads, and controllable marketing expenses. The Company also conducted benchmarking analysis of costs, deepening the cost benchmarking of the same procedures.

Perfecting the risk management system, and the prediction, risk report and supervision mechanism. As a result, the Company became more efficient in risk management.

VII. Board of Directors' Report

(I) REVIEW OF THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

(3) Enhanced the ability to serve customers, realized the transition from manufacturing to service.

Clarified the responsibilities of product management. Streamlined the management procedure. The sector responsibility operation system for heavy plates and steel bars were adjusted to help enhance the competitiveness of the products.

Deepened the technical service mode, improved the capability of sales system, and explored the customer-oriented marketing mechanism. More attention was paid to the technical cooperation with customers and more support was given to the marketing of technical services. As a result, the Company optimized its technical service system and enhanced its technical service capacity.

(4) Focused on energy conservation and emission reduction, and carried out environmental-friendly operation.

The Company promoted the energy management system of the headquarters and popularized this system in the Company to facilitate an all-round energy conservation and emission reduction. Gave play to the advantages of the new mechanism of Energy Performance Contracting, sped up the implementation of energy saving projects and promoted energy saving technologies.

Guided by the concept of environmental operation, the Company endeavored to build up a value chain of green purchase and green usage of steel products, and the guiding concept for product R&D changed from traditional design to environmental-friendly design. The Company issued the first "Guideline for Green Purchase" in China.

(5) Investment programs in key fixed assets under proper control

Following the principle of "making both ends meet and making investment carefully", the Company invested RMB 16.567 billion in fixed assets. A series of key projects were completed one after another, and the construction progress of key projects were under proper control.

(II) Overall Performance in the Reporting Period

1. Operating results

In 2011, the Company sold 25.803 million tons of steel, 2.1% higher than the previous year; and realized a total operating revenue of RMB 222.86 billion, 10.01% higher than the previous year. The gross profit was RMB 9.26 billion, and the net profit attributable to the Company's stockholders was RMB 7.36 billion.

Compared with the Company's annual operating plan 2011, the total operating revenue and the operating cost in 2011 were completed by 102.3% both.

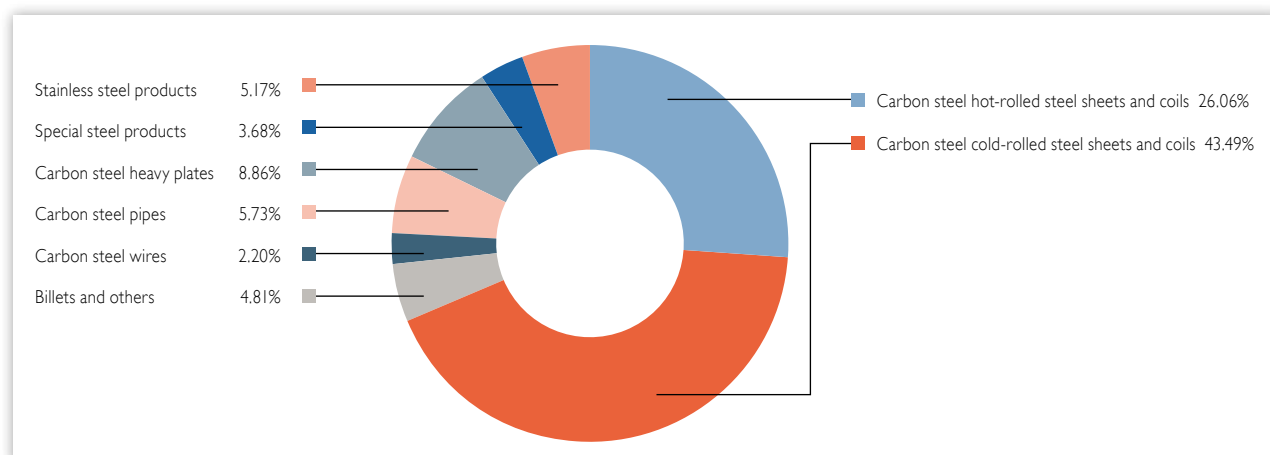
2. Distribution of operating revenue and cost of principal business segments:

(RMB Million)						
Segment	Operating revenue	Operating cost	Gross margin	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin
Iron & Steel Manufacturing	190,741	177,886	6.74%	9.35%	16.18%	-5.49 ppts
Iron & Steel Sales	194,782	190,676	2.11%	13.82%	14.19%	-0.32 ppts
Other	14,670	12,585	14.21%	15.46%	15.27%	0.14 ppts
Deduction between segments	-177,303	-177,904	-0.34%	13.76%	14.44%	-0.60 ppts
Total	222,890	203,244	8.81%	10.11%	15.77%	-4.46 ppts

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

3. Distribution as per products in 2011

Distribution of sales of steel products:



(1) Carbon steel

The Company's carbon steel products mainly included hot-rolled products and pickled products, cold-rolled products like plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color coated sheets, electrolytic tinning sheets and silicon steel, as well as other products like heavy plates, steel pipes and tubes, wires and rods, and billets.

Hot-rolled products

Hot-rolled products included automotive steel, pipeline steel, steel for cold forming, mechanical structural steel, anti-corrosion structural steel, and tool steel, etc., which were widely used in such industries as automobile, petroleum and natural gas transmission, engineering machinery, containers, and hardware and tools.

In 2011, the shipments of hot-rolled products (including pickled products, but excluding heavy plates) was 6.821 million tons, making up 26.1% of the Company's shipments of carbon steel products. The shipments of high strength steel for engineering machinery occupied 38.5% of the domestic market.

Heavy plate products

Heavy plates mainly include plates for ships and ocean engineering equipment, energy, and pipelines etc., which are mainly used in industries of ship building, ocean engineering, machinery, pressure vessels, oil and natural gas transmission, etc.

In 2011, the shipments of heavy plates was 2.318 million tons, making up 8.9% of the total shipments of the Company's carbon steel products. Among it, the shipments of ship plates took up 6.2% of the domestic market.

Cold-rolled products

Cold-rolled products include plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color-coated sheets, tin plates, chrome plated sheets, silicon steel, and full hard coils for use in the industries of automobile, home appliance, construction, packaging and transformer manufacturing mainly. Faced with an increasingly competitive market of cold-rolled automotive sheets, the Company intensified the efforts to explore the market for high strength automotive steel, the shipments of which in 2011 was much larger than that of 2010, registering a 19.5% growth, and taking up 65% of the domestic market. The Company made a breakthrough in the certification of super high strength steel with world-renowned automotive users. The Company actively promoted its silicon products in three major transformer producers in China (TBEA Co., Ltd., TWBB Company, and Xi'an XD Transformer Co., Ltd.) to substitute the imported silicon steel. The Company has established stable relationship with domestic famous joint ventures of transformer production. The anti-fingerprint electro-galvanized products achieved favorable results in the movie and television industry. Shipments of module steel grew by 36% from that of 2010, occupying 40% of domestic market. OA steel products made progress in marketing, and the shipments of electro-galvanized OA steel doubled from 2010.

The shipments of cold-rolled products in 2011 was 11.384 million tons, making up 43.5% of the total shipments of the Company's carbon steel. Among them, the shipments of cold-rolled automotive sheets totaled 4.548 million tons. The home appliance steel, silicon steel and tin plates took up 29.1%, 18.6%, and 26.3% of the domestic market respectively.

Steel tubes and pipes

The steel tubes and pipes are of two types: seamless tubes and welded pipes. The former includes oil well pipes, high pressure boiler tubes and machining tubes, and the latter includes welded casings, line pipes and structural tubes. These products are used in petrochemical industry, boiler building, mechanical processing, geology, transportation, and coal mining industry. In 2011, confronted with the severe market situation for steel tube and pipe products, the Company sustained the efforts to optimize the product mix, increased the shipments of high-end products, actively explored new markets and new clients, and realized differentiated competition. Large-diameter sulphur resistant casing, casing with premium connections, and super 13Cr oil tubing were accepted by domestic market and put into use in batches. Trial use was started for large-diameter nickel-base alloy casing.

VII. Board of Directors' Report

(II) OVERALL PERFORMANCE IN THE REPORTING PERIOD

In 2011, the shipments of steel tubes and pipes reached 1.500 million tons, making up 5.7% of the total shipments of carbon steel. Among them, the high-pressure boiler tubes, non-standard oil well pipes had a domestic market share of 21.5% and 23.8% respectively.

Wires and rods

Wire and rod products include steel cords, spring steel wire rods, cold heading steel wire rods, high strength steel strands, bridge cables, and welding wires, which are widely used in the fields of radial tyre manufacturing, automotive components, fasteners, bridge building, and mechanical manufacturing. The Company is the only one in China that produces the full range of the steel cords (B72LX, B82LX, B86LX, B92LX, and B96LX)

In 2011, the shipments of wire and rod products was 577 thousand tons, making up 2.2% of the total shipments of carbon steel.

Steel billet products

Steel billet products mainly included such high value-added products as die steel, axle steel, and mooring chain steel. Mooring chain steel R5 is the exclusive product of the Company. In 2011, the Company passed ABS and DNV certification and became the first producer in China to pass the certification by classification societies, making due contribution to the independent R&D and sustainable development of China's deep water oil and gas exploration technology and equipment. Currently, the product has been successfully used in the "Offshore Oil 981", the 6th generation 3,000 meters deep-water semi-submersible drilling platform, which was the first of its kind to be designed and constructed by China and represented the top-notch offshore drilling platform technology in the world.

In 2011, the shipments of steel billets was 871 thousand tons, making up 3.3% of the Company's total shipments of carbon steel.

(2) Stainless steel

The stainless steel products covered 300, 400, and BN series hot-rolled and cold-rolled product series, including austenite, ferrite, martensite, ultra martensite, ultrapure ferrite, dual phase steel, ultra-low-carbon steel, nitrogen stainless steel, etc., which were widely used in such industries as automobiles, home appliances, solar energy, construction and decoration, pressure vessels, containers, elevators, rail transportation, and metal products. In 2011, the Company continued to optimize the product mix, adhered to the working direction of "creating values for customers, and providing competitive products", set up the development target of focusing on the R&D and promotion of the 400 series products and nickel-saving products, in an effort to substitute the new products of 400 series for the conventional 300 series, and meanwhile, it also committed itself to the continuous improvement of 400 series products. On top of the original product series, the Company made remarkable breakthrough in market exploration and brand influence with steel for solar energy represented by 445J1M, the steel for construction represented by 445R, the steel in line with the concept of healthy life B425, the nickel-saving economic stainless steel B304M1, and the ultra-low-carbon-nitrogen ferrite B430LNT, etc.

In 2011, the shipments of stainless steel products was 1.353 million tons, making up 5.2% of the total shipments of the Company's steel products and making up 12.7% of the domestic market share.

(3) Special steel

The special steel collection includes special metallurgical series, stainless steel series, and construction steel series. The Company kept expanding the scale and grades of products in light of "pursuing fineness in special metallurgical series, becoming stronger in stainless steel series, and enlarging the scale of construction steel series". After years of R&D and technology innovation, the Company had developed a series of products competitive in the international market with independent intellectual property rights, including steel rods, seamless pipes, steel wires, steel pies, steel rings, steel discs and shaped steel, which were widely used in aviation, aerospace, energy, automobile, railway, ship building, machinery, power station, electronic instrument and petrochemical industries. The Company is national key R&D base for high and new metal materials.

In 2011, the total shipments of special steel was 962 thousand tons, making up 3.7 % of the total shipments of the Company's steel products..

The Company's income from and costs of major iron and steel products are as follows:

(RMB Million)

Products	Revenue	Cost of goods sold	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (Percentage points)
Cold-rolled carbon steel	58,963	51,693	12.33%	3.45%	18.32%	-11.02 ppts
Hot-rolled carbon steel	38,811	34,598	10.86%	11.35%	19.44%	-6.04 ppts
Heavy plates	11,743	12,784	-8.86%	16.39%	24.97%	-7.48 ppts
Steel tube & pipe	10,843	9,818	9.45%	6.69%	7.67%	-0.82 ppts
Stainless steel	18,043	17,795	1.37%	2.01%	3.48%	-1.40 ppts
Special steel	11,209	11,311	-0.91%	14.37%	15.14%	-0.68 ppts
Other steel products	8,747	8,747	0.00%	12.88%	13.86%	-0.86 ppts
Total	158,358	146,745	7.33%	7.48%	15.82%	-6.67 ppts

Note: The shipments of steel products of the Company in 2011 included the 1.652 million tons of hot-rolled carbon steel products sold to BNA, but did not include the 2.024 million tons of cold-rolled products sold by BNA.

4. Major markets

Sales revenues and cost by geographical regions:

(RMB Million)						
Regions	Operating revenue	Operating cost	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (Percentage points)
Domestic Market	199,018	180,998	9.05%	9.11%	15.32%	-4.89 ppts
Overseas Market	23,872	22,246	6.81%	19.23%	19.60%	-0.28 ppts

In 2011, the Company exported 2,745 million tons of iron and steel products, 411 thousand tons more than the previous year; and the regional distribution of steel products is as follows:

Regions	2011	2010
East Asia	38.1%	48.4%
Southeast Asia	19.4%	19.2%
America	18.8%	13.4%
Europe and Africa	23.7%	19.0%
Total	100.0%	100.0%

5. Major suppliers and customers

In 2011, the Company's procurement amount from the top five suppliers made up 31.9% of its total annual procurement.

(RMB Million)		
No.	Name of supplier	Amount of purchase
1	Unit One	13,381
2	Unit Two	12,229
3	Unit Three	9,668
4	Unit Four	4,766
5	Unit Five	2,103

In 2011, the Company's sales income from the top five customers made up 13.9% of its total operating revenue.

(RMB Million)		
No.	Name of supplier	Amount of sales
1	Unit One	12,023
2	Unit Two	11,621
3	Unit Three	2,944
4	Unit Four	2,261
5	Unit Five	2,052

VII. Board of Directors' Report

(II) OVERALL PERFORMANCE IN THE REPORTING PERIOD

6. Changes of assets structure

As at the end of this reporting period, the Company had a total consolidated asset of RMB 231.1 billion, RMB 15.04 billion more than that at the beginning of the year; a total debt of RMB 117.63 billion, RMB 12.89 billion more than that at the beginning of the year; a shareholders' equity of RMB 113.47 billion, RMB 2.15 billion more than that at the beginning of the year. Its debt-to-asset ratio reached 50.9%, 2.4% more than that at the beginning of the year. For details, see the table below:

Assets	At the end of 2011	Rate against the total assets	At the end of 2010	Rate against the total assets	Change of the rate
Current assets	79,234	34.3%	68,864	31.9%	2.4 ppts
Including: Cash and cash equivalents	14,379	6.2%	9,201	4.3%	1.9 ppts
Inventory	37,390	16.2%	38,027	17.6%	-1.4 ppts
Receivables	21,072	9.1%	15,697	7.3%	1.9 ppts
Non-current assets	151,865	65.7%	147,201	68.1%	-2.4 ppts
Including: Fixed assets	115,371	49.9%	117,737	54.5%	-4.6 ppts
Construction-in-progress	16,283	7.0%	9,763	4.5%	2.5 ppts
Total assets	231,100	100.0%	216,065	100.0%	-

Liabilities and shareholders' equity	At the end of 2011	Rate against the total assets	At the end of 2010	Rate against the total assets	Change of the rate
Current liabilities	98,838	42.8%	73,196	33.9%	8.9 ppts
Including: Short-term borrowings	38,876	16.8%	23,611	10.9%	5.9 ppts
Non-current liabilities due within one year	16,810	7.3%	3,537	1.6%	5.6 ppts
Non-current liabilities	18,792	8.1%	31,547	14.6%	-6.5 ppts
Long-term borrowings	7,326	3.2%	8,587	4.0%	-0.8 ppts
Notes payables	8,919	3.9%	18,475	8.6%	-4.7 ppts
Long-term payables	0	0.0%	2,542	1.2%	-1.2 ppts
Total liabilities	117,630	50.9%	104,743	48.5%	2.4 ppts
Shareholders' equity	113,470	49.1%	111,322	51.5%	-2.4 ppts
Total liabilities and shareholders' equity	231,100	100.0%	216,065	100.0%	-

- (1) Cash and cash equivalents was RMB 5.18 billion more than that at the beginning of the year. This is mainly because faced with the tightened financial market and credit, and in view of the situation that the US dollar financing interest rate is comparatively low and the RMB continues appreciating against US dollars, the Company has adopted the method of increasing US dollar financing to get prepared for the payments due at the end of the first half of 2012.
- (2) Affected by the tightening monetary policy, the fact that the clients' capital chain was under pressure, and the Company's increase in revenue, its receivables of bank acceptance bills and other receivables increased RMB 5.37 billion from that at the beginning of the year.
- (3) The inventory decreased by RMB 0.64 billion compared to that at the beginning of the year. This is mainly because the Company overcame the factors such as the soaring prices of raw materials and fuels, as well as the enlarged production and sales scales, enhanced the centralized inventory management, sped up the inventory flow, and thus effectively reduced the inventory capital in use.
- (4) Fixed assets were RMB 2.37 billion less than that at the beginning of the year; mainly because RMB 10.85 billion was transferred to fixed assets from purchase and construction-in-progress, while the depreciation of the year amounted to RMB 12.93 billion.
- (5) Assets of construction-in-progress were RMB 6.52 billion more than that at the beginning of the year. This is mainly because the construction-in-progress this year increased by RMB 17.11 billion, while the construction-in-progress transferred to fixed assets totaled RMB 10.59 billion.
- (6) Short-term-borrowings increased by RMB 15.27 billion from that at the beginning of the year; mainly because the increase of operational accounts receivables resulted in a larger shortfall of working capital. In the meantime, in view of the situation that the US dollar financing interest rate is comparatively low and the RMB continues appreciating against US dollars, the Company has adopted the method of increasing US dollar short-term financing to address the capital shortfall and to get prepared for the payments due at the end of the year.

- (7) Non-current liabilities due within one year increased by RMB 13.27 billion from that at the beginning of the year; mainly because the RMB 9.99 billion notes payables (medium-term notes) and RMB 3.4 billion US dollar loans held by the Company have been reclassified as non-current liabilities due within one year.
- (8) Long-term payables decreased by RMB 2.54 billion from that at the beginning of the year; mainly because the Company paid for the acquisition of Pudong Steel Luojing Project.

7. Measure of fair value and impact of its change upon profit

The financial assets and liabilities in the Company which are measured at their fair values include bonds, funds, stocks and derivative financial products. While the fair value of a bond, fund, or stock is measured on the basis of its market price, the fair value of a derivative financial product, which has no market price, is recognized by the value calculated and confirmed in the written form by the involved trading partner.

(RMB Million)				
Items	At the end of 2011	At the end of 2010	Changes	Impact upon profit of the period
Held-for-trading financial assets	353	297	56	-11
Available-for-sale financial assets	1,670	1,404	266	0
Held-for-trading financial liabilities	-	3	-3	3
Total	-	-	-	-7

8. Changes in expenditures and income tax expenses in the reporting period

(1) Sales and administrative expenses

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Sales expenses	1,950	1,785	165	9%
Administrative expenses	8,584	7,747	837	11%

In 2011, the sales expenses increased by RMB 0.17 billion because of the enlarged sales scale, and the increased transportation and storage fees, export expenses, and agent commissions. The administrative expenses increased by RMB 0.84 billion mainly due to the increase of expenses for R&D.

(2) Financial expenses

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Interest income	-179	-51	-128	253%
Interest expenses	1,805	1,598	207	13%
Gains and losses from currency exchange	-1,612	-788	-824	105%
Others	59	47	11	24%
Total	72	807	-734	-91%

Financial expenses reduced by RMB 0.73 billion from the previous year; due to a 4.86% year-on-year increase in RMB to US dollar exchange gains. The Company's exchange gains, from the US dollar debts it owned and added, increased by RMB 0.82 billion from that of the previous year.

(3) Income tax expense

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Total consolidated profit	9,260	17,056	-7,796	-45.7%
Consolidated income tax expense	1,524	3,715	-2,191	-59.0%
Effective tax rate	16.5%	21.8%	-5.3 pts	

Since the Company's total profit decreased compared to that of last year, although its tax preference was comparatively more favorable, the actual income tax rate of the Company was lower than that of 2010.

VII. Board of Directors' Report

(II) OVERALL PERFORMANCE IN THE REPORTING PERIOD

9. Cash flow analysis

In 2011, the Company registered a total net profit of RMB 7.74 billion, a depreciation and amortization of fixed assets RMB 13.12 billion, a provision for asset impairment loss and other items RMB -0.09 billion, and a total cash receipt from operating activities RMB 20.77 billion. Due to the decrease of RMB 0.25 billion in inventory cost, the increase of RMB 5.08 billion in operating receivables, and the decrease of RMB 3.8 billion in operating payables, the net cash flow of the Company from operating activities totaled RMB 12.14 billion.

The increase of operating receivables was resulted from the considerable increase in Bank's Acceptance Bill compared to the beginning of the year:

The decrease of operating payables was resulted from the following factors: The tax payables reduced by RMB 2.13 billion due to the lower profit compared to that of the previous year; advances received reduced by RMB 1.01 billion because the Company sped up the client settlement, and the write-off of the advances received increased; and the deposits and deposits from other financial institutions in the Finance Co. reduced by RMB 0.48 billion.

The inventory decrease is because: overcoming the factors such as the rising price for raw materials and fuels, as well as the enlarged production and sales scales, the Company enhanced the centralized inventory management, sped up the inventory flow, and thus reduced the inventory capital in use.

Net cash inflow reduced by RMB 6.71 billion. Without considering the impact of the Finance Co., the net cash inflow arising from operating activities was RMB 11.98 billion, RMB 5.25 billion lower than the RMB 17.24 billion net cash inflow at the same period last year:

- (1) Net profit decreased from that of the previous year, and the net cash inflow from operating activities reduced by RMB 5.5 billion.
- (2) The depreciation and amortization amount decreased by RMB 0.15 billion over the same period last year and the net cash inflow from operating activities reduced.
- (3) Cash flows from financial expenses and other items reduced by RMB 0.22 billion as against an increase of RMB 0.28 billion in the same period last year, resulting in a y-o-y cash flow decrease of RMB 0.49 billion. This is mainly because the financial expenses was cut substantially by RMB 0.75 billion due to the impact of exchange gains and losses.
- (4) Inventories decreased by RMB 0.25 billion from the beginning of the year as against an increase of RMB 8.71 billion in the same period last year, resulting in a y-o-y cash flow increase of RMB 8.96 billion.
- (5) Cash flow from the operating receivables and payables reduced by RMB 9.00 billion as against a decrease of RMB 0.93 billion in the same period last year, resulting in a y-o-y cash flow decrease of RMB 8.08 billion.

The overall cash flow of the operating activities is at a normal level.

Net cash outflow from investment activities was RMB 16.13 billion, RMB 3.52 billion more than in the same period last year. Without considering the impact of The Finance Co., the net cash outflow from investment activities during 2011 was RMB 15.63 billion, a rise of RMB 2.78 billion from the net cash outflow from investment activities of RMB 12.85 billion in the same period last year. This is because 2011 was the construction peak year for the first step of the subsequent project for the silicon steel, and the second step of the silicon steel as well as the No. 4 coke oven project were newly started, resulting in an increase of cash payment for fixed asset purchase.

Net cash inflow from financing activities was RMB 9.29 billion, a rise of RMB 12.46 billion from the same period last year. Without considering the impact of the Finance Co., the net cash inflow from financing activities was RMB 8.51 billion, an increase of RMB 10.97 billion from the net outflow of RMB 2.46 billion in the same period last year. In 2011, in view of the continuously tightening capital, the Company's increase in occupancy of operating receivables, and the US dollar financing interest rate is lower than the risk-free RMB operation interest rate, and in order to get prepared for the payment of medium-term notes due in the first half of 2012, the Company increased its US dollar borrowings. As a result, the Company's net borrowings increased RMB 13.41 billion compared to the same period last year. Because the dividends paid by the Company in this period (0.3 RMB/share) was higher than the payment made in the previous year, and the average borrowing scale was larger than that of the previous year, the payment for dividends and interests increased by RMB 2.43 billion over that of the previous year.

10. Technology innovation and R&D investment

The Company's R&D investment rate in 2011 was 2.3%, the selling rate of new products was 20.6%. In addition, the Company had applied for 1220 patents, 42% of which were invention patents. In the selection of the 2011 national metallurgy science and technology award winners, 5 technology innovation achievements of the Company had won prizes, among which "Independent integration technology for the process and complete set of equipment for high speed pickling and rolling of ultra-thin steel strip" was awarded the only special prize, "R&D on integrated technology and equipment of advanced high strength (super high strength) steel strip" won the first prize of Shanghai Award for Science and Technology Progress.

The Company conducted research in the automotive sheet products and the user technologies. It took the lead in the world to realize the industrialized production of the third generation advanced high strength steel-QP Steel; grasped the core technology of total-process which can raise the NSGO magnet level and high-grade proportion. The 0.27mm top-grade product of B27R085 made a breakthrough of the existing silicon content system of the Baosteel oriented silicon steel, realizing batch production and reaching the world advanced level.

The Company successfully developed the $\varnothing 193.68 \times 12.7$ mm top-grade nickel-base alloy casing, the largest of its kind in China, completing the full range of nickel-base alloy oil casing in terms of steel grades and specifications. The corrosion resistant S450EVV for railway vehicles realized batch supply, making the Company the first one in China to successfully develop and produce the third-generation weathering steel for railway vehicles. The 0.220 \times 1050mm super low-carbon DI was successfully developed, leading to the success of batch can making.

The Company completed the primary LCA system for major products, and formed ten major capabilities such as the LCA technology quantified evaluation of environmental performance over the total process, and the LCA methodology for products and life cycle cost analysis methodology. In May 2011, the Company exclusively released "Green Declaration" and "Product Environment Statement" for key products in the steel industry.

The Company carried out systematic research on energy saving and environmental protection. Three demo projects--the recovery of waste heat and energy, mineral wool produced from blast furnace slag, waste heat recycle sintering and cold rolling steam residue pressure power generation—all achieved substantial progress, entering the phase of project design and implementation. Stage achievements were also made for the sintering dioxin treatment and the mercury removal in the power plant.

11. Performance of controlled subsidiaries and invested entities

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

As at the end of 2011, the Company had 77.04% shareholding of Shanghai Meishan Iron & Steel Co., Ltd. With a registered capital of RMB 7.081 billion, Meishan Steel specializes in the production and sales of black metal metallurgy, rolling processing and sales. By the end of 2011, Meishan had a total asset size of RMB 30.73 billion, a net asset of RMB 12.36 and a net yearly profit of RMB -0.26 billion.

(2) Ningbo Baoxin Stainless Steel Co., Ltd.

As at the end of 2011, the Company had 54% shareholding of Ningbo Baoxin Stainless Steel Co., Ltd. With a registered capital of RMB 3.19 billion, Ningbo Baoxin's business mainly covers the manufacturing and processing of stainless steel sheets and relevant technical guidance and consultation. By the end of 2011, Ningbo Baoxin had a total asset size of RMB 5.90 billion and a net asset of RMB 2.93 billion and reporting a net profit of RMB 0.18 billion in 2011.

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

As at the end of 2010, the Company owned 50% of Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA). With a registered capital of RMB3 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 its principal business. BNA had a total asset of RMB 4.97 billion and a net asset of RMB 3.41 billion and realized a net profit of RMB 0.27 billion at the end of 2011.

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

As at the end of 2011, 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, as well as high pressure boiler seamless tubes, seamless tubes for oil pipelines, geological drillings, oil pipelines and oxygen canisters. Lubao Steel Tubes had a total asset of RMB 1.03 billion and a net asset of RMB 0.80 billion and reporting a net profit of RMB 40 million at the end of the reporting period.

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

In 2011, shareholders increased RMB 0.18 billion of investment in Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd., including RMB 0.135 billion from the Company. As at the end of 2011, the Company had 58.45% shareholding of Baosteel Huangshi Coated and Galvanized. With a registered capital of RMB 0.145 billion, Huangshi specializes in the production and sales of cold-rolled sheets, aluminum coated steel sheets, color-coated steel sheets and related coated steel products. Huangshi had a total asset size of RMB 0.6 billion, with a net asset of RMB 0.33 billion and reporting a net profit of RMB 20 million as at the end of 2011.

VII. Board of Directors' Report

(II) OVERALL PERFORMANCE IN THE REPORTING PERIOD

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

As at the end of 2011, the Company had a full shareholding of Shanghai Baosteel International Economic & Trading Co., Ltd. With a registered capital of RMB 2.25 billion, Shanghai Baosteel International Economic & Trading is mainly engaged in the imports and exports of goods and technology approved by the government, the imports of steel and scrap steel, processing with imported materials and compensation trade. Shanghai Baosteel International had a total asset size of RMB 36.42 billion, and a net asset of RMB 11.48 billion, reporting RMB 155.90 billion revenue from principal business, RMB 3.08 billion profit from principal business and a net profit of RMB 1.64 billion in 2011.

(7) Shanghai Baosight Software Co., Ltd.

In 2011, Shanghai Baosight Software Co., Ltd. ("Baosight") gave 3 complimentary shares for each 10 shares to all shareholders. After the dividend distribution, the stock capital of Baosight increased by RMB 80 million, including RMB 43.67 million from the Company. As at the end of 2011, the Company had 55.5% of shareholding of Baosight. With a registered capital of RMB 0.34 billion, Baosight is mainly engaged in computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. Baosight had a total asset size of RMB 2.83 billion, with a net asset of RMB 1.31 billion, and reporting a net profit of RMB 0.25 billion as at the end of 2011.

(8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2011, the Company had 100% of shareholding of Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical) which has a registered capital of RMB 2.1 billion and 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 its own products. Baosteel Chemical had a total asset size of RMB 5.23 billion, with a net asset of RMB 4.01 billion, and reporting a net profit of RMB 0.61 billion as at the end of 2011.

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

As at the end of 2011, the Company had 95.82% of shareholding of Nantong Iron & Steel. With a registered capital of RMB 0.621 billion, Nantong Iron & Steel is mainly engaged in production and sales of deformed steel bars, round steel bars, steel sections, and re-rolled steel (billet steel and steel ingots) as well as other steel products and by-products. Nantong Iron & Steel had a total asset size of RMB 2.62 billion, with a net asset of RMB 0.82 billion and reporting a net profit of RMB 217 thousand as at the end of 2011.

(10) Baosteel Group Finance Co., Ltd.

In 2011, shareholders increased a RMB 0.6 billion capital investment in Baosteel Group Finance Co., Ltd., including RMB 0.3726 billion from the Company. As at the end of 2011, the Company had 62.1% of shareholding of Baosteel Group Finance Co., Ltd. With a registered capital of RMB 1.1 billion, Finance Co. is mainly engaged in absorbing deposits from member companies, providing loans to them, conducting internal financial transfers between them, helping them in terms of borrowing and investment, and engaging in financial institution deposits and deposits from or to other financial institutions. By the end of 2011, the assets scale of the company reached RMB 10.74 billion, with a total net asset of RMB 1.49 billion and a reporting net profit of RMB 0.18 billion.

(11) Yantai Baosteel Tubes Co., Ltd.

As at the end of 2011, the Company owned 80% of Yantai Baosteel Tubes Co., Ltd., with the rest 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, their matching products and by-products. It also provides technical consultation services on steel tube rolling technology, storage, shipping and exporting services. The project at present is still under construction. Yantai Baosteel Tubes had a total asset of RMB 4.36 billion and a net asset of RMB 1.59 billion and reporting a net loss of RMB -0.17 billion at the end of 2011.

(12) Overseas subsidiaries

By the end of 2011, the Company had overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, and Hong Kong. These overseas subsidiaries extended the Company's sales and purchase networks, and played a critical role in enhancing the Company's international competitiveness.

12. Special purpose entities controlled

None.

(III) Company's Development in Prospect

1. Trend of development of the steel industry and the competitive market the Company faces

(1) Trend of development of the steel industry

In 2012, the world economy is expected to experience many uncertainties, and the economy recovery prospect remains unknown. China is still in the important strategic period of development. With the deepening of various governmental macro-control policies, especially the effect of control over real estate starts to emerge gradually, the growth of domestic economy has already started an active and stable slowdown, providing favorable conditions for China's economic structural adjustment, the change of growth mode and further development in future. With the great potential of internal demand, the accelerated industrialization and urbanization, and the accelerated development in the middle and western regions of China, there is still space for the growth of steel industry in the medium-long term. The huge steel industry in China remained in the plight of over-capacity, irrational structure, competition in homogeneity, and slow growth for enterprises due to the meager profit operation. The steel industry needs to take the initiatives to adapt itself to the changes, adjust the operation strategies, and pursue new competitive advantages.

(2) The competitive market the Company faces

China's steel industry is currently characterized by industrial structural upgrading and adjustment. The merging and consolidation of the steel industry has gradually spread from state-owned enterprises to private enterprises, resulting in a pattern of trans-regional enterprises co-existing with local enterprise group.

Along with the upgrading of product mix, competition in homogeneity of high-end products became fiercer. High-quality steel sheets, and seamless steel tubes are faced with grim homogeneity competition, and this kind of competition is spreading to the silicon steel products as well.

The domestic steel industry is experiencing more and more cost pressure. "Meager profit operation" will be the basic feature of the operation of steel enterprises in future.

Domestic steel enterprises are increasing the efforts to develop resources, especially foreign resources. It is of strategic importance for the enterprises to reduce the resource procurement cost, and secure the safe resource supply.

Chinese steel enterprises will lay more emphasis on the organic combination of scale, technology, costs, and services, conduct careful analysis of their competitiveness, pursue the differentiated operation, and try to lower the operating cost as much as they can. It becomes vital for them to pursue sustainable competitive advantages.

VII. Board of Directors' Report

(III) COMPANY'S DEVELOPMENT IN PROSPECT

2. Future opportunities and challenges

(1) Opportunities

The state's economic policies of maintaining stability while pursuing progress, the implementation of "12th 5-year" planning and the accelerated construction of relevant projects will help to maintain and promote the orderly growth of domestic steel consumption and demand, safeguarding the stability of demands in steel market and the further development of steel industry in China.

The theme for the development of this period of—industrialization and urbanization—remains unchanged, which will still provide opportunity for the growth of Chinese steel industry. Driven by the world financial crisis, the manufacturing industry is shifting to the developing countries, which is also conducive to the further development of steel industry.

While sticking to the product management and premium product production, the steel industry will further upgrade its service. With improved capability in customer service, the industry will transit from manufacturing to service, build up the differentiated competitive advantage, and realize the sustainable growth of enterprise value.

The low-carbon economy and environmental operation pose serious challenge on the steel industry, but provide new opportunities for the environmental operation and sustainable development of Chinese steel industry as we.

(2) Future challenges

Along with China's industrial structure upgrading, its expanding internal demand and higher requirements for energy saving and environmental protection, the downstream steel consumption poses higher requirements for optimization and upgrading of the product mix of steel enterprises, and the steel enterprises are confronted with new challenges in R&D, manufacturing, operation and service, etc.

Cost competitiveness is the decisive factor of the market competitiveness of the products of Chinese steel enterprises, and the domestic steel enterprises are faced with severe challenge and pressure on cost.

As the world economic recovery has a long way to go, and the international trade protectionism is stepping up, the international competition is becoming fiercer. In the meantime, the domestic steel industry expands the opening for foreign capitals, while the growth in market demand is slowing down, therefore Chinese steel enterprises are faced with severe challenge in exploration of internationalized operation.

(3) Strategy for future development

To adapt itself to the rapid changes in domestic and overseas environment for economic development and the development of steel industry, the Company will continue to take as its mission "becoming a world-class steelmaker and committing itself to providing extra-value products and service to the society", "integrity, cooperation, innovation, and the pursuit of the maximized value of the enterprise" as its core value, and "becoming the world's most competitive steelmaker" as its strategic goal. In addition, it will adhere to the principle of steadfast management and stable development and follow a road of sustainable development. The Company will take the scientific outlook on development and environmental management as the guide, implement the intensional development strategy that takes the enhancement and redevelopment of its core competitiveness, product development, technological innovation, management innovation, system capacity, and social responsibility as its strategic focus, and the mode of management and control, technological innovation, ability cultivation, environmental management, cost control, talent development, and risk management as its major measures.

The Company will combine such methods as product development, the enhancement of product service and the expansion of production mix to constitute product differentiation mix and integration step by step.

3. Plan for capital needs and use and sources of capital

(1) Plan for capital needs and use

The Company is expected to make RMB12.74 billion fixed assets investment in 2012, which will be mainly used for a batch of projects to be continued, such as the project of product mix and process equipment upgrading and technical revamping project of Meishan Steel, the construction of step 2 of the oriented silicon steel follow-up project and new 6#RH refining equipment added to No.2 steel-making workshop of steel-making plant. It will also invest in projects of technical revamping.

(2) Sources of capital

The above investment capitals come from the Company's own capital and financing.

4. Risks and counter-measures

(1) Major risks

The risk of slowing down growth in Chinese steel demand resulting from the tightening macro-economic policy and the decelerating economic growth is emerging. There is still a long and difficult way to go for China's economic structural adjustment, industrial upgrading and the transformation of development mode, which will pose many uncertainties for the steel enterprises.

The domestic steel market continues to be burdened by the imbalance between demand and supply. On the one hand, prices of the upstream resources have been increased, putting the steel enterprises under more pressure of high cost; on the other hand, the price bargaining ability of the downstream industries has been improved, squeezing the domestic steel industry from both ends. Consequently, domestic steel enterprises suffer more constraint in maintaining stable operation and increasing economic efficiency.

The pressure and risk of energy saving and environmental-friendly operation remains high. During the "12th 5-year Planning" period, China will implement stricter policies regarding energy saving and emission reduction for companies. This will be reflected by the higher requirements imposed by the central government and local governments on the steel industry in environmental operation. In the meantime, the communities of residential areas are raising higher requirement for a clean environment. These factors are posing more restrictions for the development of the Company.

(2) Counter-measures

In 2012, confronted with the complicated and changeful environment for competition at home and abroad, in the spirit of "seeking progress despite the crisis", the Company will prepare for the long-term laborious struggle in "era of meager profit". In the meantime, with firm confidence, the Company will stick to the differentiated operation strategy, strengthen the cost management, seize the opportunities, and secure the sustainable competitive advantages of the Company, so as to realize new leap forward in the adversity.

The Company will continue to pay attention to the gains and losses, the efficiency of asset usage and the cash flow. It will carry out the major tasks centering on such themes as the product management, cost improvement, packaged solution, premium product development, and environmental operation. By optimizing the product mix, enhancing the cost competitiveness, sticking to quality service, and exploring the differentiated competitive advantages, the Company will maintain its "best performance" in domestic steel industry.

The Company will optimize the asset allocation, solidify the Company's leading position in the quality carbon steel flat products, and achieve better performance. The Company intends to sell to its controlling shareholder Baosteel Group the related assets of the Stainless Steel unit, and the Special Steel unit. After selling these assets, it will focus on the development of carbon steel, and further cement its competitive advantages. The Company will continue to distinguish itself as "the most competitive steel enterprise, and the most valuable listed company".

The Company will enforce the strategic management, perfect the operation management, and solidify the management on the grass-root level. Adhering to the road of development focusing on the connotation, the Company will put the new round of strategic measures into practice. The long-acting mechanism of reversed transmission of market pressure will be perfected so as to continuously strengthen the competitiveness of the steel sector. Through further improving the Company's system, procedure and its sustainable innovation capability, the Company's core competitiveness will be further enhanced.

Continue to improve the risk management and enhance the comprehensive risk resistance capacity. Focusing on the major risks such as working capital risks, credit risks, risks from the fluctuation of fuel and raw material prices, investment risks, subcontracting risks, foreign exchange and interest rate risks, and trading conflict risks and so on, the Company will further improve the risk management strategies and risk solutions. In the meantime, the audit for internal control will function well in supervision and evaluation for those areas with great risks.

VII. Board of Directors' Report

(IV) Operational Plan for 2012

1. Target and plan

Guided by the general operating policy of "employing product management and cost improvement to adapt to new competitions, and enhancing ability and conducting environmental operation to forge new competitive advantages", the Company will promote the product management, solidify the product differentiated competitive advantages, further tap the potential of cost reduction, and continuously improve the system capacity. It aims to realize a total operating revenue of RMB 216 billion, keep its best performance among domestic peers, complete a sales volume of 11.64 million tons for exclusive and leading products, and reduce its production energy consumption by 40 thousand tons of standard coal.

In 2012, the iron and steel production is planned to reach 23.25 and 25.25 million tons respectively; the sale of steel is planned to reach 24.25 million tons; the total operating revenue and operating cost are planned to reach RMB 216 and 196 billion respectively. The managerial staff of the Company will implement all major plans in great detail, so as to strive to maintain the best performance in China against a fiercely competitive market environment.

2. Priority work to be done

The Company will promote 14 key programs in 3 aspects centering on product management, cost improvement, management reform and system capacity in 2012. It will strive to maintain and enhance its comprehensive competitive advantages. The programs are as follows:

- Furthering the coordination of production and sales and strengthen the competitiveness of key major products.
- Optimizing the inventory management of iron and steel products, and enhancing the inventory turnover efficiency.
- Enhancing the production capacity of key products to meet the needs of the market.
- Promoting the construction and implementation of the customer technical service system, and raising the customer's satisfaction level.
- Carrying out cost control with the aim of lowest system cost for iron and steel production.
- Maintaining the consistency of best design, optimizing production organization and reducing the cost of
- Intensifying the cost reduction by conducting product design with low cost, and developing manufacturing technologies to lower the cost.
- Improving the efficiency of examination and maintenance, reducing the load of examination and maintenance, and promoting reasonable input in examination and maintenance expenses.
- Enforcing the centralized management of sales expenses and administration expenses, optimizing liability structure, and implementing strict control expenses.
- Enhancing the overall capacity of the supply chain by designing a customer-oriented sales operation.
- Raising the capacity of the Company's R&D system by reorganizing and optimizing the R&D operation.
- Implementing environmental operation to improve its control over energy saving and emission reduction.
- Promoting the upgrading of the 9672 system for a better information management.
- Improving the management at the grass-root level and enhancing the site management

(V) Investment

1. Investment in fixed assets

In 2011, the Company invested RMB 16.57 billion in fixed assets.

(1) Fund-raising programs

None.

(2) Non-fund raising programs

Completed projects having been put into operation

Luoqing Step 2 project of directly affiliated plants and departments was completed and put into operation in March 2011.

The new batch annealing furnace project of Stainless Steel Business Unit was completed in September 2011 ahead of schedule, with a designed annual capacity of 170,000 tons. The project enhanced the productivity of the ferritic stainless steel.

The production line of Meishan Steel hot-rolled and pickled high strength steel was completed and put into use in October 2011, with a designed annual capacity of 1 million of hot-rolled and pickled sheets for automobile and home appliance.

The stainless steel leading strip project newly added to the cold rolling plant of Stainless Steel Business Unit started hot load test at the end of December 2011 ahead of schedule, which is expected to improve the comprehensive yield of cold-rolled stainless steel products.

Continued projects

The construction of the oriented silicon steel follow-up project: it aims to build the single stand reversing mill, the decarburizing annealing line, the high temperature rotary hearth furnace, and the flattening & coating line. The project is planned to produce 200 thousand tons of oriented silicon steel annually. The step 1 of the project was completed in October 2011, and the step 2 is planned to be completed by July 2013.

The relocation and product mix adjustment project of Lubao Steel Tube Co., Ltd.: it aims to build a production line for hot continuous rolling tubes and for tube processing, and a temper recoiling line for high-pressure boiler tubes, which will produce 500 thousand tons of high-end seamless steel tube products, including high-grade steel, corrosion resistant pipes for oil use only, high-pressure boiler tubes. The first phase of the project, the production line for tube processing, was completed in December, 2009 and the second phase, the production line for continuous tube rolling is planned to be completed by second half of 2012.

The product mix and process equipment upgrading and technical revamping project of Meishan Steel: it aims to build a sintering machine, coke oven, blast furnace, converter, continuous casting, hot strip mill and the corresponding utilities. The project is planned to be completed by June, 2012.

Newly-started projects

The project of new pre-leveller added to Luoqing of directly affiliated plants and departments is to add a pre-leveller to the existing 4200mm heavy plate mill with a view to improve the yield and develop 10,000t/y high-end TMCP and DQ products. The project is planned to be completed by March 2012.

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

VII. Board of Directors' Report

(V) INVESTMENT

2. Entrusted fund management and entrusted loans

(1) Entrusted asset management

(RMB Million)

No.	Entrustee	Amount of entrusted fund management	Starting date	Ending date	Principal amount actually taken back	Actual gains
1	Baosteel Group Finance Co., Ltd.	100.00	2011-8-9	2011-8-15	100.00	0.06
2	Baosteel Group Finance Co., Ltd.	30.00	2011-8-17	2011-8-30	30.00	0.04
3	Baosteel Group Finance Co., Ltd.	50.00	2011-8-18	2011-8-24	50.00	0.03
4	Baosteel Group Finance Co., Ltd.	70.00	2011-9-19	2011-9-25	70.00	0.05
5	Baosteel Group Finance Co., Ltd.	40.00	2011-12-7	2011-12-13	40.00	0.02
6	Baosteel Group Finance Co., Ltd.	30.00	2011-12-15	2011-12-21	30.00	0.02
7	Baosteel Group Finance Co., Ltd.	40.00	2011-12-15	2011-12-26	40.00	0.04
8	Baosteel Group Finance Co., Ltd.	400.00	2011-4-1	2011-4-6	400.00	0.15
9	Baosteel Group Finance Co., Ltd.	300.00	2011-4-22	2011-6-5	300.00	1.98
10	Baosteel Group Finance Co., Ltd.	1,200.00	2011-4-25	2011-6-7	1,200.00	6.71
11	Baosteel Group Finance Co., Ltd.	300.00	2011-5-19	2011-5-26	300.00	0.70
12	Baosteel Group Finance Co., Ltd.	300.00	2011-5-19	2011-6-7	300.00	0.21
13	Baosteel Group Finance Co., Ltd.	300.00	2011-5-20	2011-5-23	300.00	0.10
14	Baosteel Group Finance Co., Ltd.	300.00	2011-5-24	2011-6-9	300.00	0.16
15	Baosteel Group Finance Co., Ltd.	200.00	2011-5-24	2011-5-30	200.00	0.69
16	Baosteel Group Finance Co., Ltd.	400.00	2011-6-9	2011-6-10	400.00	0.04
17	Baosteel Group Finance Co., Ltd.	160.00	2011-7-5	2011-7-7	160.00	0.06
18	Baosteel Group Finance Co., Ltd.	500.00	2011-7-20	2011-7-27	500.00	0.50
19	Baosteel Group Finance Co., Ltd.	600.00	2011-9-16	2011-10-17	600.00	2.61
20	Baosteel Group Finance Co., Ltd.	300.00	2011-9-20	2011-11-21	300.00	2.84
Total		5,620.00	-	-	5,620.00	16.99

Note: 1. All of the above business followed legal procedures, no provision for value decrease was made, and the capital source was non-raised fund.

2. All of the above business was the national debt buying back operation entrusted by the Company and the Company's subsidiary Huangshi Coated and Galvanized Sheet to the Company's subsidiary the Finance Co.

(2) Entrusted loans

There were no entrusted loans in the reporting period.

(3) Other investing activities

(Million Shares, RMB Million)

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
AVAILABLE-FOR-SALE FINANCIAL ASSETS						
Trust Plan	Hwabao Trust	30.00	Over one year	Hwabao Trust Plan (999 Gold)	0.00	1.74
Trust Plan	Shanghai International Trust	44.00	Over one year	Shanghai International Trust-GM-9003-I	0.00	2.28
Trust Plan	Zhongrong International Trust	100.00	Less than one year	Zhongrong Chuangying Development No. 2	0.00	0.82
Convertible bond	Member unit of the exchange market	5.89	Less than one year	Sichuan Investment CB	0.00	0.01
Convertible bond	Member unit of the exchange market	13.76	Less than one year	Bank of China CB	0.00	-0.37
Financial bond	Inter bank market	99.97	Less than one year	11 Nongfa 14	0.00	1.67
Open end fund	Fund company	10.14	Less than one year	Harvest Credit A	0.00	0.21
Open end fund	Fund company	30.00	Less than one year	Invesco Great Wall Stable Profit A	0.00	-0.09
Close end fund	Securities trader	15.87	Over one year	Bank of Communications More Profit	-1.14	-0.86
Stock	Securities trader	62.97	Over one year	Shanghai Pudong Development Bank	-5.39	0.64
Corporate bond	Inter bank market	50.27	Less than one year	11 China Guodian CP004	0.00	0.60
Corporate bond	Inter bank market	30.07	Less than one year	11 China CNR CP003	0.00	0.14
Corporate bond	Inter bank market	49.85	Less than one year	10 Dafang CP01	0.00	1.95
Corporate bond	Inter bank market	30.02	Less than one year	10 Hongdou CP01	0.00	1.14
Corporate bond	Inter bank market	40.00	Less than one year	10 Yunnan Power CP01	0.00	1.97
Corporate bond	Inter bank market	30.00	Less than one year	10 Xiwang CP02	0.00	0.33
Corporate bond	Inter bank market	41.25	Over one year	10 Xia Road&Bridge MTN1	1.02	0.11
Corporate bond	Inter bank market	60.49	Over one year	10 New Water Power MTN1	-0.98	2.97
Corporate bond	Inter bank market	40.14	Less than one year	11 Hengyi CP01	1.76	0.00
Corporate bond	Inter bank market	30.07	Less than one year	11 Orient CP01	0.76	0.68
Corporate bond	Inter bank market	20.01	Less than one year	11 Sangde CP01	0.58	0.45
Corporate bond	Inter bank market	20.05	Less than one year	11 Hongtu CP01	0.85	0.00
Corporate bond	Inter bank market	30.00	Less than one year	11 HNA Retailing CP01	0.00	0.16
Corporate bond	Inter bank market	40.01	Less than one year	11 HNA Retailing CP01	0.00	0.21
Corporate bond	Inter bank market	100.33	Less than one year	11 Huaneng CP01	0.00	0.05
Corporate bond	Inter bank market	50.09	Less than one year	11 CGN CP02	0.00	0.29
Corporate bond	Inter bank market	150.29	Less than one year	11 CHINALCO CP01	0.00	2.39
Corporate bond	Inter bank market	50.07	Less than one year	11 Tianjing port CP01	0.00	1.06
Corporate bond	Inter bank market	50.14	Less than one year	11 Feng media CP01	1.13	0.00
Corporate bond	Inter bank market	40.63	Over one year	11 Fengfeng MTN1	0.79	0.00
Corporate bond	Inter bank market	79.99	Over one year	11 Jinguang MTN1	1.77	0.00
Corporate bond	Inter bank market	20.05	Less than one year	11 Kaidi MTN1	0.00	0.09
Corporate bond	Inter bank market	49.80	Over one year	11 Huahong MTN2	1.93	0.00
Corporate bond	Inter bank market	51.68	Over one year	11 Ynagmei MTN3	1.08	0.00
Corporate bond	Inter bank market	51.36	Over one year	11 Pingmeihua MTN2	1.20	0.00

VII. Board of Directors' Report

(V) INVESTMENT

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
Corporate bond	Member unit of the exchange market	20.00	Less than one year	11 Kangmei bond	0.00	0.11
HELD-TO-MATURITY INVESTMENT						
Trust Plan	Exchange International Trust	200.00	Less than one year	Bank of Communications Guosen Jufu No. 101	0.00	0.27
Trust Plan	Exchange International Trust	225.00	Less than one year	Bank of Communications Guosen Jufu No. 101	0.00	0.06
Trust Plan	Shanghai International Trust	118.47	Less than one year	Shanghai International Trust JN03-I	0.00	0.00
Bank financial product	ICBC	200.00	Less than one year	ICBC Financing Win-Win No.3 109 Issue	0.00	0.94
Bank financial product	ICBC	100.00	Less than one year	ICBC Financing Win-Win No.3 109 Issue	0.00	1.21
Bank financial product	Industrial Bank	100.00	Less than one year	Industrial Bank financial product XYXT	0.00	0.00
Bank financial product	Bank of Communications	100.00	Less than one year	Bank of Communications Jutong Financial Product	0.00	0.00
TRADABLE FINANCIAL ASSETS						
Money market fund	Fund company	50.00	Less than one year	Guotai Money	0.00	0.01
Money market fund	Fund company	190.00	Less than one year	Hua'an Cash Full Money B	0.00	0.52
Money market fund	Fund company	100.00	Less than one year	Bosera Money	0.00	0.11
Money market fund	Fund company	300.00	Less than one year	Harvest Money	0.00	0.47
Money market fund	Fund company	100.00	Less than one year	Dacheng Money B	0.00	0.04
Money market fund	Fund company	350.00	Less than one year	E-fund Money B	0.00	1.18
Money market fund	Fund company	100.00	Less than one year	Yinghe Yingfu Money	0.00	0.29
Money market fund	Fund company	100.00	Less than one year	Penghua Money B	0.00	0.10
Money market fund	Fund company	100.00	Less than one year	Nanfeng Cash More Profit B	0.00	0.30
Money market fund	Fund company	300.00	Less than one year	China Merchants Cash Value-Added	0.00	0.36
Money market fund	Fund company	150.00	Less than one year	Hwabao Fund	0.00	0.42
Money market fund	Fund company	300.00	Less than one year	CGB Money B	0.00	0.99
Money market fund	ICBC	30.00	Less than one year	ICBC Ruixin Money	0.00	0.02
Money market fund	Fund company	90.00	Less than one year	Haifutong Money B	0.00	0.11
Money market fund	Fund company	100.00	Less than one year	Wanjia Money	0.00	0.10
Money market fund	Fund company	10.00	Less than one year	SPD Bank Ansheng Money B	0.00	0.01
Money market fund	Fund company	250.00	Less than one year	Huitianfu Money B	0.00	0.58
Money market fund	Fund company	300.00	Less than one year	Changxin Interest Income B	0.00	0.93
Money market fund	Fund company	100.00	Less than one year	Dongwu Money B	0.00	0.39
Convertible bond	Member unit of the exchange market	0.76	Less than one year	Marine SHIPP bond	0.00	0.17
Convertible bond	Member unit of the exchange market	56.77	Less than one year	Sinopec bond	0.00	0.89
Convertible bond	Member unit of the exchange market	6.47	Less than one year	CNshipping bond	0.00	0.22
Stock	Trust transfer securities trader	30.08	Less than one year	Huafang Co., Ltd.	0.00	-3.04
Corporate bond	Inter bank market	72.32	Less than one year	10Zhonggu CP01	0.00	0.14
Corporate bond	Inter bank market	102.85	Less than one year	10 Xia MACH. & ELEC. CP01	0.00	0.75

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
Corporate bond	Inter bank market	31.04	Less than one year	10 Yue Material CP01	0.00	0.07
Corporate bond	Inter bank market	30.98	Less than one year	10 Zhong Public CP01	0.00	0.07
Corporate bond	Inter bank market	82.01	Less than one year	10 Jushi CP01	0.00	0.73
Corporate bond	Inter bank market	30.97	Less than one year	10 YunnL CP01	0.00	0.02
Corporate bond	Inter bank market	51.63	Less than one year	10 Meibang CP01	0.00	0.04
Corporate bond	Inter bank market	51.27	Less than one year	10 China Minerals P01	0.00	0.09
Corporate bond	Inter bank market	10.25	Less than one year	10 Transfer CP01	0.00	0.09
Corporate bond	Inter bank market	30.00	Less than one year	11 China Metallurgical CP01	0.00	0.03
Corporate bond	Inter bank market	40.28	Over one year	11 Founder MTN3	0.06	0.00
Corporate bond	Member unit of the exchange market	30.27	Over one year	11 Tianwei bond	1.42	0.00
Corporate bond	Inter bank market	50.00	Less than one year	10 Qian Tyre CP01	0.00	2.49
Central bank bill	Inter bank market	52.09	Less than one year	08 Central bank bill23	0.00	0.01
Central bank bill	Inter bank market	51.88	Less than one year	08 Central bank bill41	0.00	0.00
Central bank bill	Inter bank market	96.82	Less than one year	11 Central bank bill20	0.00	0.32

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

3. Other investment

In 2011, the Company completed a RMB 2.16 billion investment on equity investment projects.

4. Management and use of funds raised

None.

VII. Board of Directors' Report

(VI) Explanatory Notes from Auditing Firm

None.

(VII) Significant Change in Policies or Accounting Estimation

No significant change in accounting policies or accounting estimation, no correction of accounting errors, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reporting period.

(VIII) Routine Work of Board of Directors

1. Meetings and resolutions in the reporting period

Name of the meeting	Date	Disclosure media	Disclosure date
The eleventh meeting of the Fourth Board of Directors	29-30 March 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 March 2011
The twelfth meeting of the Fourth Board of Directors	7 April 2010	<i>China Securities News, Shanghai Securities News and Securities Times</i>	13 April 2011
The thirteenth meeting of the Fourth Board of Directors	29 April 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 April 2011
The fourteenth meeting of the Fourth Board of Directors	20 July 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 July 2011
The fifteenth meeting of the Fourth Board of Directors	30 August 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 August 2011
The sixteenth meeting of the Fourth Board of Directors	28 October 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 October 2011

Notes: 1. Refer to relevant resolution announcement for the content of the resolution approved at the meetings.

2. These meetings adopted the form of written voting; the twelfth meeting of the Fourth Board of Directors, and the fourteenth meeting of the Fourth Board of Directors.

2. Board of Directors' implementation of resolutions of General Shareholders' Meeting

According to the resolutions approved at the 2010 shareholders' General Meeting held on 29 April 2011, the proposed profit appropriation for 2010 was as follows: In view of the Company's anticipated operating results and the demand for capital, all shareholders, as registered on the equity registration date, were entitled to a cash dividend of RMB 3.00 per 10 shares (taxes included), for a total dividend payout of RMB 5,253,614,426.40. Details of the dividend distribution were published in the *China Securities News, Shanghai Securities News and Securities Times* of 31 May 2011. The final share registration date for the dividend entitlement was 8 June 2011, with the ex-dividend date set at 9 June 2011 and dividend payout date on 15 June 2011. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd.'s Shanghai Branch after the market closed on 8 June 2011, were entitled to such cash dividends.

3. Performance of Auditing Committee under Board of Directors

The "Procedure Rules of Auditing Committee of the Board of Directors" was drafted and revised, in which the structure of the committee, the term of office, duties, and procedures are specified. The first edition of the document was approved by the ninth meeting of the First Board of Directors on 1 August 2002, and it was later revised and improved on the second meeting of the Third Board on 28 August 2006 and the eleventh meeting of the Third Board on 26 March 2008.

The "Procedure Rules of Auditing Committee of the Board of Directors" was approved by the eleventh meeting of the Third Board on 26 March 2008.

Constructive suggestions and opinions about the finance and internal control were put forward on the four meetings held by the Auditing Committee of the Board of Directors.

The "Procedure Rules of Auditing Committee of the Board of Directors" was strictly followed by the Committee in reviewing the 2011 Annual Report, acting as an inspector to the Company's financial information, internal control and other performances.

The Auditing Committee had examined the 2010 auditing plan and the financial statements compiled by the Company and issued its written suggestions for the documents before Deloitte Touche Tohmatsu Certified Public Accountants Limited, the accounting firm, started the auditing work.

Later, the auditing members issued a letter to Deloitte Touche Tohmatsu, urging the firm to complete the auditing according to the time limit stipulated in the 2011 annual auditing plan; the committee examined the accounting report again and offered their opinions in written form, after Deloitte Touche Tohmatsu's initial auditing suggestions. Meanwhile, the committee evaluated the auditors' performance and the quality of their auditing work. The auditors formed a book of suggestions for the problems found in the auditing, which helps the Company to standardize its operation.

The auditing members reviewed the proposal to hire Deloitte Touche Tohmatsu CPA Ltd. as the independent auditor for the period of 2012 and agreed to submit it to the Board of Directors.

VII. Board of Directors' Report

(VIII) ROUTINE WORK OF BOARD OF DIRECTORS

4. Performance of Compensation Evaluation Committee under Board of Directors

The Committee met two times in the period, discussing about the "Methods of Performance Evaluation and Payment Settlement of Senior Management for 2010," and provided constructive opinions and suggestions.

The Committee met on 22 March 2012, reviewed the "Methods of Performance Evaluation and Payment Settlement of Senior Management for 2011," "Report on Annual Remunerations of Directors, Supervisors, and Other Senior Executives in 2011," and "Evaluation Indicators and Operation Target for the President In 2012," and agreed to submit these proposals to the Board of Directors.

5. Regulations on report and submitting information to the outside

In accordance with the "Issues Concerning Preparation of 2009 Annual Reports and Related Work" (2009)34 by China Securities Regulatory Commission, the fourth meeting of the Fourth Board of Directors approved the revised edition of "Management of Information Publication", in which regulations on report and submitting information to outside were added.

According to the regulations on report and submitting information to outside, great effort should be made to strengthen the management of reporting and submitting information to the outside by emphasizing the procedures of the whole process.

No information from any unit of the Company shall be submitted, following relevant legal procedures, to outsiders earlier than the date on which the Company publishes the brief of its performance. The brief shall not contain less information than that for outside users.

In case that information should be submitted to the outside in accordance of related regulations, an earlier remainder shall be submitted regarding the filing of the knower and the obligation to maintain secrecy about the information.

6. Statement by the Board of Directors regarding the internal control responsibilities

The Company's Board of Directors is responsible for establishing and maintaining an adequate internal control system.

7. Insider Information management

According to the Company's self-examination, no inside trading of the Company's shares occurred before major sensitive information disclosure occurred in the period.

8. Serious environmental problems or other significant social security issues

During the reporting period, the Company was not involved in serious environmental problems or other significant social security issues.

9. Punishment and rectification in the reporting period

In 2011, Nanjing Meishan Energy Co., Ltd. under Meishan Steel was fined RMB 60,000 by the administrative department of Nanjing Environment Bureau because its SO₂ emission concentration from the boiler was higher than the national standard. According to the "Book of Objective Responsibility for Reducing Total Amount of Major Pollutants During the 'Twelfth Five Year'", the No. 1 and No.3 coal-fired boiler flue gas desulfurization project of Nanjing Meishan Energy Co., Ltd. will be completed and put into use before 31 May 2012. The project is now in orderly progress in accordance to the plan. It is expected to provide a thorough solution to the issue of SO₂ out-of-standard emission.

(IX) Proposed Profit Appropriation

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

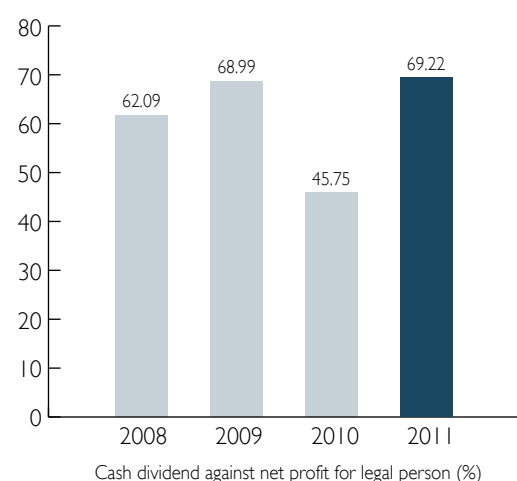
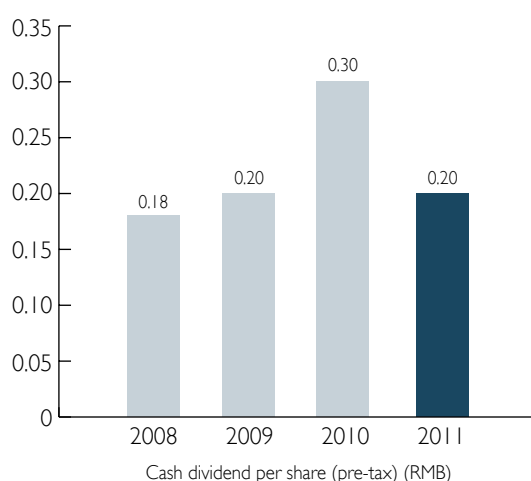
The net profit of the Company in 2011 totaled RMB 5,059,503,387.83. With the addition of the RMB 23,974,318,475.24 of undistributed profit at the beginning of the period and deduction of the RMB 5,253,614,426.40 of cash dividend payment for 2010, the distributable profit at the end of 2011 was RMB 23,780,207,436.67.

In order to realize the sustainable develop, and better practice the operating ideal of "Maximizing shareholders' value", the Board of Directors proposes the following profit appropriating scheme for the year of 2011:

1. Ten per cent of the net profit, or RMB 505,950,338.78, shall be allocated as statutory earnings reserves;
2. Ten per cent of the net profit, or RMB 505,950,338.78, shall be allocated as discretionary earnings reserves;
3. In accordance with the demand for fund of the Company in 2012, the Board of Directors has proposed a cash dividend payout of RMB 2.0 per 10 shares (pre-tax), with total of dividend payable of RMB 3,502,409,617.60.
4. Other models of distribution, such as capitalizing of earning reserves, would not be adopted.
5. Dividend-net profit ratios from 2008 to 2011:

Item	2011	2010	2009	2008
Cash dividend per share (pre-tax) (RMB)	0.20	0.30	0.20	0.18
Total cash dividend (RMB 100 million)	35.02	52.54	35.02	31.52
Net profit for legal person presented in financial statements (RMB 100 million)	50.60	114.83	50.77	50.77
Net profit attributable to parent company in consolidated statements (RMB 100 million)	73.62	128.89	58.16	68.49
Cash dividend against net profit for legal person	69.22%	45.75%	68.99%	62.09%
Cash dividend against net profit attributable to parent company in consolidated statements	47.57%	40.76%	60.22%	46.02%

Note: The cash dividend for 2011 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2011 Shareholders' Meeting.



(X) Others

None.

VIII. Board of Supervisors' Report

(I) Summary of Board of Supervisors' Performance

Number of meetings	6
Supervisors' performance	Topics of the meeting
On 31 March 2010, the Board of Supervisors held its eleventh meeting of the Fourth Board in Shanghai.	Reviewed 23 proposals, including: Board of Supervisors' Report, 2010 Report on Performance of Directors, 2010 Report of the Examination and Supervision on Internal Control and Risk Management, Review of the "2010 Annual Report", and so on.
On 12 April 2011, the Company issued in writing the notice of holding supervisors' meeting and related meeting materials.	Motion for the Board's "Proposal about Approving the Investment in Zhanjiang Steel Project by Baosteel Group"
On 29 April 2011, the Board of Supervisors held its thirteenth meeting of the Fourth Board in Shanghai.	Reviewed the following proposals: Board of Directors' "2011 Report of the First Quarter", Board of Directors' "Proposal of Provisions for Impairment Losses of Assets of the Company as at the End of the First Quarter of 2011".
On 29 July 2011, the Company issued in writing the notice of holding supervisors' meeting and related meeting materials.	Reviewed Board of Directors' "Proposal for evading the risk of certain raw materials".
On 30 August 2011, the Board of Supervisors held its fifteenth meeting of the Fourth Board in Changshu, Jiangsu.	Reviewed 6 proposals including proposal of Board of Directors' "2011 Semi-annual Report", Board of Directors' "2011 Semi-annual Report of President's Performance".
On 28 October 2011, the Board of Supervisors held its sixteenth meeting of the Fourth Board.	Reviewed 4 proposals including proposal of Board of Directors' "2011 Report of the Third Quarter".

In the reporting period, the Board of Supervisors labored to ensure that the Company's operations, financial auditing, and performance of the directors and senior managers are carried out in strict compliance with the rules and regulations set in the *Company Law* and the *Articles of Association*. The Board of Supervisors attended the eleventh, thirteenth, fifteenth, and sixteenth meetings of the Fourth Board of Directors to supervise the convening of the board meetings and ensure that voting procedures on resolutions conform to relevant laws, regulations and the *Articles of Association*.

(II) Opinions on the Company's Operations

In the reporting period, the Company has a well-structured internal control system and has followed the proper legal proceedings in making its decisions and formulating its policies. It has complied strictly with relevant rules and laws, and regulated the Company's operations accordingly. Board directors and senior managers have behaved responsibly and assiduously in performing their duties and carrying out the resolutions passed by the board and the shareholders alike. None of the directors or senior managers was found to have breached any rules, laws and regulations of the country and the *Articles of Company* or conducted any deed that has harmed the Company's interest.

In the reporting Period, no breach of commitment to information disclosure has been discovered.

(III) Opinions on the Company's Financial Operations

In the reporting period, the Company's financial management and internal control system have been further strengthened. Its 2011 financial statements are a true reflection of the financial condition and operating results of the Company in all major aspects, and the standard, unqualified opinion issued by Deloitte Touche Tohmatsu in the auditors' report is fair and objective. No malpractices were discovered with regard to their professional duties.

(IV) Opinions on the Company's Use of Fund from the Latest Financing Program

The fund from the latest financing program was used exactly in the way as the Company promised and no change was found in the actual projects.

(V) Opinions on the Company's Acquisitions and Sales of Assets

No insider trading or deeds that harmed the shareholders' interests or resulted in loss of Company's assets were discovered in acquisition and purchasing activities of the Company in the reporting period.

(VI) Opinions on Related Party Transactions of the Company

In the period reporting, the related party transactions were carried out according to *Baosteel Group Related Party Transaction Management Methods* at fair prices and without any damage to the Company's benefits.

(VII) Opinions on the Company's Internal Control Self-evaluation Report

The Board of Supervisors had reviewed the Company's "2011 Report on Internal Control Evaluation".

IX. Significant Events

(I) Legal Proceedings

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

(II) Bankruptcies and Re-Structuring

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

(III) Shares Held of Other Listed Companies and Financial Enterprises

1. Investment in securities

(Share, RMB Million)

No.	Type	Code	Name	Initial investment cost	Shareholding	Book value as at end of period	Ratio in total share of bond as at end of period (%)	Profit
1	Financial product	2011122902	Shanghai International Trust JN03-I	118.47	One share	118.47	9.67	-
2	Financial product	20111220	Societe General financial product XYXT	100.00	One share	100.00	8.16	-
3	Financial product	20111229	Bank of Communications Jutong financial product	100.00	One share	100.00	8.16	-
4	Corporate bond	1182098	11 Jinguang MTN1	79.99	800,000	81.76	6.67	-
5	Corporate bond	1082222	10 New Water Power MTN1	59.89	600,000	58.91	4.81	2.97
6	Corporate bond	1182265	11 Yangmei MTN3	51.68	500,000	52.76	4.31	-
7	Corporate bond	1182285	11 Pingmeihua MTN2	51.36	500,000	52.57	4.29	-
8	Corporate bond	1182199	11 Huahong MTN2	49.80	500,000	51.72	4.22	-
9	Corporate bond	1181354	11 Feng Media CP01	50.14	500,000	51.27	4.19	-
10	Money Market Fund	070008	Harvest Money	50.26	50,256,451.95	50.26	4.10	0.47
Other bonds held as at the end of the period				501.09	-	507.20	41.41	3.81
Profit in bonds sold in the reporting period				-	-	-	-	17.73
Total				1,212.67	-	1,224.92	100.00	24.97

2. Stocks held of other listed companies

(RMB Million)

Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Profit	Change in shareholders' equity in the period	Accounting type	Share source
000983	Xishan Coal Electricity Group	941.66	1.35%	622.81	14.83	-298.02	Financial assets available for sale	Acquisition
601699	Lu'an Environmental Energy	5.05	0.51%	249.91	5.91	-80.18	Financial assets available for sale	Investment when issued
600508	Shanghai Energy	5.55	0.77%	104.38	1.39	-41.48	Financial assets available for sale	Investment when issued
600997	Kailuan Corporation	3.51	0.38%	51.91	0.47	-32.32	Financial assets available for sale	Investment when issued
600000	SPD Bank	62.97	0.03%	43.98	0.48	-4.04	Financial assets available for sale	Acquisition
601001	Datong Coal Industry	2.57	0.22%	43.78	0.68	-24.63	Financial assets available for sale	Investment when issued
000928	Sinosteel Jilin Carbon	0.30	0.11%	-	2.11	-1.78	Financial assets available for sale	Acquisition
Total		1,021.60	-	1,116.76	25.86	-482.46		

3. Transactions of shares of other listed companies

(Ten thousand share, RMB Million)

Name	Shareholding as at the beginning of the period	Shares traded in the period	Shareholding as at the end of the period	Capital used	Profit from investment
Stocks	3,696.24	-	6,638.11	-	-
Shares bought		3,414.52	-	700.92	-
Shares sold		472.65	-	-	-0.93

(IV) Significant Acquisitions, Sales and Business Combinations

No significant acquisitions, sales and business combinations occurred in the period.

(V) Progress of "Share Incentive Scheme" and its Impact on The Financial Status and Performance of the Company

None.

IX. Significant Events

(VI) Significant Related Party Transactions

1. Day-to-day related party transactions

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

(1) Sales of products and purchases of services

(RMB Million)			
Related parties	Transactions	Pricing	Amount
Baosteel Development Corp.	Sales of steel products, and auxiliary materials, etc.	Market price	3,055.60
Baosteel Metal Co., Ltd.	Sales of iron and steel products, etc.	Market price	2,976.18
Baosteel Resources Co., Ltd.	Sales of fuel and raw materials	Market price	11,536.30
Baosteel Resources (International) Co., Ltd.	Sales of fuel and raw materials	Market price	898.34
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Sales of steel products, fuel and raw materials, and auxiliary materials, etc.	Market price	1,808.68
Zhanjiang Longteng Logistics Co., Ltd.	Sales of fuel and raw materials	Market price	2,051.59
Subtotal of sales			22,326.68
Baosteel Development Corp.	Purchase of auxiliary materials and fuel and raw materials	Market price	2,467.49
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Purchase of fuel and raw materials and auxiliary materials	Market price	1,476.81
Baosteel Engineering & Technology Group Co., Ltd.	Purchase of equipment	Market price	1,770.88
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd.	Purchase of iron and steel products	Market price	1,605.72
Baosteel Resources Co., Ltd.	Purchase of fuel and raw materials	Market price	9,941.00
Baosteel Resources (International) Co., Ltd.	Purchase of fuel and raw materials	Market price	730.08
Ningbo Iron & Steel Co., Ltd.	Purchase of iron and steel products	Market price	2,353.61
Zhanjiang Longteng Logistics Co., Ltd.	Purchase of fuel and raw materials	Market price	2,045.73
Subtotal of purchase			22,391.33
Baosteel Development Corp.	Receiving services including comprehensive logistics, project installation, equipment examination & maintenance, as well as storage and transportation, etc.	Negotiated price	1,921.71
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Receiving services including comprehensive logistics, project installation, equipment examination & maintenance, as well as transportation, etc.	Negotiated price	820.08
Baosteel Engineering & Technology Group Co., Ltd.	Receiving services including examination and maintenance, and engineering services etc.	Negotiated price	2,232.64
Subtotal of services received			4,974.43

Note: The subsidiaries of the above companies were included.

The sales above accounted for 10.0% of the Company's revenue from its principal businesses in the reporting period; purchases and services received took up 11.0% and 2.5%, respectively, of the Company's cost for its principal businesses in the reporting period.

All transactions were settled either by cash or by note.

(2) Financial services

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

In the period reported, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 5.13 billion loans to Baosteel Group's controlled companies, with outstanding loan of RMB 2.47 billion and a total interest income of RMB 150 million. At the same time, it absorbed a total deposit of RMB 8.32 billion of the balance funds at the end of the period of Baosteel Group and its controlled companies, paying a total of interest of RMB 180 million.

In the period reporting, Finance Co. discounted a total of RMB 0.56 billion to controlled companies of the Group at the discount rate set by the People's Bank of China, with the closing balance of RMB 0.15 billion and a total sum of interest of RMB 20 million.

During the reporting period, Baosteel Desheng Stainless Steel Co., Ltd., the subsidiary of Baosteel Group, entrusted the Finance Co. to conduct fund management activities such as buyback of the national debt. The Finance Co. received the entrusted fund of RMB 0.6 billion for management, for which the Finance Co. charged a service fee of RMB 14,000.

Based on the mutual maximum profits and operation efficiency, the Company and the related parties choose each other so that both can make the best of each other's advantages in professional collaboration, each becoming more competitive. The related transactions mentioned in the above item (1) and (2) between the Company and the related parties are expected to continue.

(3) Collaborative R&D with the related parties

In 2010, the Company started two 3-year collaborative R&D projects with Baosteel Group. The projects are "Baosteel COREX-3000 Key Technique Platform Construction and Research" (hereinafter referred to as the COREX project), and "Baosteel Special Steel Research Center (Platform) Technique and Product Research" (hereinafter referred to as the Special Steel Project). The patents, technical secrets and achievements thus obtained will be jointly owned by Baoshan Iron & Steel Co., Ltd. and Baosteel Group.

According to the collaborative R&D agreement, Baosteel Group invested a total of RMB 0.66 billion for the research in 2011, among which, RMB0.21 billion for the COREX Project, and RMB 0.35 billion for the Special Steel Project.

2. Transfer of assets or equity

Approved by the Sixteenth Meeting of the Fourth Board of Directors, the subsidiary fully owned by the Company, Shanghai Baosteel International Economic & Trading Co., Ltd. acquired the total equity of the auto parts sector held by Baosteel Metal, a wholly owned subsidiary of Baosteel Group on December 30, 2011. The delisting transaction was made through SUAEE. The subject stock right included the 100% equities of the following companies held by Baosteel Metal: Shanghai Baosteel Vehicle Wheel Co., Ltd., Yantai Baosteel Vehicle Wheel Co., Ltd., Shanghai Baosteel Hot Stamped Parts Co., Ltd., Shanghai Baosteel Hydroforming Parts Co., Ltd. The total delisting price was RMB 0.54 billion.

3. Related external investments with related parties

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

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

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

On 1 April 2008, the Company acquired the Luojing Project assets and businesses from Shanghai Pudong Iron & Steel Co., Ltd. of Baosteel Group. The financial settlement price was RMB 14.34 billion, which would be paid 20% each year in five years free of interest. Starting from 2009, the balance of this acquisition was made on 31 December every year; with the last payment to be made on 31 December 2012. This acquisition was approved by the Shareholders' Meeting. In the beginning of 2011, the long-term payable was RMB 5.41 billion. The subsequent measurement was made on the basis of the post-amortization costs, and the unrecognized financial expenses written off for the year was RMB 0.22 billion. A payment of RMB 2.87 billion was made for the year 2011, and the balance was RMB 2.76 billion. The recognized interest expenses for 2011 was RMB 0.22 billion.

5. Fund appropriations and their solutions

The Company was not involved in any fund appropriation in the reporting period.

IX. Significant Events

(VII) Major Contracts and Performance

1. Major trusteeships, contracts or leases

The Company was not involved in any major trusteeships, contracts or leases in the reporting period.

2. Major guarantees

In view of the more and more intensified competition in the steel markets at home and abroad, in order to fully seize the market opportunities so that all sales branches at home and abroad can actively participate the bidding projects for supply at home and abroad under the general planning and guidance of the Company, the Company provides two joint liability performance guarantees for Howa Trading Corporation Limited, a wholly-owned subsidiary of the Company. The first guarantee, USD 0.257 billion, started from 19 March 2010, and the duration will not be more than 50 months. The second guarantee, USD 0.036 billion, started from 30 September 2011 and will end on 5 January 2015. The above performance guarantees totalled USD 0.293 billion, accounting for 1.6% of the net assets of the Company at the end of the reporting period. The above performance guarantees have been approved by the Board of Directors.

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

3. Major entrusted cash management

The Company was not involved in any major entrusted cash management in the reporting period.

(VIII) Commitments and Performance

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

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

- (1) All related party transactions with the Company will be carried out in compliance with relevant laws, regulations and rules set by the authorities and will not damage the legitimate interest of the Company nor its minority shareholders.
- (2) Baosteel Group will not directly participate in any business activity or directly own an interest in any business activity or entity that might pose competition to the Company's current operating business. However, Baosteel Group can maintain its existing shares in the Company, as well as manage and develop the existing business which may or may not be in competition with the Company. Should Baosteel Group (including its wholly-owned and holding subsidiaries or other associates) engage in any new business, investment or research that might be in competition with the principal products or services of the Company in the future, Baosteel Group has agreed to grant the Company pre-emptive rights to develop or acquire the said business.

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

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

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

2. Commitments made in Issuance Prospectus by Baosteel Group:

- (1) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses which may be in competition with the Company;
- (2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until the Company gives up the commercial opportunities;
- (3) Baosteel Group is committed to helping dealing with the relevant property certificates for buildings and lands after the Company completed the mergers and acquisitions. These commitments were publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) in April 2005.

3. Commitments Baosteel Group undertook about Luojing Land:

Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. (hereafter; Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter; Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3,228 million m², for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-assessing day (30 September 2007), RMB2.8 billion as preliminarily estimated, shall be paid by the Company. Baosteel Group promises:

- (1) If the Company intends to purchase the Luojing assets, Baosteel Group and/or Pudong Steel would help the Company go over the transfer procedures and other matters as required by the Company.
- (2) In the event of the total actual expense exceeding RMB2.8 billion for the procedures, Baosteel Group and/or Pudong Steel shall fully cover the exceeding amount in time, by means of paying the Company and/or the government (as is required).

The aforementioned commitments were published on China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 12 December 2007.

4. Supplementary commitments about the land involved in 2005 share capital increase of the Company:

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

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

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

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

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

- (1) The Company intended to purchase, with the capital raised from the issuance of 5 billion new shares, from Baosteel Group 23 pieces of state-allocated land and 14 pieces of "idle running" land. After the completion of the transactions, the Company would go over the procedures of changing the state-allocated land into state-owned transferable land and changing the "idle running" land into state-owned transferable land with no limits in right;
- (2) The Company and related companies that came under control of the Company after the acquisition shall negotiate in an active manner with relevant administrative offices to go over the procedures, within 18 months after the land acquisition, of the certificates for using the state-owned land or for owning the estates of the aforementioned pieces of land. The land users of the aforementioned land shall be registered in the Company or related companies that came under control of the Company after the acquisition.

The transfer procedures for a piece of land in Baoshan District covering an area of 581,000 square meters, which was involved in the increase in share capital in 2005, has not completed. The Company was informed that the piece had been planned by Shanghai Municipal Planning Bureau as part of the "land for landscapes" due to change in the overall urban planning. Yet, up to the date of disclosure of the Report, the Company has not been informed that the land should not be used in the way it is currently used. Currently on the land are workshops of bright steel plant and oxygen generating plant of Special Steel Business Unit of the Company rather than key operating workshops of the Company.

On 2012's First Interim Shareholders' Meeting held on 15 March 2012, the *Proposal about selling partial assets of Stainless Steel and Special Steel Business Unit* was passed, and the above-mentioned land was within the scope of this assets sales, therefore the Company was exempted from the above-mentioned obligations naturally.

6. Commitments Baosteel Group undertook about Desheng Nickel Project:

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

IX. Significant Events

(VIII) COMMITMENTS AND PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

The Company used the services of Deloitte Touche Tohmatsu Certified Public Accountants Limited in the reporting year. The compensation paid to the accounting firm is detailed below:

1. The approach to and amount of the compensation payable to the accounting firm for services rendered to the Company is determined and subject to approval at the Shareholders' Meeting. Meanwhile, compensation for auditing services rendered to the Board of Directors is determined by the Board. Independent directors gave their unanimous consent to the compensation for the accounting firm.
2. As approved by 2010 Annual Shareholders' Meeting, the auditing fees payable to Deloitte Touche Tohmatsu in 2010 was RMB 2.88 million. In addition, the Company paid Deloitte Touche Tohmatsu RMB 880,000 for its service in the internal control auditing work, which does not influence the independence of the auditors in their work for the Company, as the Board of Directors believes.
3. Signatory auditors to the Company's 2011 Financial Statements are Zhu Xiaolan and Gu Xiaogang, while Zhu Xiaolan and Zhang Jie signed on the previous year's auditory report.

(X) Neither the Company, nor the Board of Directors and any of its director, senior manager, shareholder or actual controller was the subject of an investigation by the China Securities Regulatory Commission in 2008, neither were they punished or penalized or cited by the commission, or openly denounced by any administrative department or Shanghai Stock Exchange for any wrongdoing.

(XI) Index of Important Announcements

Item	Disclosure media	Disclosure date	Website
Announcement of the Resolutions of the Tenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	4 Jan. 2011	http://www.sse.com.cn
Express Report of 2010 Performance of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	11 Jan. 2011	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year 2010	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Mar. 2011	http://www.sse.com.cn
Notice of capital use by controlling shareholders and other related parties in 2010 by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Eleventh Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Sustainability Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Examination Report of Internal Control of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Report on the deposit and actual use of the raised capital by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Abstract of Annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Report of Day-to-day Related Transactions of Baoshan Iron & Steel Co., Ltd. in 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Eleventh Meeting of Fourth Board of Directors & Notice of 2010 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	http://www.sse.com.cn
Announcement of Independent Director's Resignation of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	7 Apr. 2011	http://www.sse.com.cn
Announcement on Submitting Provisional Proposals for 2010 General Shareholders' Meeting & Supplementary Notice of 2010 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	8 Apr. 2011	http://www.sse.com.cn
Materials from 2010 Shareholders' Annual Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	13 Apr. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Twelfth Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	13 Apr. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Twelfth Meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	19 Apr. 2011	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	27 Apr. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Twelfth Meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Apr. 2011	http://www.sse.com.cn

IX. Significant Events

(XI) INDEX OF IMPORTANT ANNOUNCEMENTS

Item	Disclosure media	Disclosure date	Website
Announcement of the Resolutions of the Thirteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Apr. 2011	http://www.sse.com.cn
First Quarter Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Apr. 2011	http://www.sse.com.cn
Legal Position Paper of 2010 Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Apr. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the 2010 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Apr. 2011	http://www.sse.com.cn
Notice of Dividend Distribution of 2010 by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 May 2011	http://www.sse.com.cn
Notice of Dividend Distribution of "08 Baosteel Bond" in 2011 by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	14 June 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Fourteenth Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 July 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Fourteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	5 August 2011	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. Co., Ltd in the First Half of 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	26 August 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Fifteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 August 2011	http://www.sse.com.cn
Semi-annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 August 2011	http://www.sse.com.cn
Abstract of Semi-annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 August 2011	http://www.sse.com.cn
Announcement of Share Increase by Controlling Shareholders by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Sept. 2011	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Third Quarter of 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	25 Oct. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Sixteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Oct. 2011	http://www.sse.com.cn
Announcement of the Resolutions of the Sixteenth Meeting of Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Oct. 2011	http://www.sse.com.cn
Third Quarter Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Oct. 2011	http://www.sse.com.cn
Notice of Stock Suspension by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	6 Dec. 2011	http://www.sse.com.cn
Notice of Resumption of Stock by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	12 Dec. 2011	http://www.sse.com.cn

(XII) Other Significant Events

In order to optimize the asset allocation, solidify the Company's leading position in the quality carbon steel flat products, and achieve better performance, the Company intends to sell to its controlling shareholder Baosteel Group the related assets of the Stainless Steel and Special Steel units. After acquiring the assets, Baosteel Group will optimize its plan and continue to develop the stainless steel and the special steel business. On the Seventeenth Meeting of the Fourth Board of Directors held on 28 February 2012, this asset sales proposal was discussed and approved by the non-related directors of the Board of Directors. On 28 February 2012, the Company and Baosteel Group signed the agreement of related asset transfer. The standard price for the transaction is RMB 45.19 billion. On the Interim Shareholders' Meeting held on 15 March 2012, the Company's non-related shareholders discussed and approved the agreement. The asset transfer is planned to be completed on 1 April 2012.

(XIII) Significant Events in Controlled Subsidiaries

In the reporting period, the Company and other shareholders increased their investment in Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd. (Huangshi Coating and Galvanizing). The total increased capital was RMB 0.18 billion, among which RMB 0.135 billion was from the Company. The current registered capital of Huangshi Coated and Galvanized is RMB 0.145 billion, and the Company's shareholding of the investee rose from 39.37% to 58.45%.

X. Financial Statements

Auditor's report	59
The Company and consolidated balance sheets	60-63
The Company and consolidated income statements	64-65
The Company and consolidated cash flow statements	66-69
The Company and consolidated statements of changes in shareholders' equity	70-73
Notes to the financial statements	74-159

AUDITOR'S REPORT

De Shi Bao (Shen) Zi (12) No.P0448

[Translation]

To the Shareholders of Baoshan Iron & Steel Co., Ltd.

We have audited the accompanying financial statements of Baoshan Iron & Steel Co., Ltd. (the "Company"), which comprise the Company's and consolidated balance sheets as at 31 December 2011, and the Company's and consolidated income statements, the Company's and consolidated statement of changes in shareholders' equity, and the Company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

1. Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements that are free from material misstatement, whether due to fraud or error.

2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the Company's and consolidated financial position of as of 31 December 2011, and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Touche Tohmatsu CPA Ltd.

Chinese Certified Public Accountant:

Shanghai, China

Zhu Xiaolan

Gu Xiaogang

30 March 2012

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. Where the English version does not conform to the Chinese version, the Chinese version prevails.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2011

RMB

Item	Notes	Closing Balance	Opening Balance
CURRENT ASSETS			
Cash and bank balances	(V)1	14,379,464,105.74	9,200,675,786.05
Loans to banks and other financial institutions	(V)2	-	-
Held-for-trading financial assets	(V)3	352,804,683.86	297,133,851.72
Notes receivable	(V)4	12,860,113,254.16	7,879,784,804.93
Accounts receivable	(V)5	6,983,893,119.47	6,728,952,000.41
Prepayments	(V)6	5,298,265,694.46	5,464,166,424.66
Interest receivable	(V)7	11,757,749.94	8,097,921.09
Dividends receivable	(V)8	246,648,970.16	19,199,112.85
Other receivables	(V)9	1,227,688,540.03	1,088,689,487.14
Inventories	(V)10	37,389,713,386.91	38,027,321,873.88
Non-current assets due within one year	(V)11	483,907,475.02	150,362,590.00
Total Current Assets		79,234,256,979.75	68,864,383,852.73
NON-CURRENT ASSETS			
Disbursement of loans and advances	(V)12	3,410,144,438.27	3,931,800,234.92
Available-for-sale financial assets	(V)13	1,504,972,994.37	1,253,630,345.22
Long-term receivables	(V)14	27,388,500.00	-
Long-term equity investments	(V)15, 16	4,498,487,312.97	4,432,305,394.65
Investment properties	(V)17	487,474,698.00	154,564,391.52
Fixed assets	(V)18	115,371,361,577.46	117,737,019,179.64
Construction in progress	(V)19	16,282,590,033.75	9,762,744,217.47
Materials for construction of fixed assets	(V)20	805,812,260.74	504,102,159.55
Intangible assets	(V)21	8,126,173,826.75	8,149,310,483.44
Long-term expenses to be apportioned	(V)22	42,017,928.52	18,828,446.84
Deferred tax assets	(V)23	1,188,689,741.88	1,135,371,070.97
Other non-current assets	(V)25	120,375,537.42	121,043,972.78
Total Non-current Assets		151,865,488,850.13	147,200,719,897.00
TOTAL ASSETS		231,099,745,829.88	216,065,103,749.73

CONSOLIDATED BALANCE SHEET (Continued)

AT 31 DECEMBER 2011

RMB

Item	Notes	Closing Balance	Opening Balance (Restated)
CURRENT LIABILITIES			
Short-term borrowings	(V)26	38,876,457,632.91	23,611,246,423.82
Customer deposits and deposits from banks and other financial institutions	(V)27	8,433,585,032.21	8,908,340,779.32
Placements from banks and other financial institutions	(V)28	300,000,000.00	-
Held-for-trading financial liabilities	(V)29	-	3,480,773.10
Notes payable	(V)30	2,677,585,618.61	2,221,942,799.91
Accounts payable	(V)31	19,270,699,108.70	19,164,134,658.37
Receipts in advance	(V)32	10,789,724,318.08	11,795,800,061.97
Employee benefits payable	(V)33	1,553,291,216.55	1,641,234,036.31
Taxes payable	(V)34	(987,589,062.21)	1,143,198,028.04
Interest payable	(V)35	316,050,944.68	289,681,337.11
Dividends payable	(V)36	18,082,635.32	14,489,839.41
Other payables	(V)37	780,610,181.71	865,954,967.77
Non-current liabilities due within one year	(V)38	16,809,668,448.29	3,536,710,083.31
Total Current Liabilities		98,838,166,074.85	73,196,213,788.44
NON-CURRENT LIABILITIES			
Long-term borrowings	(V)39	7,325,679,720.00	8,586,976,200.00
Bonds payable	(V)40	8,918,663,150.96	18,474,795,283.20
Long-term payables	(V)41	-	2,542,058,246.12
Special payables	(V)42	911,415,731.15	458,086,945.11
Deferred tax liabilities	(V)23	316,780,621.85	396,226,414.46
Other non-current liabilities	(V)43	1,319,044,230.80	1,088,486,622.56
Total Non-current Liabilities		18,791,583,454.76	31,546,629,711.45
TOTAL LIABILITIES		117,629,749,529.61	104,742,843,499.89
SHAREHOLDERS' EQUITY			
Share capital	(V)44	17,512,048,088.00	17,512,048,088.00
Capital reserve	(V)45	37,330,639,029.54	37,565,832,959.01
Special reserve	(V)46	11,788,986.69	15,291,362.80
Surplus reserve	(V)47	21,132,255,172.18	20,120,354,494.62
Retained earnings	(V)48	30,754,305,445.21	29,657,858,912.76
Translation differences arising on translation of financial statements denominated in foreign currencies		(245,545,838.69)	(145,142,801.00)
Total shareholders' equity attributable to the owners		106,495,490,882.93	104,726,243,016.19
Minority interests		6,974,505,417.34	6,596,017,233.65
Total Shareholders' Equity		113,469,996,300.27	111,322,260,249.84
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		231,099,745,829.88	216,065,103,749.73

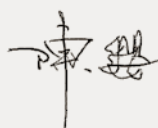
The accompanying notes form part of the financial statements.

The financial statements on pages 60 to 159 were signed by the following:

Legal Representative:



Chief Accountant:



Person in Charge of the Accounting Affairs:



BALANCE SHEET OF THE COMPANY

AT 31 DECEMBER 2011

RMB

Item	Notes	Closing Balance	Opening Balance
CURRENT ASSETS			
Cash and bank balances		8,826,002,497.24	4,076,704,419.19
Held-for-trading financial assets		-	11,507,631.72
Notes receivable		14,028,815,911.13	14,497,570,736.70
Accounts receivable	(XI)1	6,896,778,182.66	5,556,627,318.54
Prepayment		2,480,162,457.76	2,249,650,160.56
Other receivables	(XI)2	503,609,047.98	365,050,015.71
Inventories		24,621,659,766.83	26,457,744,311.20
Other current assets		5,864,685,966.51	-
Total Current Assets		63,221,713,830.11	53,214,854,593.62
NON-CURRENT ASSETS			
Long-term equity investments	(XI)4	27,673,450,448.67	27,461,185,750.91
Fixed assets		90,615,546,715.70	92,026,337,436.76
Construction in progress		3,393,924,415.94	4,643,096,512.30
Materials for construction of fixed assets		38,286,961.88	31,718,186.69
Intangible assets		3,913,518,973.35	3,992,995,164.00
Long-term expenses to be apportioned		14,394,666.51	1,879,453.51
Deferred tax assets		418,690,604.77	340,675,578.58
Other non-current assets		117,905,780.14	117,905,780.14
Total Non-current Assets		126,185,718,566.96	128,615,793,862.89
TOTAL ASSETS		189,407,432,397.07	181,830,648,456.51

BALANCE SHEET OF THE COMPANY (Continued)

AT 31 DECEMBER 2011

RMB

Item	Notes	Closing Balance	Opening Balance (Restated)
CURRENT LIABILITIES			
Short-term borrowings		20,351,326,028.98	19,050,862,514.68
Held-for-trading financial liabilities		-	486,088.86
Notes payable		61,722,416.46	201,738,214.18
Accounts payable		26,574,715,743.14	15,103,083,147.38
Receipts in advance		10,265,421,675.61	9,809,436,917.48
Employee benefits payable		1,073,164,972.01	1,157,157,085.74
Taxes payable		(112,094,016.84)	1,316,811,443.08
Interest payable		250,161,146.79	253,018,094.29
Other payables		202,869,701.83	248,782,676.46
Non-current liabilities due within one year		16,758,001,068.29	3,482,403,943.31
Other current liabilities		-	2,442,304,859.09
Total Current Liabilities		75,425,288,736.27	53,066,084,984.55
NON-CURRENT LIABILITIES			
Long-term borrowings		4,410,630,000.00	7,861,144,900.00
Bonds payable		8,918,663,150.96	18,474,795,283.20
Long-term payables		-	2,542,058,246.12
Special payables		769,908,534.23	284,006,945.11
Deferred tax liabilities		282,207,189.74	215,130,870.18
Other non-current liabilities		980,722,628.04	810,339,456.56
Total Non-current Liabilities		15,362,131,502.97	30,187,475,701.17
TOTAL LIABILITIES		90,787,420,239.24	83,253,560,685.72
SHAREHOLDERS' EQUITY			
Share capital		17,512,048,088.00	17,512,048,088.00
Capital reserve		37,207,402,138.54	36,970,366,712.93
Surplus reserve		21,132,255,172.18	20,120,354,494.62
Retained earnings		22,768,306,759.11	23,974,318,475.24
Total Shareholders' Equity		98,620,012,157.83	98,577,087,770.79
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		189,407,432,397.07	181,830,648,456.51

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

RMB

Item	Notes	Amount for the Current Period	Amount for the Prior Period (Restated)
I. Total operating income		222,856,551,230.36	202,413,451,160.48
Including: Operating income	(V)49	222,504,684,693.73	202,149,152,364.77
Interest income		346,304,088.75	260,099,385.43
Fee and commission income		5,562,447.88	4,199,410.28
II. Total operating cost		214,640,818,873.43	186,606,666,454.28
Including: Operating costs	(V)49	203,040,720,884.79	175,394,408,303.02
Interest expenses		202,705,805.40	161,154,184.87
Fee and commission expenses		366,496.27	228,023.90
Business taxes and levies	(V)50	441,204,466.15	525,055,202.74
Selling expenses		1,949,535,869.48	1,784,620,103.36
Administrative expenses		8,583,662,236.26	7,746,940,533.07
Financial expenses	(V)51	72,320,524.41	806,574,502.66
Impairment losses of assets	(V)52	350,302,590.67	187,685,600.66
Add: Gains from changes in fair values (Losses are indicated by "-")	(V)53	(7,305,654.37)	12,063,575.63
Investment income	(V)54	630,470,730.12	826,681,541.14
Including: Income from investments in associates and joint ventures		260,237,983.08	444,906,040.66
III. Operating profit		8,838,897,432.68	16,645,529,822.97
Add: Non-operating income	(V)55	646,413,128.52	589,839,984.17
Less: Non-operating expenses	(V)56	225,185,204.97	179,372,012.82
Including: Losses from disposal of non-current assets		178,886,100.76	133,386,264.64
IV. Total profit		9,260,125,356.23	17,055,997,794.32
Less: Income tax expenses	(V)57	1,524,325,189.19	3,715,345,425.92
V. Net profit		7,735,800,167.04	13,340,652,368.40
Net profit attributable to owners of the Company		7,361,961,636.41	12,868,848,082.97
Profit or loss attributable to minority interests		373,838,530.63	471,804,285.43
VI. Earnings per share:			
Basic earnings per share	(V)58	0.42	0.73
VII. Other comprehensive income	(V)59	(602,064,417.18)	(14,870,783.07)
VIII. Total comprehensive income		7,133,735,749.86	13,325,781,585.33
Total comprehensive income attributable to owners of the Company		6,758,583,369.51	12,868,888,564.07
Total comprehensive income attributable to minority interests		375,152,380.35	456,893,021.26

INCOME STATEMENT OF THE COMPANY

FOR THE YEAR ENDED 31 DECEMBER 2011

RMB

Item	Notes	Amount for the Current Period	Amount for the Prior Period (Restated)
I. Operating income	(XI)5	174,671,679,498.86	161,014,710,626.65
Less: Operating costs	(XI)5	162,298,753,998.30	140,815,211,436.33
Business taxes and levies		219,355,005.46	332,043,102.50
Selling expenses		821,974,660.74	760,995,231.29
Administrative expenses		6,668,692,807.62	5,841,562,978.20
Financial expenses		(137,691,432.76)	532,625,495.52
Impairment losses of assets		361,858,893.17	123,354,017.34
Add: Gains from changes in fair values (Losses are indicated by "-")		(11,021,542.86)	11,021,542.86
Investment income	(XI)6	1,006,913,530.00	1,511,188,156.09
Including: Income from investments in associates and joint ventures		292,647,580.58	435,830,274.72
II. Operating cost		5,434,627,553.47	14,131,128,064.42
Add: Non-operating income		319,056,192.06	388,297,809.66
Less: Non-operating expenses		144,194,468.71	103,132,247.42
Including: Losses on disposal of non-current assets		129,580,523.10	90,850,154.56
III. Total profit		5,609,489,276.82	14,416,293,626.66
Less: Income tax expenses		549,985,888.99	2,953,372,218.64
IV. Net profit		5,059,503,387.83	11,462,921,408.02
V. Other comprehensive income		(26,109,289.00)	(14,564,915.25)
VI. Total comprehensive income		5,033,394,098.83	11,448,356,492.77

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

RMB

Item	Notes	Amount for the Current Period	Amount for the Prior Period
I. Cash Flows from Operating Activities:			
Cash receipts from the sale of goods and the rendering of services		250,862,817,851.43	231,965,535,494.77
Net increase in customer deposits and deposits from banks and other financial institutions		-	1,889,745,061.66
Net decrease in disbursement of loans and advances		424,251,452.59	216,375,495.24
Cash receipts from interest, fees and commissions		348,171,670.25	260,254,682.91
Net increase in taking from banks and other financial institutions		329,451,350.00	-
Receipts of tax refunds		198,250,118.63	120,096,182.75
Other cash receipts relating to operating activities	(V)60(1)	2,765,023,762.90	2,068,141,410.04
Sub-total of cash inflows from operating activities		254,927,966,205.80	236,520,148,327.37
Cash payments for goods purchased and services received		222,611,487,125.82	198,696,473,425.56
Net increase in loans from the central bank		167,314,947.63	478,563,937.89
Net decrease in customer deposits and deposits from banks and other financial institutions		472,657,789.23	-
Cash payments for interest, fees and commissions		191,038,515.12	158,641,748.63
Net increase in balance with the central bank and due from banks and other financial institutions		-	33,113,500.00
Cash payments to and on behalf of employees		9,093,149,003.85	8,025,470,106.38
Payments of all types of taxes		7,367,904,635.22	7,277,031,657.28
Other cash payments relating to operating activities	(V)60(2)	2,882,184,440.95	2,995,327,587.78
Sub-total of cash outflows from operating activities		242,785,736,457.82	217,664,621,963.52
Net Cash Flows from Operating Activities	(V)61(1)	12,142,229,747.98	18,855,526,363.85
II. Cash Flows from Investing Activities:			
Cash receipts from disposals and recovery of investments		2,637,328,762.55	5,894,245,599.30
Cash receipts from investment income		414,483,716.25	586,383,359.92
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		31,650,014.98	123,578,548.77
Net cash receipts from disposals of subsidiaries and other business units		12,703,102.72	-
Other cash receipts relating to investing activities	(V)60(3)	179,485,470.05	50,545,045.75
Sub-total of cash inflows from investing activities		3,275,651,066.55	6,654,752,553.74
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		15,068,201,566.60	13,246,396,042.13
Cash payments to acquire investments		4,340,991,625.70	5,977,056,402.29
Net cash payments for acquisitions of subsidiaries and other business units		(6,427,856.16)	-
Other cash payments relating to investing activities	(V)60(4)	2,977,331.19	41,713,292.10
Sub-total of cash outflows from investing activities		19,405,742,667.33	19,265,165,736.52
Net Cash Flows from Investing Activities		(16,130,091,600.78)	(12,610,413,182.78)

CONSOLIDATED CASH FLOW STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2011

RMB

Item	Notes	Amount for the Current Period	Amount for the Prior Period
III. Cash Flows from Financing Activities:			
Cash receipts from capital contributions		211,881,350.11	223,084,738.40
Including: cash receipts from capital contributions from minority owners of subsidiaries		211,881,350.11	222,517,300.00
Cash receipts from borrowings		69,659,982,105.95	57,442,984,308.40
Sub-total of cash inflows from financing activities		69,871,863,456.06	57,666,069,046.80
Cash repayments of borrowings		50,798,083,624.57	53,440,636,678.25
Cash payments for distribution of dividends or profits or settlement of interest expenses		6,912,378,714.40	4,523,729,900.65
Including: payments for distribution of dividends or profits to minority owner of subsidiaries		244,822,982.15	180,707,625.80
Cash paid for Luojing assets		2,868,833,680.10	2,868,800,000.00
Sub-total of cash outflow from financing activities		60,579,296,019.07	60,833,166,578.90
Net Cash Flows from Financing Activities		9,292,567,436.99	(3,167,097,532.10)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		(62,401,619.77)	35,820,868.28
V. Net Increase in Cash and Cash Equivalents		5,242,303,964.42	3,113,836,517.25
Add: Opening balance of Cash and Cash Equivalents	(V)61(2)	7,937,919,424.23	4,824,082,906.98
VI. Closing Balance of Cash and Cash Equivalents	(V)61(2)	13,180,223,388.65	7,937,919,424.23

(No text on this page)

CASH FLOW STATEMENT OF THE COMPANY

FOR THE YEAR ENDED 31 DECEMBER 2011

RMB

Item	Notes	Amount for the Current Period	Amount for the Prior Period
I. Cash Flows from Operating Activities			
Cash receipts from the sale of goods and the rendering of services		201,094,862,268.01	187,695,571,588.37
Other cash receipts relating to operating activities		2,046,612,601.01	2,229,915,041.10
Sub-total of cash inflows from operating activities		203,141,474,869.02	189,925,486,629.47
Cash payments for goods purchased and services received		166,212,415,076.77	161,723,112,453.49
Cash payments to and on behalf of employees		5,719,536,036.83	5,263,502,570.11
Payments of all types of taxes		4,597,078,036.01	4,760,429,635.06
Other cash payments relating to operating activities		922,709,882.98	1,274,076,006.61
Sub-total of cash outflows from operating activities		177,451,739,032.59	173,021,120,665.27
Net Cash Flows from Operating Activities	(XI)8	25,689,735,836.43	16,904,365,964.20
II. Cash Flows from Investing Activities			
Cash receipts from disposals and recovery of investments		5,260,000,000.00	15,250,305.25
Cash receipts from investment income		1,001,337,217.28	1,282,812,571.46
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		12,775,759.23	7,108,991.66
Other cash receipts relating to investing activities		160,021,160.37	48,190,394.72
Sub-total of cash inflows investing activities		6,434,134,136.88	1,353,362,263.09
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		7,375,689,655.42	7,381,255,662.45
Cash payments to acquire investments		5,487,982,180.65	1,683,589,800.00
Other cash payments relating to investing activities		4,114,419.41	37,627,131.50
Sub-total of cash outflows from investing activities		12,867,786,255.48	9,102,472,593.95
Net Cash Flows from Investing Activities		(6,433,652,118.60)	(7,749,110,330.86)
III. Cash Flows from Financing Activities:			
Cash receipts from capital contributions		-	567,438.40
Cash receipts from borrowings		44,199,799,674.28	49,675,743,142.33
Sub-total of cash inflows from financing activities		44,199,799,674.28	49,676,310,580.73
Cash repayments of borrowings		41,433,830,836.31	47,381,526,427.77
Cash payments for distribution of dividends or profits or interest expenses		6,305,382,111.55	4,259,090,883.80
Cash paid for Luojing assets		2,868,833,680.10	2,868,800,000.00
Other cash payments relating to financing activities		8,090,504,877.00	2,059,586,149.29
Sub-total of cash outflow from financing activities		58,698,551,504.96	56,569,003,460.86
Net Cash Flows from Financing Activities		(14,498,751,830.68)	(6,892,692,880.13)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		(8,033,809.10)	46,562,621.13
V. Net Increase in Cash and Cash Equivalents		4,749,298,078.05	2,309,125,374.34
Add: Opening balance of Cash and Cash Equivalents		4,076,704,419.19	1,767,579,044.85
VI. Closing Balance of Cash and Cash Equivalents		8,826,002,497.24	4,076,704,419.19

Consolidated Statement of Changes in Owners' Equity

FOR THE YEAR ENDED 31 DECEMBER 2011

Item	Amount for the Current Period			
	Attributable to owners of the Company			
	Share capital	Capital reserve	Less: Treasury shares	Special reserve
I. Closing balance of the prior period	17,512,048,088.00	37,565,832,959.01	-	15,291,362.80
Prior period adjustments	-	-	-	-
II. Opening balance of the current year	17,512,048,088.00	37,565,832,959.01	-	15,291,362.80
III. Changes for the year	-	(235,193,929.47)	-	(3,502,376.11)
(I) Net profit	-	-	-	-
(II) Other comprehensive income	-	(502,975,229.21)	-	-
Subtotal of (I) and (II)	-	(502,975,229.21)	-	-
(III) Shareholder's contributions and reduction in capital	-	267,781,299.74	-	-
1. Capital contribution from owners	-	-	-	-
2. Capital contribution from minority interests in subsidiaries	-	-	-	-
3. Purchase of shares from minority interests in subsidiaries	-	-	-	-
4. Others	-	267,781,299.74	-	-
(IV) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the company	-	-	-	-
3. Distribution to minority interests	-	-	-	-
(V) Special reserve	-	-	-	(3,502,376.11)
1. Transfer to special reserve in the period	-	-	-	29,222,813.83
2. Amount utilized in the period	-	-	-	(32,725,189.94)
IV. Closing balance of the current year	17,512,048,088.00	37,330,639,029.54	-	11,788,986.69

Item	Amount for the Same Period of Last Year			
	Attributable to owners of the Company			
	Share capital	Capital reserve	Less: Treasury shares	Special reserve
I. Opening balance of the current period	17,512,000,000.00	37,314,308,498.73	-	8,314,857.96
II. Changes for the year	48,088.00	251,524,460.28	-	6,976,504.84
(I) Net profit	-	-	-	-
(II) Other comprehensive income	-	35,692,103.14	-	-
Subtotal of (I) and (II)	-	35,692,103.14	-	-
(III) Shareholder's contributions and reduction in capital	48,088.00	215,832,357.14	-	-
1. Capital contribution from owners	48,088.00	519,350.40	-	-
2. Capital contribution from minority interests in subsidiaries	-	10,246,494.74	-	-
3. Purchase of shares from minority interests in subsidiaries	-	-	-	-
4. Others	-	205,066,512.00	-	-
(IV) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the company	-	-	-	-
3. Distribution to minority interests	-	-	-	-
(V) Special reserve	-	-	-	6,976,504.84
1. Transfer to special reserve in the period	-	-	-	27,840,911.13
2. Amount utilized in the period	-	-	-	(20,864,406.29)
III. Closing balance of the current period (Restated)	17,512,048,088.00	37,565,832,959.01	-	15,291,362.80

RMB

Amount for the Current Period						
Attributable to owners of the Company					Minority interest	Total owners' equity
Surplus reserves	General reserve	Retained earnings	Translation differences arising on translation of financial statements denominated in foreign currencies	Subtotal		
20,124,401,541.84	-	29,674,047,101.69	(145,142,801.00)	104,746,478,252.34	6,596,017,233.65	111,342,495,485.99
(4,047,047.22)	-	(16,188,188.93)	-	(20,235,236.15)	-	(20,235,236.15)
20,120,354,494.62	-	29,657,858,912.76	(145,142,801.00)	104,726,243,016.19	6,596,017,233.65	111,322,260,249.84
1,011,900,677.56	-	1,096,446,532.45	(100,403,037.69)	1,769,247,866.74	378,488,183.69	2,147,736,050.43
-	-	7,361,961,636.41	-	7,361,961,636.41	373,838,530.63	7,735,800,167.04
-	-	-	(100,403,037.69)	(603,378,266.90)	1,313,849.72	(602,064,417.18)
-	-	7,361,961,636.41	(100,403,037.69)	6,758,583,369.51	375,152,380.35	7,133,735,749.86
-	-	-	-	267,781,299.74	250,272,036.41	518,053,336.15
-	-	-	-	-	-	-
-	-	-	-	-	237,552,122.75	237,552,122.75
-	-	-	-	-	-	-
-	-	-	-	267,781,299.74	12,719,913.66	280,501,213.40
1,011,900,677.56	-	(6,265,515,103.96)	-	(5,253,614,426.40)	(246,936,233.07)	(5,500,550,659.47)
1,011,900,677.56	-	(1,011,900,677.56)	-	-	-	-
-	-	(5,253,614,426.40)	-	(5,253,614,426.40)	-	(5,253,614,426.40)
-	-	-	-	-	(246,936,233.07)	(246,936,233.07)
-	-	-	-	(3,502,376.11)	-	(3,502,376.11)
-	-	-	-	29,222,813.83	-	29,222,813.83
-	-	-	-	(32,725,189.94)	-	(32,725,189.94)
21,132,255,172.18	-	30,754,305,445.21	(245,545,838.69)	106,495,490,882.93	6,974,505,417.34	113,469,996,300.27
Amount for the Same Period of Last Year						
Attributable to owners of the Company					Minority interest	Total owners' equity
Surplus reserves	General reserve	Retained earnings	Translation differences arising on translation of financial statements denominated in foreign currencies	Subtotal		
17,827,770,213.00	-	22,583,995,111.41	(109,491,178.96)	95,136,897,502.14	6,082,403,274.02	101,219,300,776.16
2,292,584,281.62	-	7,073,863,801.35	(35,651,622.04)	9,589,345,514.05	513,613,959.63	10,102,959,473.68
-	-	12,868,848,082.97	-	12,868,848,082.97	471,804,285.43	13,340,652,368.40
-	-	-	(35,651,622.04)	40,481.10	(14,911,264.17)	(14,870,783.07)
-	-	12,868,848,082.97	(35,651,622.04)	12,868,888,564.07	456,893,021.26	13,325,781,585.33
-	-	-	-	215,880,445.14	186,280,927.53	402,161,372.67
-	-	-	-	567,438.40	-	567,438.40
-	-	-	-	10,246,494.74	212,270,805.26	222,517,300.00
-	-	-	-	-	(24,269,956.27)	(24,269,956.27)
-	-	-	-	205,066,512.00	(1,719,921.46)	203,346,590.54
2,292,584,281.62	-	(5,794,984,281.62)	-	(3,502,400,000.00)	(129,559,989.16)	(3,631,959,989.16)
2,292,584,281.62	-	(2,292,584,281.62)	-	-	-	-
-	-	(3,502,400,000.00)	-	(3,502,400,000.00)	-	(3,502,400,000.00)
-	-	-	-	-	(129,559,989.16)	(129,559,989.16)
-	-	-	-	6,976,504.84	-	6,976,504.84
-	-	-	-	27,840,911.13	-	27,840,911.13
-	-	-	-	(20,864,406.29)	-	(20,864,406.29)
20,120,354,494.62	-	29,657,858,912.76	(145,142,801.00)	104,726,243,016.19	6,596,017,233.65	111,322,260,249.84

Statement of Changes in Owners' Equity of the Company

FOR THE YEAR ENDED 31 DECEMBER 2011

Item	Amount for the Current Period		
	Share capital	Capital reserve	Less: Treasury shares
I. Closing balance of the prior period	17,512,048,088.00	36,970,366,712.93	-
Prior period adjustments	-	-	-
II. Opening balance of the current year	17,512,048,088.00	36,970,366,712.93	-
III. Changes for the year	-	237,035,425.61	-
(I) Net profit	-	-	-
(II) Other comprehensive income	-	(26,109,289.00)	-
Subtotal of (I) and (II)	-	(26,109,289.00)	-
(III) Shareholder's contributions and reduction in capital	-	263,144,714.61	-
1. Capital contribution from owners	-	-	-
2. Others	-	263,144,714.61	-
(IV) Profit distribution	-	-	-
1. Transfer to surplus reserve	-	-	-
2. Distribution to owners	-	-	-
IV. Closing balance of the current year	17,512,048,088.00	37,207,402,138.54	-

Item	Amount for the Same Period of Last Year		
	Share capital	Capital reserve	Less: Treasury shares
I. Opening balance of the current period	17,512,000,000.00	36,781,341,171.72	-
II. Changes for the year	48,088.00	189,025,541.21	-
(I) Net profit	-	-	-
(II) Other comprehensive income	-	(14,564,915.25)	-
Subtotal of (I) and (II)	-	(14,564,915.25)	-
(III) Shareholder's contributions and reduction in capital	48,088.00	203,590,456.46	-
1. Capital contribution from owners	48,088.00	519,350.40	-
2. Others	-	203,071,106.06	-
(IV) Profit distribution	-	-	-
1. Transfer to surplus reserve	-	-	-
2. Distribution to owners	-	-	-
V. Closing balance of the current period (Restated)	17,512,048,088.00	36,970,366,712.93	-

RMB

Amount for the Current Period					
	Special reserve	Surplus reserves	General reserve	Retained earnings	Total owners' equity
	-	20,124,401,541.84	-	23,990,506,664.17	98,597,323,006.94
	-	(4,047,047.22)	-	(16,188,188.93)	(20,235,236.15)
	-	20,120,354,494.62	-	23,974,318,475.24	98,577,087,770.79
	-	1,011,900,677.56	-	(1,206,011,716.13)	42,924,387.04
	-	-	-	5,059,503,387.83	5,059,503,387.83
	-	-	-	-	(26,109,289.00)
	-	-	-	5,059,503,387.83	5,033,394,098.83
	-	-	-	-	263,144,714.61
	-	-	-	-	-
	-	-	-	-	263,144,714.61
	-	1,011,900,677.56	-	(6,265,515,103.96)	(5,253,614,426.40)
	-	1,011,900,677.56	-	(1,011,900,677.56)	-
	-	-	-	(5,253,614,426.40)	(5,253,614,426.40)
	-	21,132,255,172.18	-	22,768,306,759.11	98,620,012,157.83
Amount for the Same Period of Last Year					
	Special reserve	Surplus reserves	General reserve	Retained earnings	Total owners' equity
	-	17,827,770,213.00	-	18,306,381,348.84	90,427,492,733.56
	-	2,292,584,281.62	-	5,667,937,126.40	8,149,595,037.23
	-	-	-	11,462,921,408.02	11,462,921,408.02
	-	-	-	-	(14,564,915.25)
	-	-	-	11,462,921,408.02	11,448,356,492.77
	-	-	-	-	203,638,544.46
	-	-	-	-	567,438.40
	-	-	-	-	203,071,106.06
	-	2,292,584,281.62	-	(5,794,984,281.62)	(3,502,400,000.00)
	-	2,292,584,281.62	-	(2,292,584,281.62)	-
	-	-	-	(3,502,400,000.00)	(3,502,400,000.00)
	-	20,120,354,494.62	-	23,974,318,475.24	98,577,087,770.79

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

(I) COMPANY PROFILE

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

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

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

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

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

As at the end of 31 December 2011, Baosteel Group holds 13,111,255,230 ordinary shares out of the total tradable 17,512,048,088 common stocks denominated in RMB. The shareholding percentage is 74.87%.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS

1. Basis of preparation of financial statements

The Group has adopted the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance ("MoF") on 15 February 2006. In addition, the Group has disclosed relevant financial information in accordance with *Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting (Revised in 2011)*.

Basis of accounting and principle of measurement

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

2. Statement of compliance with the ASBE

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of 31 December 2011, and the Company's and consolidated results of operations and cash flows for the year then ended.

3. Accounting year

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

4. Functional currency

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

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

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

5.1 Business combination involving enterprises under same control

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

5.2 Business combination involving enterprises not under same control

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

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

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

6. Preparation of consolidated financial statements

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

7. Recognition criteria of cash and cash equivalents

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

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

8.1 Transactions denominated in foreign currencies

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

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

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

8.2 Translation of financial statements denominated in foreign currencies

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

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the average exchange rate of the transaction period; the opening balance of retained earnings is the translated closing balance of the previous year's retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders' equity in the balance sheet.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

9. Financial instruments

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

9.1 Determination of fair value

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

9.2 Effective interest rate method

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

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

9.3 Classification, recognition and measurement of financial assets

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

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

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value through profit or loss.

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

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

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

9.3.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

9.3.3 Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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

9.3.4 Available-for-sale financial assets

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

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

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

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

9.4 Impairment of financial assets

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

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

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

- Impairment of financial assets measured at amortized cost

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

- Impairment of available-for-sale financial assets

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

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

- Impairment of financial assets measure at cost

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

9.5 Transfer of financial assets

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

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

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

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

9.6 Classification, recognition and measurement of financial liabilities

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

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

9.6.1 Financial liabilities at fair value through profit or loss

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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

9.6.2 Other financial liabilities

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

9.7 Derecognition of Financial Liabilities

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

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

9.8 Derivatives and embedded derivatives

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

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

9.9 Offsetting financial assets and a financial liabilities

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

9.10 Equity instruments

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

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

9.11 Convertible loan notes

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

10. Accounts receivable

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

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

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

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

Portfolios that aging analysis is used for bad debt provision:

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

11. Inventories

11.1 Categories of inventories

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

11.2 Valuation method of inventories upon delivery

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

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

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

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

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

11.4 Stock count system

The perpetual inventory system is maintained for stock system.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

12. Long-term equity investments

12.1 Determination of investment cost

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

12.2 Subsequent measurement and recognition of profit or loss

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

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

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

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

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

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

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

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

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

12.2.3 Disposal of long-term equity investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

12.3 Basis for determining joint control and significant influence over investee

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee such as convertible loan notes and conversion option components held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

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

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

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

13. Investment properties

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

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

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

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

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

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

14. Fixed assets

14.1 Recognition criteria for fixed assets

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

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

14.2 Depreciation of each category of fixed assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

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

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

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

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

14.4 Other explanations

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

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

15. Construction in progress

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

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

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

16. Borrowing costs

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

17. Intangible assets

17.1 Intangible assets

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

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

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

17.2 Research and development expenditure

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

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

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

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

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

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

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

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

18. Long-term expenses to be apportioned

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

19. Assets transferred under repurchase agreements

19.1 Financial assets purchased under resale agreements

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

19.2 Financial assets sold under repurchase agreements

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

20. Revenue

20.1 Revenue from sales of goods

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

20.2 Revenue arising from the rendering of services

Revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering for services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

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

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

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

20.3 Royalty revenue

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

20.4 Interest revenue

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

21. Government grants

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

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

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

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

Relocation compensation received for relocation in the public interests

If the Group relocates for the benefits of the public interests such as overall planning of urban and rural areas and receives relocation compensation appropriated by the government directly from its fiscal budget, it recognizes such income as special payable. The income attributable to compensation for losses of fixed assets and intangible assets, related expenses, losses from suspension of production incurred during the relocation and reconstruction period, and purchases of assets after the relocation is transferred from special payable to deferred income and is accounted for as either a government grant related to an asset or a government grant related to income based on its nature. Any surplus of relocation compensation after deducting the amount transferred to deferred income is recognized as capital reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

22. Deferred tax assets / deferred tax liabilities

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

22.1 Current income tax

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

22.2 Deferred tax assets and deferred tax liabilities

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

23. Operating leases

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

23.1 The Group as lessee under operating leases

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

23.2 The Group as lessor under operating leases

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

23.3 The Group as lessor under finance leases

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

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

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

24. Employee benefit

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

25. Prior period adjustments

Retrospective application

Unit: RMB

Details of corrections of accounting errors	Financial statement items of Year 2010 (the Company and consolidated)	Cumulative effect Increase / (decrease)
Foundation for water works ^(Note 1)	Operating costs	RMB 20,235,236.15
	Taxes payable	RMB 20,235,236.15
	Surplus reserve	RMB (4,047,047.22)
	Retained earnings	RMB (16,188,188.93)
The expense of the research and development of new products ^(Note 2)	Operating costs	RMB (2,442,570,145.52)
	Administrative expenses	RMB 2,442,570,145.52

Note 1: National Audit Office of the People's Republic of China (CNAO) issued No.37 of 2012 on results of Corrections and implementation of audit recommendations. The Company did not accrue foundation for water works amounting to RMB 20,235,236.15 for the year of 2010. The Company made adjustments of the cost, tax payables of the year 2010, the net profits and the equity of the Company.

Note 2: In order to better present the expense of the research and development of new products, the Company reclassified the R&D expenses at RMB 2,506,280,911.01 from operating costs to administrative expenses in 2011 (2010: RMB 2,442,570,145.52).

26. Basis of determining significant accounting policies and key assumptions and uncertainties in accounting estimates

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

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

Key assumptions and uncertainties in accounting estimates

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

26.1 Inventory provision

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

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

26.2 Bad debt provision

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

26.3 Deferred tax assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(III) TAXES

1. Major categories of taxes and tax rates

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1. Information of primary subsidiaries

(1) Subsidiaries acquired through business combinations involving enterprises under same control

Full name of subsidiaries	Type	Place of incorporation	Nature of business	Registered capital ('000)	Business scope
Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes)	LLC	Yantai	Manufacturing	RMB 100,000	Production & sales of steel tubes
Baosteel Huangshi Coated & Galvanized Sheets Co., Ltd. (Huangshi Coating & Galvanizing)	LLC	Huangshi	Manufacturing	RMB 144,647	Production & sales of galvanized sheets
Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International)	LLC	Shanghai	Steel trading	RMB 2,248,879	Steel trading
Shanghai Meishan Iron & Steel Co., Ltd. (Meishan Steel)	LLC	Nanjing	Manufacturing	RMB 7,081,426	Steel processing & sales
Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo Baoxin)	LLC	Ningbo	Manufacturing	RMB 3,188,361	Processing & sales of cold-rolled stainless sheets
Shanghai Baosight Software Co., Ltd. (Baosight Softwar)	LLC	Shanghai	IT	RMB 262,244	Software development
Baosteel America Inc. (Baosteel America)	LLC	Texas, USA	Steel trading	USD 980	Steel trading
Howa Trading Co., Ltd. (Howa Trading)	LLC	Tokyo, Japan	Steel trading	JPY 876,000	Steel trading
Baosteel Europe GmbH (Baosteel Europe)	LLC	Hamburg, Germany	Steel trading	EUR 2,050	Steel trading
Baosteel Singapore PTE Ltd. (Baosteel Singapore)	LLC	Singapore	Steel trading	SGD 1,500	Steel trading
Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises)	LLC	Hong Kong	Steel trading	HKD 1,000	Steel trading
Baosteel Do Brasil Ltda (Baosteel Brazil Trading)	LLC	Rio de Janeiro, Brazil	Steel trading	USD 980	Steel trading
Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical)	LLC	Shanghai	Manufacturing	RMB 2,110,040	Production and sales of chemical products
Shanghai No.5 Steel Gas Co., Ltd. (No. 5 Steel Gas)	LLC	Shanghai	Manufacturing	RMB 127,718	Gas supply & inspection, installation & sales of gas generation equipment
Baosteel Group Finance Co. Ltd. (Finance. Co.) ^(Note 1)	LLC	Shanghai	Finance	RMB 1,100,000	Financial & foreign exchange
Nantong Baosteel Iron & Steel Co., Ltd. (Nantong Steel)	LLC	Nantong	Manufacturing	RMB 620,532	Steel processing & sales

Note 1: According to the approval regarding increasing paid-in-capital and revising the article of Finance. Co. (No.[2011]610), which was approved by the China Banking Regulatory Commission Shanghai Office, Finance. Co. has converted the retained earnings to share capital. As a result, the paid-in-capital was raised from RMB 500,000,000 to RMB 1,100,000,000.

(2) Subsidiaries acquired through establishment or investment

Full name of subsidiaries	Type	Place of incorporation	Nature of business	Registered capital ('000)	Business scope
Shanghai Baosteel Special Metals Co., Ltd. (Special Metal)	LLC	Shanghai	Steel trading	RMB 50,000	Steel sales
Baoyin Special Steel Tubes Co., Ltd. (Baoyin Tubes)	LLC	Yixing	Manufacturing	RMB 200,000	Steel tube production & sales
Yantai Baosteel Tubes Co., Ltd. (Yantai Baosteel)	LLC	Yantai	Manufacturing	RMB 2,000,000	Steel tube production & sales
Shanghai Huagongbao E-commerce Co., Ltd. (Huagongbao)	LLC	Shanghai	E-commerce	RMB 5,000	E-commerce
Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube)	LLC	Karamay	Manufacturing	RMB 48,898	Steel tube production & sales

2. Exchange rates for translating major financial statement items of foreign operations

Currency	Average exchange rate		Exchange rate at end of period	
	2011	2010	2011	2010
USD	6.4618	6.7255	6.3009	6.6227
EUR	8.4845	9.3018	8.1625	8.8065
JPY	0.0812	0.0775	0.0811	0.0813
BRL	3.59786	3.88624	3.37813	3.81759

RMB

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Actual capital contribution at the end of the period ('000)	Balance of other items, that in substance, constitutes net investment in the subsidiary	Proportion of ownership interest (%)	Proportion of voting power (%)	Consolidated or not consolidated	Minority interest (RMB'000)	Amount of the minority interests used to absorb profits or losses attributable to minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent Company
RMB 79,820	-	79.82%	79.82%	Y	160,952	-	-
RMB 84,542	-	58.45%	More than half of voting power	Y	135,453	-	-
RMB 2,248,879	-	100%	100%	Y	1,081,489	-	-
RMB 5,455,836	-	77.04%	77.04%	Y	2,843,292	-	-
RMB 1,721,715	-	54%	54%	Y	1,170,643	-	-
RMB 145,545	-	55.5%	55.5%	Y	589,985	-	-
USD 980	-	100%	100%	Y	-	-	-
JPY 876,000	-	100%	100%	Y	-	-	-
EUR 2,050	-	100%	100%	Y	64,160	-	-
SGD 1,500	-	100%	100%	Y	-	-	-
HKD 1,000	-	100%	100%	Y	-	-	-
USD 980	-	100%	100%	Y	-	-	-
RMB 2,110,040	-	100%	100%	Y	243,492	-	-
RMB 127,718	-	100%	100%	Y	-	-	-
RMB 310,500	-	62.1%	62.1%	Y	563,071	-	-
RMB 594,582	-	95.82%	95.82%	Y	34,238	-	-

Actual capital contribution at the end of the period ('000)	Balance of other items, that in substance, constitutes net investment in the subsidiary	Proportion of ownership interest (%)	Proportion of voting power (%)	Consolidated or not consolidated	Minority interest (RMB'000)	Amount of the minority interests used to absorb profits or losses attributable to minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent Company
RMB 50,000	-	100%	100%	Y	-	-	-
RMB 130,000	-	58.5%	58.5%	Y	74,200	-	-
RMB 2,000,000	-	100%	100%	Y	-	-	-
RMB 3,500	-	70%	70%	Y	1,354	-	-
RMB 36,674	-	75%	75%	Y	12,176	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

RMB

Item	Closing balance			Opening balance		
	Foreign Currency	Exchange Rate	Amount in RMB	Foreign Currency	Exchange Rate	Amount in RMB
Cash:						
RMB			800,496.99			865,587.11
Bank:						
RMB			11,012,184,461.38			6,181,039,343.42
USD	187,613,144.03	6.3009	1,182,131,659.24	169,509,092.29	6.6227	1,122,607,865.53
JPY	3,064,159,430.48	0.0811	248,503,329.81	1,200,330,030.99	0.08126	97,538,818.32
EUR	41,699,729.16	8.1625	340,374,039.26	30,458,207.95	8.8065	268,230,207.71
HKD	1,175,844.16	0.8107	953,256.86	1,767,784.96	0.8509	1,504,208.22
Other currencies			38,742,403.32			35,260,147.45
Other currency funds:						
RMB			75,753,028.43			180,873,246.47
Deposit reserve in central bank by Finance Co.			1,480,021,430.45			1,312,756,361.82
Total			14,379,464,105.74			9,200,675,786.05

Details of restricted bank balance are shown as follows:

RMB

Item	Closing balance	Opening balance
Deposit reserve in central bank by Finance Co.	1,480,021,430.45	1,312,756,361.82

At 31 December 2011, RMB1,457,411,572.90 (at 31 December 2010: RMB1,283,246,961.40) was deposited in overseas banks. At 31 December 2011, other currency funds of the Group mainly consist of cash for investment of RMB11,446,244.82 (at 31 December 2010: RMB136,613,113.97), letter of credit deposit of RMB0 (at 31 December 2010: RMB526,915.18), bank acceptance bill's guarantee deposit of RMB49,342,212.84 (at 31 December 2010: RMB38,464,457.19), letter of guarantee deposit of RMB12,979,154.98 (at 31 December 2010: RMB4,259,882.90) and credit card deposit of RMB176,465.06 (at 31 December 2010: RMB508,867.48), and etc.

2. Loans to banks and other financial institutions

RMB

Item	Closing balance	Opening balance
Original carrying amount	-	29,934,050.00
Including: Funds lent to institutions other than banks	-	29,934,050.00
Provision for loss	-	(29,934,050.00)
Total	-	-

Loans to banks and other financial institutions refer to the funds that Finance Co. has lent to commercial banks or other financial institutions. Finance Co. lent in 1997 RMB20,000,000.00 and USD1,500,000.00 (an equivalent of RMB9,934,050.00 as at 31 December 2010) to China Huacheng Finance Company. The No.2 Intermediate People's Court of Shanghai Municipality sealed up an equity of RMB58,000,000.00 that the guarantor Huacheng Investment Company had held in Huafang Joint Stock Co., Ltd. in August 2001, and the fund was transferred to Finance Co. in September 2011 and disposed of at the same month. Provision for loan impairment was reversed in 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Held-for-trading financial assets

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

Item	RMB	
	Closing fair value	Opening fair value
Held-for-trading bond investment	72,023,970.50	235,626,220.00
Held-for-trading fund investment	280,780,713.36	50,000,000.00
Derivative financial assets	-	11,507,631.72
Total	352,804,683.86	297,133,851.72

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

4. Notes receivable

(1) Categories of notes receivable

Category	RMB	
	Closing balance	Opening balance
Bank acceptances	12,141,494,879.81	6,465,247,727.31
Commercial acceptances	718,618,374.35	1,414,537,077.62
Total	12,860,113,254.16	7,879,784,804.93

As at 31 December 2011, a carrying amount of RMB2,400,000.00 (at 31 December 2010: RMB1,346,265,947.37) of the bank acceptance is being discounted for a short term loan of RMB 2,400,000.00 (at 31 December 2010: RMB1,346,265,947.37). The carrying amount of RMB67,000,000.00 (at 31 December 2010: RMB0) is pledged against secured borrowings of RMB38,000,000.00 (at 31 December 2010: RMB 0).

- (2) At the opening and closing of the year, no notes receivables were reclassified to accounts receivable due to the drawers' inability to settle the notes on maturity.
- (3) At the opening and closing of the year, there are no notes receivables due to any shareholders holding at least 5% of the Company's shares with voting power.
- (4) Notes receivable due to related parties refer to Note (VI). 6(1).
- (5) As at 31 December 2011, the details of notes receivable discounted as short-term borrowings are as follows:

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

As at 31 December 2010, the details of top five largest amounts of notes receivable discounted as short-term borrowings are as follows:

Name of drawer	Date of issue	Maturity Date	RMB
			Amount
Zhanjiang Longteng Logistics Co., Ltd.	28 September 2010	29 March 2011	250,000,000.00
Zhanjiang Longteng Logistics Co., Ltd.	27 July 2010	27 January 2011	202,616,785.59
BNA	11 November 2010	10 January 2011	179,663,977.17
BNA	11 November 2010	17 January 2011	153,701,677.99
BNA	11 November 2010	17 January 2011	54,542,213.88
Total			840,524,654.63

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Accounts receivable

(1) Disclosure of accounts receivable by categories:

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable that are individually significant	1,216,880,221.38	17	60,844,011.07	16	1,505,846,291.60	21	75,292,314.58	18
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	76,723,057.37	1	76,723,057.37	20	115,744,519.01	2	115,744,519.01	28
Accounts receivable recognizing provision for bad debts classified into groups	6,077,801,741.06	82	249,944,831.90	64	5,525,491,141.08	77	227,093,117.69	54
Total	7,371,405,019.81	100	387,511,900.34	100	7,147,081,951.69	100	418,129,951.28	100

The aging analysis of accounts receivable is as follows:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	7,048,095,546.41	96	287,785,053.14	6,760,310,493.27	6,842,348,792.50	96	291,118,213.29	6,551,230,579.21
More than 1 year but not exceeding 2 years	192,962,776.93	2	14,525,867.86	178,436,909.07	102,759,113.47	1	8,442,850.80	94,316,262.67
More than 2 years but not exceeding 3 years	40,118,318.19	1	8,477,921.97	31,640,396.22	73,610,245.53	1	2,824,368.18	70,785,877.35
More than 3 years	90,228,378.28	1	76,723,057.37	13,505,320.91	128,363,800.19	2	115,744,519.01	12,619,281.18
Total	7,371,405,019.81	100	387,511,900.34	6,983,893,119.47	7,147,081,951.69	100	418,129,951.28	6,728,952,000.41

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

RMB

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

Individual significant amounts or insignificant accounts receivable but with provision accrued individually as at 31 December 2010:

RMB

Content of accounts receivable	Amount	Bad debt provision	Proportion of provision (%)	Reasons for the provision
Accounts receivable that are individually significant	1,505,846,291.60	75,292,314.58	5	Note 1
Accounts receivable with long aging	115,744,519.01	115,744,519.01	100	Note 2
Total	1,621,590,810.61	191,036,833.59		

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

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

(3) Accounts receivable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(2).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Name of customer	Relationship with the Company	Amount	Age	RMB	
				Proportion of the amount to the total accounts receivable (%)	
Entity one	Related party	454,463,120.07	Within 1 year	6	6
Entity two	Third party	211,628,696.19	Within 1 year	3	7
Entity three	Third party	205,509,250.80	Within 1 year	3	8
Entity four	Third party	197,036,343.22	Within 1 year	3	9
Entity five	Third party	148,242,811.10	Within 1 year	2	10
Total		1,216,880,221.38			11

- (5) As at 31 December 2011, a total carrying amount of RMB50,000,000.00 of accounts receivable is mortgaged for a short-term borrowing of RMB50,000,000.00 by means of bank guarantee (31 December 2010: RMB600,000,000.00).

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

6. Prepayments

- (1) Aging analysis of prepayments is as follows:

aging analysis of prepayment is as follows:

RMB				
Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	5,146,739,253.10	97	5,300,995,878.06	97
More than 1 year but not exceeding 2 years	124,841,442.59	2	89,836,018.65	2
More than 2 years but not exceeding 3 years	17,479,240.15	1	65,528,088.86	1
More than 3 years	9,205,758.62	-	7,806,439.09	-
Total	5,298,265,694.46	100	5,464,166,424.66	100

As at 31 December 2011, prepayments with more than one year are mainly intended for purchase of large equipment used for projects under construction.

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

Name of supplier	Relationship with the Company	Amount	RMB	
			Aging	
Entity one	Third party	618,450,429.77	Within 1 year	38
Entity two	Third party	443,763,786.31	Within 1 year	39
Entity three	Related party	332,384,576.20	Within 1 year	40
Entity four	Related party	257,739,000.00	Within 1 year	41
Entity five	Related party	245,882,417.12	Within 1 year	42
Total		1,898,220,209.40		43

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

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

Category	RMB	
	Closing balance	Opening balance
Individually significant prepayments	1,898,220,209.40	1,474,248,083.51
Other insignificant prepayments	3,400,045,485.06	3,989,918,341.15
Total	5,298,265,694.46	5,464,166,424.66

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Interest receivable

(1) Interest receivable

RMB

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Interest receivable	8,097,921.09	331,459,024.00	327,799,195.15	11,757,749.94

(2) Explanations for interest receivable:

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

8. Dividends receivable

RMB

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reasons for uncollected amounts	Whether the amount is impaired
Dividends receivable aged within 1 year	19,199,112.85	227,449,857.31	19,199,112.85	227,449,857.31	The Company has not yet collected dividends from Henan Longyu Energy Co., Ltd, Wuxi Baomit Steel Processing and Delivery Co., Ltd. and CISDI Engineering Co., Ltd.	No
Dividends receivable aged More than 1 year	-	19,199,112.85	-	19,199,112.85	The Company has not yet collected dividends from CISDI Engineering Co., Ltd.	No
Total	19,199,112.85	246,648,970.16	19,199,112.85	246,648,970.16		

9. Other receivables

(1) Disclosure of other receivables by categories:

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant	459,748,088.24	36	8,957,090.73	13	336,503,750.20	27	9,948,976.30	6
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	46,786,649.42	4	46,786,649.42	70	128,476,461.58	10	128,476,461.58	76
Accounts receivable recognizing provision for bad debts classified into groups	788,185,624.13	60	11,288,081.61	17	792,801,883.91	63	30,667,170.67	18
Total	1,294,720,361.79	100	67,031,821.76	100	1,257,782,095.69	100	169,092,608.55	100

Aging analysis of other receivables is as follows:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	1,171,020,420.81	90	15,971,728.05	1,155,048,692.76	1,027,876,131.48	82	26,298,038.48	1,001,578,093.00
More than 1 year but not exceeding 2 years	24,939,771.36	2	1,647,765.68	23,292,005.68	38,621,799.03	3	4,495,187.75	34,126,611.28
More than 2 years but not exceeding 3 years	5,927,889.84	1	2,625,678.61	3,302,211.23	17,626,200.26	1	9,822,920.74	7,803,279.52
More than 3 years	92,832,279.78	7	46,786,649.42	46,045,630.36	173,657,964.92	14	128,476,461.58	45,181,503.34
Total	1,294,720,361.79	100	67,031,821.76	1,227,688,540.03	1,257,782,095.69	100	169,092,608.55	1,088,689,487.14

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

				RMB
Content of other receivables	Amount	Bad debt provision	Proportion of provision (%)	Reasons
Other receivables with significant balances	459,748,088.24	8,957,090.73	2	Note 1
Other receivables with long aging	46,786,649.42	46,786,649.42	100	Note 2
Total	506,534,737.66	55,743,740.15		

Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2010:

				RMB
Content of other receivables	Amount	Bad debt provision	Proportion of provision (%)	Reasons
Other receivables with significant balances	336,503,750.20	9,948,976.30	3	Note 3
Other receivables with long aging	128,476,461.58	128,476,461.58	100	Note 2
Total	464,980,211.78	138,425,437.88		

Note 1: Other receivables with significant balances mainly consist of R&D expense receivables from Baosteel Group, custom's deposit and government compensation for relocation. The Company did not fully make bad debt provision for the balance RMB 280,606,273.64 in view of the low risk of collection, by using the aging analysis approach.

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

Note 3: Other receivables with significant balances include R&D expense receivables from Baosteel Group, custom's deposit and accrued VAT on purchase of related transactions, which have very low risk in collection. Therefore, the Company did not fully make bad debt provision for the balance RMB 137,524,224.20.

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

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

					RMB
Name of Entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total other receivables (%)	
Entity one	Third party	188,970,000.00	Within 1 year	15	
Entity two	Related party	167,027,610.84	Within 1 year	13	
Entity three	Third party	47,756,273.64	Within 1 year	4	
Entity four	Third party	43,480,000.00	Note	3	
Entity five	Related party	12,514,203.76	Within 1 year	1	
Total		459,748,088.24			

Note: The amount more than 1 year but not exceeding 2 years is RMB900,000.00, and the amount more than 3 years is RMB42,580,000.00.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Inventories

(1) Categories of inventories

RMB

Item	Closing balance			Opening balance		
	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount
Raw materials	11,026,768,705.39	345,036,625.44	10,681,732,079.95	13,462,393,491.11	36,962,887.60	13,425,430,603.51
Work-in-progress	11,858,155,097.69	589,940,930.26	11,268,214,167.43	11,598,928,364.96	632,421,292.59	10,966,507,072.37
Merchandise	11,374,743,688.57	602,126,053.86	10,772,617,634.71	9,778,708,149.54	428,128,758.30	9,350,579,391.24
Spare parts and others	4,774,385,414.94	107,235,910.12	4,667,149,504.82	4,393,223,345.94	108,418,539.18	4,284,804,806.76
Total	39,034,052,906.59	1,644,339,519.68	37,389,713,386.91	39,233,253,351.55	1,205,931,477.67	38,027,321,873.88

(2) Provision for decline in value of inventories

RMB

Category of inventories	Opening carrying amount	Increase for the year	Decrease for the year		Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing carrying amount
			Reversals	Write-off		
Raw materials	36,962,887.60	321,880,785.66	13,807,047.82	-	-	345,036,625.44
Work-in-progress	632,421,292.59	125,459,770.25	167,940,132.58	-	-	589,940,930.26
Merchandise	428,128,758.30	424,194,896.16	248,596,463.35	-	(1,601,137.25)	602,126,053.86
Spare parts and others	108,418,539.18	2,576,626.64	2,779,869.24	979,386.46	-	107,235,910.12
Total	1,205,931,477.67	874,112,078.71	433,123,512.99	979,386.46	(1,601,137.25)	1,644,339,519.68

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

Item	Basis of making provision for decline in value of inventories	Reasons for reversal of decline in value of inventories for the period	Proportion of amount of reversal for the period to the closing balance of the relevant category of inventories
Raw materials	Lower net carrying amount than net realizable	Increase in price	-
Work-in-progress	Lower net carrying amount than net realizable	Increase in price	1%
Merchandise	Lower net carrying amount than net realizable	Increase in price	2%
Spare parts and others	Lower net carrying amount than net realizable	Increase in price	-

No inventory was used for guarantee as at 31 December 2011. And no interest was capitalized in the closing balance of inventory as at 31 December 2011.

11. Non-current assets due within one year

RMB

Item	Closing balance	Opening balance
Available-for-sale bonds	165,441,000.00	150,362,590.00
Trust financial products	318,466,475.02	-
Total	483,907,475.02	150,362,590.00

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Loans and advances to customers

(1) Category of loans and advances to customers

RMB		
Item	Closing balance	Opening balance
Loans	3,330,900,000.00	3,778,928,723.87
Discounts	152,644,438.27	167,471,511.05
Provision for loan impairment	(73,400,000.00)	(14,600,000.00)
Total	3,410,144,438.27	3,931,800,234.92

(2) Provision for loss of loans

RMB						
Item	Opening carrying amount	Increase for the year	Decrease for the year		Exchange differences arising on translation of financial statements denominated in	Closing carrying amount
			Reversals	Write-off		
Provision for loss of loans	14,600,000.00	59,282,700.00	-	-	(482,700.00)	73,400,000.00

Loans and advances to customers due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI) 6(5).

13. Available-for-sale financial assets

(1) Available-for-sale financial assets

RMB		
Item	Closing fair value	Opening fair value
Available-for-sale bonds	544,860,320.00	150,362,590.00
Available-for-sale equity instruments	1,116,763,674.37	1,079,630,345.22
Others	8,790,000.00	174,000,000.00
Less: available-for-sale bonds due within one year (Note)	165,441,000.00	150,362,590.00
Total	1,504,972,994.37	1,253,630,345.22

Note: Details of available-for-sale bonds due within one year refer to Note (V) 11.

14. Long-term receivables

RMB		
	Closing balance	Opening balance
Finance leases	31,945,441.89	-
including: Unearned finance gains	3,115,441.89	-
Bad debt provision	1,441,500.00	-
Total	27,388,500.00	-

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Investments in joint ventures and associates

Name of investee	Type	Place of incorporation	Legal representative	Nature of business
I. Joint ventures				
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA)	LLC	Shanghai	Wang Jing	Manufacturing
Bao-Island Enterprise Co., Ltd. (Bao-Island Enterprise)	LLC	Hong Kong	Not applicable	Ship chartering
Niagara Machinery Products Co., Ltd. (Niagara Machinery) ^(Note 1)	LLC	Ontario Canada	Not applicable	Manufacturing
Shanghai China Shipping-Baosteel Processing Co., Ltd. (Shipping-Baosteel)	LLC	Shanghai	Zhang Yong	Manufacturing
II. Associates				
Shanghai STAL Precision Stainless Steel Co., Ltd. (STAL Precision)	LLC	Shanghai	Wang Xiaodong	Manufacturing
Shanghai Baosteel & Arcelor Laser Welding Company Ltd. (Welding Co.)	LLC	Shanghai	Hou Xiangdong	Manufacturing
Shanghai Renwei Software Co., Ltd. (Renwei Software)	LLC	Shanghai	Song Jianhai	IT
Henan Pingbao Coal Co., Ltd. (Henan Pingbao)	LLC	Xuchang	Chen Jiansheng	Mining
Tianjin BCM Distribution Co., Ltd. (Tianjin BCM)	LLC	Tianjin	Pan Zhijun	Iron & steel trading
Shanghai Baojiang Shipping Co., Ltd. (Baojiang Shipping) ^(Note 2)	LLC	Shanghai	Yan Heping	Transportation
Wuxi Baomit Steel Processing and Delivery Co., Ltd. (Wuxi Baomit)	LLC	Wuxi	Ogiwara Shinichi	Iron & steel trading
Shanghai Zhongyou Baoshun Chemical Industry Co., Ltd. (Zhongyou Baoshun)	LLC	Shanghai	Li Ruoping	Manufacturing
Rihong Stainless Steel (shanghai) Co., Ltd. (Rihong Stainless)	LLC	Shanghai	Hiraoka Yoshifumi	Manufacturing
Sichuan Daxing Baohua Chemical Co., Ltd. (Sichuan Daxing)	LLC	Dazhou	Tang Chun	Manufacturing
Ningbo Stainless Metal Protection Material Co., Ltd. (Ningbo Stainless) ^(Note 4)	LLC	Ningbo	Liu Hongwen	Manufacturing
NSM Siderurgica Modenese SPA ("NSM")	LLC	Modena Italy	Not applicable	Steel extension
Baosteel Can Making (Vietnam) Co., Ltd. (Vietnam Can Making) ^(Note 5)	LLC	Binh Duong Vietnam	Not applicable	Package industry

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

Note 2: Changes in Scope of consolidation because of disposal of shares in Jan 2011.

Note 3: At the balance sheet date, the investment from the Group accounted for 51% of the total ownership interest of Wuxi Baomit and half of the directors on its board are from the Group. The board is chaired by one of the directors appointed by Mitsui & Co., Ltd.. In accordance with the articles of Wuxi Baomit, the chairman has the final decision when votes for or against a decision are equal in number and a decision is impossible on basis of the articles. As a result, Wuxi Baomit has been considered as an associate of the Group and is measured on basis of the equity method.

Note 4: The share capital has not yet been contributed and no operation was launched in 2011.

Note 5: The share capital has not yet been contributed and no operation was launched in 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

Paid-in capital		Proportion of ownership interest held by the Group (%)	Proportion of voting power in the investee held by the Group (%)	Investee's total assets at the end of the period	Investee's total liabilities at the end of the period	Total net assets at the end of the period	Total operating income for the period	Net profit for the period	RMB
Currency	'000								
RMB	3,000,000	50	50	4,970,318,103.73	1,561,635,250.90	3,408,682,852.83	13,833,628,544.99	271,225,282.55	
HKD	3,300	50	50	1,463,226,502.50	276,949,758.60	1,178,759,770.20	917,058,189.60	153,540,331.20	
USD	37,500	50	50	-	-	-	-	-	
RMB	199,930	50	50	209,296,835.73	490,842.98	208,805,992.75	-	1,966,828.41	
USD	96,560	40	40	1,534,183,874.46	195,041,482.32	1,339,142,392.14	1,313,766,187.43	127,703,197.60	
RMB	211,500	38	38	562,660,392.56	241,676,568.00	320,983,824.56	928,922,051.83	67,148,400.70	
USD	1,500	41.33	41.33	9,588,186.21	4,080,197.19	5,507,989.02	21,577,368.53	54,894.40	
RMB	800,000	40	40	1,857,830,697.69	1,297,600,281.18	560,230,416.51	353,495,669.59	(169,411,987.84)	
RMB	140,000	40	40	181,087,252.00	53,270,955.25	127,816,296.75	297,237,413.12	3,351,031.14	
RMB	40,000	-	-	-	-	-	-	-	
USD	7,700	51	Note 3	348,551,737.83	200,467,300.57	148,084,437.26	318,940,483.58	18,129,741.00	
RMB	5,000	35	35	5,457,151.16	65,477.14	5,391,674.02	-	(25,564.50)	
RMB	95,000	20	20	216,620,044.74	169,030,591.66	47,589,453.08	524,098,425.16	237,989.37	
RMB	50,000	45	45	63,204,075.89	13,233,984.38	49,970,091.51	-	(29,908.49)	
RMB	40,000	34	34	-	-	-	-	-	
EUR	1,500	35	35	477,406,727.58	411,086,210.52	66,320,517.06	554,820,494.98	(8,691,937.54)	
USD	35,600	30	30	-	-	-	-	-	

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Long-term equity investment

Name of investee	Accounting method	Initial investment cost	Opening balance	Increase / (decrease)	Closing balance
Joint ventures					
BNA	Equity method	1,500,000,000.00	1,784,350,861.32	(80,009,435.15)	1,704,341,426.17
Bao-Island Enterprise	Equity method	143,084,132.00	538,789,758.50	50,590,126.60	589,379,885.10
Niagara Machinery	Equity method	123,721,439.29	-	-	-
Shipping-Baosteel	Equity method	99,965,000.00	102,441,647.82	738,548.07	103,180,195.89
Subtotal of joint ventures		1,866,770,571.29	2,425,582,267.64	(28,680,760.48)	2,396,901,507.16
Associates					
STAL Precision	Equity method	122,004,541.93	531,473,021.82	4,183,935.04	535,656,956.86
Welding Co.	Equity method	46,170,000.00	108,738,648.24	13,235,205.05	121,973,853.29
Renwei Software	Equity method	5,131,591.00	2,253,764.01	22,687.86	2,276,451.87
Henan Pingbao	Equity method	120,000,000.00	292,658,923.72	(68,566,757.13)	224,092,166.59
Tianjin BCM	Equity method	56,000,000.00	49,826,784.07	1,479,877.91	51,306,661.98
Baojiang Shipping	Equity method	16,000,000.00	29,567,014.70	(29,567,014.70)	-
Wuxi Baomit	Equity method	32,522,976.15	67,902,965.03	5,994,028.05	73,896,993.08
Zhongyou Baoshun	Equity method	1,912,509.83	1,896,033.48	(8,947.58)	1,887,085.90
Rihong Stainless	Equity method	9,473,440.98	-	9,517,890.62	9,517,890.62
Sichuan Daxing	Equity method	22,500,000.00	-	22,486,541.18	22,486,541.18
Ningbo Stainless	Equity method	4,080,000.00	-	4,080,000.00	4,080,000.00
NSM	Equity method	65,301,632.50	-	65,301,632.50	65,301,632.50
Vietnam Can Making	Equity method	25,203,600.00	-	25,203,600.00	25,203,600.00
Subtotal of associates		526,300,292.39	1,084,317,155.07	53,362,678.80	1,137,679,833.87
Others					
Baovale Mining Co., Ltd.	Cost method	-	103,282,213.00	-	103,282,213.00
Taiyuan Baoyuan Chemical Co., Ltd.	Cost method	-	9,000,000.00	-	9,000,000.00
CISDI Engineering Co., Ltd.	Cost method	-	9,508,999.34	-	9,508,999.34
Jianchuan Group Automation Engineering Co., Ltd.	Cost method	-	1,000,000.00	-	1,000,000.00
Zhongjijing Investment Consultancy Stock Co., Ltd.	Cost method	-	3,000,000.00	-	3,000,000.00
Hanyang Components Co., Ltd.	Cost method	-	3,311,720.00	-	3,311,720.00
Anhui Huishang Co., Ltd.	Cost method	-	3,000,000.00	-	3,000,000.00
Henan Longyu Energy Co., Ltd.	Cost method	-	370,269,254.56	-	370,269,254.56
Shanghai Luojing Mining Port Co., Ltd.	Cost method	-	88,734,096.00	-	88,734,096.00
Yongmei Group Co., Ltd.	Cost method	-	279,000,000.00	-	279,000,000.00
Henan Zhenglong Coal Co., Ltd.	Cost method	-	45,569,714.27	-	45,569,714.27
Guangzhou Huiren Auto Service Co., Ltd.	Cost method	-	215,923.23	-	215,923.23
China Resources Land Limited (Beijing)	Cost method	-	1,618,750.00	-	1,618,750.00
AVIC Special Metal (Xi'an) Co., Ltd.	Cost method	-	-	40,000,000.00	40,000,000.00
Shanghai Huayi Information Technology Co., Ltd.	Cost method	-	-	1,500,000.00	1,500,000.00
Others	Cost method	-	980,000.00	-	980,000.00
Subtotal of others		-	918,490,670.40	41,500,000.00	959,990,670.40
Equity transferred from old system trade right due to non-tradable share reform		-	7,949,489.18	-	7,949,489.18
Total		-	4,436,339,582.29	66,181,918.32	4,502,521,500.61

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

RMB					
Proportion of ownership interest held by the Group (%)	Proportion of voting power in the investee held by the Group (%)	Explanation of the inconsistency between the proportion of ownership interest and the proportion of voting power	Provision for impairment losses	Provision for impairment losses for the period	Cash dividends for the period
50	50		-	-	245,333,855.45
50	50		-	-	-
50	50		-	-	-
50	50		-	-	-
			-	-	245,333,855.45
40	40		-	-	46,395,360.00
38	38		-	-	12,281,187.19
41.33	41.33		-	-	-
40	40		-	-	-
40	40		-	-	-
40	40		-	-	-
51	Note 1		-	-	1,626,069.93
35	35		-	-	-
20	20		-	-	-
45	45		-	-	-
20	20		-	-	-
35	35		-	-	-
30	30		-	-	-
			-	-	60,302,617.12
50	Note 2	Note 2	-	-	6,780,832.45
15	15		-	-	-
6.28	6.28		-	-	8,791,450.49
7.128	7.128		-	-	-
5	5		666,024.47	-	-
20	20		3,311,720.00	-	-
3.53	3.53		-	-	240,000.00
12.96	12.96		-	-	217,032,336.89
12	12		-	-	8,830,841.82
10	10		-	-	-
4.91	4.91		-	-	-
15	15		56,443.17	-	-
0.09	0.09		-	-	60,000.00
9.71	9.71		-	-	-
15	15		-	-	-
Insignificant	Insignificant		-	-	23,100.00
			4,034,187.64	-	241,758,561.65
			-	-	-
			4,034,187.64	-	547,395,034.22

Note 1: Details refer to Note (V). 15 Note 3.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Investment properties

Investment properties measured at cost

Item	RMB			
	Opening carrying amount	Increase for the year	Decrease for the year	Closing carrying amount
I. Total original carrying amount	237,311,451.11	408,969,395.22	5,333,025.62	640,947,820.71
1. Buildings	237,311,451.11	121,183,535.31	5,333,025.62	353,161,960.80
2. Land use rights	-	287,785,859.91	-	287,785,859.91
II. Total accumulated depreciation and amortization	82,747,059.59	74,321,831.51	3,595,768.39	153,473,122.71
1. Buildings	82,747,059.59	46,931,330.77	3,595,768.39	126,082,621.97
2. Land use rights	-	27,390,500.74	-	27,390,500.74
III. Total net book value of investment properties	154,564,391.52	334,647,563.71	1,737,257.23	487,474,698.00
1. Buildings	154,564,391.52	74,252,204.54	1,737,257.23	227,079,338.83
2. Land use rights	-	260,395,359.17	-	260,395,359.17
IV. Total accumulated provision for impairment losses of investment properties	-	-	-	-
1. Buildings	-	-	-	-
2. Land use rights	-	-	-	-
V. Total carrying amounts of investment properties	154,564,391.52	334,647,563.71	1,737,257.23	487,474,698.00
1. Buildings	154,564,391.52	74,252,204.54	1,737,257.23	227,079,338.83
2. Land use rights	-	260,395,359.17	-	260,395,359.17

As at 31 December 2011, the property right of buildings and land use rights, which is worth RMB83,486,411.37 in total, is still in the process of registration.

Descriptions of investment properties:

- (1) The increase in the original carrying amount for the current period consists of two transfers, one is from owner-occupied properties to investment properties and the other is from owner-occupied land to investment properties, amounting to RMB121,183,535.31 and RMB287,785,859.91, respectively.
- (2) The decrease in the original carrying amount for the current period consists of transfer of RMB5,333,025.62 from investment properties to owner-occupied properties.
- (3) The increase in accumulated depreciation and amortisation for the current period consists of charge for the current period of RMB18,693,678.26, and increase of RMB33,976,847.65 is due to the transfer from owner-occupied properties to investment properties, increase of RMB21,651,305.60 is due to the transfer from owner-occupied land to investment properties.
- (4) In the decrease in accumulated depreciation and amortisation for the current period, decrease of RMB3,595,768.39 is due to the transfer from investment properties to owner-occupied properties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Fixed assets

(1) Fixed assets

RMB				
Item	Opening carrying amount	Increase for the year	Decrease for the year	Closing carrying amount
I. Total original carrying amount	257,783,548,237.79	10,847,523,794.90	2,433,833,744.29	266,197,238,288.40
Including: Buildings	57,407,697,139.77	1,424,462,564.96	232,514,824.18	58,599,644,880.55
Machinery and equipment	162,529,139,798.58	8,192,177,645.08	1,461,903,174.41	169,259,414,269.25
Transportation vehicles	18,274,011,470.09	447,045,996.33	379,790,479.00	18,341,266,987.42
Office and other equipment	19,572,699,829.35	783,837,588.53	359,625,266.70	19,996,912,151.18
II. Total accumulated depreciation	139,991,321,857.05	12,934,802,835.26	2,148,840,915.51	150,777,283,776.80
Including: Buildings	21,798,786,778.59	2,545,569,390.47	100,033,263.04	24,244,322,906.02
Machinery and equipment	89,368,841,766.48	7,898,605,175.92	1,345,517,360.21	95,921,929,582.19
Transportation vehicles	14,645,965,344.88	1,039,187,190.70	361,399,054.99	15,323,753,480.59
Office and other equipment	14,177,727,967.10	1,451,441,078.17	341,891,237.27	15,287,277,808.00
III. Total net book value of fixed assets	117,792,226,380.74			115,419,954,511.60
Including: Buildings	35,608,910,361.18			34,355,321,974.53
Machinery and equipment	73,160,298,032.10			73,337,484,687.06
Transportation vehicles	3,628,046,125.21			3,017,513,506.83
Office and other equipment	5,394,971,862.25			4,709,634,343.18
IV. Total provision for impairment losses	55,207,201.10	452,364.14	7,066,631.10	48,592,934.14
Including: Buildings	17,240,364.02	86,500.11	2,665,640.01	14,661,224.12
Machinery and equipment	37,008,644.42	365,864.03	3,839,396.76	33,535,111.69
Transportation vehicles	366,236.65	-	191,512.17	174,724.48
Office and other equipment	591,956.01	-	370,082.16	221,873.85
V. Total carrying amount of fixed assets	117,737,019,179.64			115,371,361,577.46
Including: Buildings	35,591,669,997.16			34,340,660,750.41
Machinery and equipment	73,123,289,387.68			73,303,949,575.37
Transportation vehicles	3,627,679,888.56			3,017,338,782.35
Office and other equipment	5,394,379,906.24			4,709,412,469.33

(2) Temporarily idle fixed assets

As at 31 December 2011, the total carrying amount of temporarily idle fixed assets is RMB2,518,883.52 (2010: RMB1,090,468.66).

(3) Fixed assets leased out under operating leases

RMB		
Item	Closing balance	Opening balance
Buildings	394,009,206.78	129,014,231.46
Machinery and equipment	252,338,402.64	978,805.78
Transportation vehicles	110,031,135.53	-
Office and other equipment	23,840,345.56	57,105.70
Total	780,219,090.51	130,050,142.94

(4) Fixed assets of which certificates of title have not been obtained

As at 31 December 2011, the property right of the buildings, which is worth RMB4,286,009,172.00 (2010: RMB2,583,406,731.68) in total net amount, is still in the process of being transferred to the Group. The management sees no legal or other obstacles in obtaining the certificates when registration formalities are performed and related fees are paid.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Fixed assets in phase of being suspended for use

As at 31 December 2011, the total carrying amount of fixed assets(I#COREX and its supporting facilities) in phase of being suspended for use due to production arrangement is RMB1,843,677,999.76(2010: RMB0).

Descriptions of fixed assets:

- (1) The increase in the original carrying amount for the current period consists of acquisitions of RMB463,593,744.37, transfer of RMB10,258,903,984.15 from construction in progress, a rise of RMB119,693,040.76 from acquisition of subsidiaries, a transfer of RMB5,333,025.62 from investment properties.
- (2) The decrease in the original carrying amount for the current period consists of a disposal of RMB2,300,096,123.95, a transfer of RMB121,183,535.31 to investment properties, a drop of RMB3,420,837.71 on the sale of subsidiaries, and a decrease of RMB9,133,247.32 on exchange differences arising on translation of financial statements denominated in foreign currencies.
- (3) The increase in accumulated depreciation for the current period consists of charges for the current period of RMB12,887,628,116.43 and a rise of RMB43,578,950.44 on acquisition of subsidiaries and an increase of RMB3,595,768.39 on transfer from investment properties.
- (4) The decrease in accumulated depreciation for the current period consists of a decrease of RMB2,109,255,246.63 on disposals, RMB33,976,847.65 on transfer to investment properties, RMB2,478,860.02 on disposal of a subsidiary and RMB3,129,961.21 on exchange differences arising from translation of financial statements denominated in foreign currencies.

19. Construction in progress

(1) Details of construction in progress:

RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision for impairment loss	Net carrying amount	Carrying amount	Provision for impairment loss	Net carrying amount
Technical upgrade and capital construction	16,282,590,033.75	-	16,282,590,033.75	9,762,744,217.47	-	9,762,744,217.47

(2) Changes in significant construction in progress:

RMB

Item	Budget	Opening balance	Increase for the year	Transfer to fixed assets	Transfer to intangible assets
Technical upgrade and capital construction	47,703,373,959.66	9,762,744,217.47	17,105,661,369.13	10,258,903,984.15	326,911,568.70

Item	Amount invested as a proportion of budget amount (%)	Amount of accumulated capitalized interest	Including: capitalized interest for the period	Capitalization rate for the period	Source of fund	Closing balance
Technical upgrade and capital construction	56.32%	617,176,100.22	301,847,155.28	4.59%-5.55%	Self-generated working capital, loans, and bond financing	16,282,590,033.75

20. Materials for construction projects

RMB

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Special materials	37,292,442.93	33,988,417.38	68,668,958.87	2,611,901.44
Special equipment	466,809,716.62	5,645,312,893.63	5,312,506,178.73	799,616,431.52
Equipment in transit	-	308,783,584.53	305,199,656.75	3,583,927.78
Total	504,102,159.55	5,988,084,895.54	5,686,374,794.35	805,812,260.74

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Intangible assets

					RMB
Item	Opening carrying amount	Increase for the year	Decrease for the year	Closing carrying amount	
I. Total original carrying amount	9,160,135,510.11	534,154,134.57	431,303,290.91	9,262,986,353.77	
Land use rights	8,952,077,257.15	499,733,017.46	401,954,003.73	9,049,856,270.88	
Software	51,439,613.49	32,424,063.49	3,484,496.86	80,379,180.12	
Others	156,618,639.47	1,997,053.62	25,864,790.32	132,750,902.77	
II. Total accumulated amortization	1,010,825,026.67	208,980,776.83	82,993,276.48	1,136,812,527.02	
Land use rights	878,070,825.90	183,037,174.83	69,533,183.56	991,574,817.17	
Software	39,228,343.84	23,059,931.27	1,759,946.68	60,528,328.43	
Others	93,525,856.93	2,883,670.73	11,700,146.24	84,709,381.42	
III. Total net book value of intangible assets	8,149,310,483.44	325,173,357.74	348,310,014.43	8,126,173,826.75	
Land use rights	8,074,006,431.25	316,695,842.63	332,420,820.17	8,058,281,453.71	
Software	12,211,269.65	9,364,132.22	1,724,550.18	19,850,851.69	
Others	63,092,782.54	(886,617.11)	14,164,644.08	48,041,521.35	
IV. Total provision for impairment	-	-	-	-	
Total carrying amount of intangible assets	8,149,310,483.44	325,173,357.74	348,310,014.43	8,126,173,826.75	

Description of intangible assets:

- (1) As at 31 December 2011, land use rights without certificates of the title show a net carrying amount of RMB490,509,945.50 (31 December 2010: RMB409,983,251.90). The management of the Company sees no legal or other obstacles in obtaining the certificates when registration formalities are performed and related fees are paid.
- (2) The increase in the original carrying amount refers to purchase of RMB199,483,924.62, a transfer of RMB326,911,568.70 from construction in progress, and a rise of RMB7,758,641.25 on acquisition of a subsidiary.
- (3) The decrease in the original carrying amount for the current period consists of a decrease of RMB116,061,847.66 on disposals, a transfer of RMB287,785,859.91 to investment properties, a decrease of RMB1,688,900.00 on the sale of a subsidiary, RMB25,750,090.32 on reclassification to long-term prepaid expenses, and RMB16,593.02 arising from translation of financial statements denominated in foreign currencies.
- (4) The increase in accumulated amortization consists of charge for the current period of RMB208,224,717.38, and the increase of RMB756,059.45 on acquisition of subsidiaries.
- (5) The decrease in accumulated amortization consists of a decrease of RMB49,115,218.01 on disposals, RMB21,651,305.60 on disposal of a subsidiary, RMB11,591,546.24 on reclassification to long-term prepaid expenses, and RMB14,280.06 on exchange differences arising from translation of financial statements denominated in foreign currencies.

22. Long-term expenses to be apportioned

					RMB
Item	Opening balance	Addition in the current period	Amortization for the period	Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing balance
Fees for decoration	11,246,785.55	12,439,434.41	5,724,102.66	(2,621,112.78)	15,341,004.52
Leasing expenses	3,756,829.50	6,732,462.25	871,013.04	-	9,618,278.71
Others	3,824,831.79	16,182,182.57	2,937,544.58	(10,824.49)	17,058,645.29
Total	18,828,446.84	35,354,079.23	9,532,660.28	(2,631,937.27)	42,017,928.52

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Deferred tax assets/deferred tax liabilities

(1) Recognized deferred tax assets and deferred tax liabilities

Items	RMB	
	Closing balance	Opening balance
Deferred tax assets:		
Provision for impairment losses of assets	531,306,722.59	451,481,222.69
Unrealized profit from inter-group transactions	6,687,551.45	175,768,951.77
Deductible losses	417,251,036.97	262,483,929.98
Difference in residuals of fixed assets	45,728,172.61	56,012,988.53
Termination welfare	40,815,520.87	46,321,807.72
Losses from changes in fair values	5,030,830.60	3,520,549.10
Others	141,869,906.79	139,781,621.18
Subtotal	1,188,689,741.88	1,135,371,070.97
Deferred tax liabilities:		
Payment of tax unpaid for investment income	282,207,189.74	212,253,962.25
Gains from changes in fair values	31,957,809.84	181,404,831.89
Others	2,615,622.27	2,567,620.32
Subtotal	316,780,621.85	396,226,414.46

(2) Details of unrecognized deferred tax assets

Item	RMB	
	Closing balance	Opening balance
Provision for impairment losses of assets	72,827,702.53	55,827,627.97
Deductible losses	747,681,999.73	711,637,168.41
Others	1,821,595.79	103,544,534.66
Total	822,331,298.05	871,009,331.04

(3) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years

Year	RMB	
	Closing balance	Opening balance
2012	-	15,489,134.32
2013	246,399,184.49	451,235,939.74
2014	108,486,564.24	17,675,073.42
2015	225,088,210.18	227,237,020.93
2016	167,708,040.82	-
Total	747,681,999.73	711,637,168.41

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Details of taxable temporary differences and deductible temporary differences

Item	RMB Amount
Closing balance:	
Deductible temporary differences and deductible losses:	
Provision for impairment losses of assets	2,153,524,161.03
Unrealized profit from inter-group transactions	26,750,205.80
Deductible losses	1,668,706,935.66
Difference in residuals of fixed assets	76,828,867.89
Termination welfare	166,837,782.73
Losses from changes in fair values	20,123,322.40
Others	563,889,702.57
Subtotal	4,676,660,978.08
Taxable temporary differences:	
Payment of tax unpaid for investment income	1,681,235,415.88
Gains from changes in fair values	127,831,239.36
Others	10,134,422.72
Subtotal	1,819,201,077.96
Opening balance:	
Deductible temporary differences and deductible losses:	
Provision for impairment losses of assets	1,840,632,259.21
Unrealized profit from inter-group transactions	703,075,807.08
Deductible losses	1,055,325,906.68
Difference in residuals of fixed assets	216,249,750.60
Termination welfare	185,847,664.53
Losses from changes in fair values	14,082,196.36
Others	562,501,512.70
Subtotal	4,577,715,097.16
Taxable temporary differences:	
Payment of tax unpaid for investment income	1,320,959,363.76
Gains from changes in fair values	758,513,140.08
Others	4,992,305.48
Subtotal	2,084,464,809.32

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Details of provision for impairment losses of assets

RMB

Item	Opening carrying amount	Increase for the year	Decrease for the year		Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing carrying amount
			Reversals	Write-off		
I. Bad debts provision	587,222,559.83	205,626,737.96	323,782,995.33	11,126,978.98	(1,954,101.38)	455,985,222.10
II. Provision for decline in value of inventories	1,205,931,477.67	874,112,078.71	433,123,512.99	979,386.46	(1,601,137.25)	1,644,339,519.68
III. Provision for impairment losses of long-term equity investments	4,034,187.64	-	-	-	-	4,034,187.64
IV. Provision for impairment losses of fixed assets	55,207,201.10	452,364.14	-	7,066,631.10	-	48,592,934.14
V. Provision for impairment losses of loans	44,534,050.00	59,282,700.00	29,934,050.00	-	(482,700.00)	73,400,000.00
Total	1,896,929,476.24	1,139,473,880.81	786,840,558.32	19,172,996.54	(4,037,938.63)	2,226,351,863.56

Description of provision for impairment losses of assets:

(1) In 2011, the increase in provision for decline in value of inventories is RMB1,878,367.68 from acquisition of subsidiaries.

(2) In 2011, the increase in provision for impairment losses of fixed assets is RMB 452,364.14 from acquisition of subsidiaries.

25. Other non-current assets

RMB

Item	Closing balance	Opening balance
Loans due from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Others	2,469,757.28	3,138,192.64
Total	120,375,537.42	121,043,972.78

26. Short-term borrowings

Categories of short-term borrowings:

RMB

Item	Closing balance	Opening balance
Pledged loans ^(Note 1)	90,400,000.00	1,946,265,947.37
Guaranteed loans ^(Note 2)	120,675,524.00	40,000,000.00
Credit loans	38,665,382,108.91	21,624,980,476.45
Total	38,876,457,632.91	23,611,246,423.82

At the balance sheet date, the annual interest rate of the Group's short-term borrowings ranges from 4.374% to 7.216% in RMB (2010: 4.003% to 5.10%); from LIBOR+0.6% to LIBOR+4% in USD (2010: LIBOR+0.6% to LIBOR+2.5%); from 1.59% to 3.9% in EURO (2010: LIBOR+0.35% to LIBOR+0.65%).

Note 1: As at 31 December 2011, a total of RMB 2,400,000.00 is pledged against unexpired discounted bank acceptance bills (31 December 2010: RMB1,346,265,947.37). A total of RMB38,000,000.00 is pledged against secured borrowings and under the Group's custody (31 December 2010: RMB0). A total of RMB50,000,000.00 is pledged against receivables through business guarantee (31 December 2010: RMB600,000,000.00).

Note 2: As at 31 December 2011, the Group has a total of RMB58,000,000.00 loans collateralized by guarantee letters issued by Mitsui & Co., Ltd. (31 December 2010: RMB40,000,000.00), a total of RMB62,675,524.00 loans collateralized by guarantee letters issued by Sumitomo Corporation Group and Sumitomo Corporation (China) Holding Ltd. (31 December 2010: RMB0).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Customer deposits and deposits from banks and other financial institutions

RMB		
Item	Closing balance	Opening balance
Current deposits	172,181,714.17	347,340,779.32
Fixed deposits	8,261,403,318.04	8,561,000,000.00
Total	8,433,585,032.21	8,908,340,779.32

Customer deposits and deposits from banks and other financial institutions due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(7).

28. Taking from banks and other financial institutions

RMB		
Item	Closing balance	Opening balance
Taking from domestic banks	300,000,000.00	-

29. Held-for-trading financial liabilities

RMB		
Item	Closing fair value	Opening fair value
Derivative financial liabilities	-	3,480,773.10

30. Notes payable

RMB		
Category	Closing balance	Opening balance
Commercial acceptances	1,095,040,330.24	801,578,107.92
Bank acceptances	1,582,545,288.37	1,420,364,691.99
Total	2,677,585,618.61	2,221,942,799.91

The above notes payable will become due in year 2012. As at 31 December 2011, notes payable due from any shareholders holding at least 5% of the Company's shares with voting power refer to Note (VI) 6(8).

31. Accounts payable

(1) Details of accounts payable are as follows:

RMB		
Item	Closing balance	Opening balance
Accounts payable for equipment	4,357,210,808.54	2,573,167,239.12
Accounts payable for raw materials	14,913,488,300.16	16,590,967,419.25
Total	19,270,699,108.70	19,164,134,658.37

As at 31 December 2011, accounts payable aged over one year, totaling at RMB683,922,530.89 (2010: RMB669,315,805.26), are outstanding equipment fees for technical revamping and capital construction projects with a long period of construction.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Receipts in advance

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

RMB		
Item	Closing balance	Opening balance
Receipts in advance	10,789,724,318.08	11,795,800,061.97

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

The aging of receipts in advance with significant balances in the Group are all within one year as at 31 December 2011.

33. Employee benefits payable

RMB				
Item	Opening carrying amount	Increase for the year	Decrease for the year	Closing carrying amount
I. Wages or salaries, bonuses, allowances and subsidies	1,220,449,064.13	5,788,972,217.11	5,865,218,937.26	1,144,202,343.98
II. Staff welfare	-	369,721,314.99	369,721,314.99	-
III. Social security contributions	4,624,916.63	1,720,951,981.16	1,722,771,104.79	2,805,793.00
Including: Basic pension insurance	2,106,506.14	888,361,942.72	889,250,363.66	1,218,085.20
Medical insurance	1,513,893.61	478,986,765.62	479,338,998.76	1,161,660.47
Unemployment insurance	155,558.90	76,101,942.78	76,158,028.06	99,473.62
Work injury insurance	75,784.11	22,414,634.37	22,447,576.30	42,842.18
Maternity insurance	62,374.57	27,195,085.18	27,204,539.16	52,920.59
Employment fee for the injured	7,081.50	38,616,395.15	38,617,886.47	5,590.18
Annuity fund	702,903.80	188,298,399.25	188,776,896.29	224,406.76
Others	814.00	976,816.09	976,816.09	814.00
IV. Housing funds	111,480.90	493,068,373.02	493,128,863.34	50,990.58
V. Termination benefits	189,920,829.44	101,723,647.85	123,815,998.49	167,828,478.80
VI. Labor union and education fund	155,076,903.08	309,770,928.45	297,074,840.17	167,772,991.36
VII. Others	71,050,842.13	220,997,721.51	221,417,944.81	70,630,618.83
Total	1,641,234,036.31	9,005,206,184.09	9,093,149,003.85	1,553,291,216.55

As at 31 December 2011, the total employee benefits payable amounts to RMB982,397,188.61 (2010: RMB982,397,188.61), including unpaid portion which is in line with work efficiency.

There are no overdue employee benefits payable or non-monetary benefits as at 31 December 2011.

34. Taxes payable

RMB		
Item	Closing balance	Opening balance (Restated)
Value-added tax	(1,047,080,706.22)	(7,185,934.37)
Business tax	26,012,769.92	20,032,667.18
Enterprise income tax	(221,702,170.62)	811,389,051.36
Individual income tax	86,311,277.55	114,449,189.74
City construction and maintenance tax	24,775,059.87	46,412,165.04
Property tax	26,261,010.65	35,904,409.53
Others	117,833,696.64	122,196,479.56
Total	(987,589,062.21)	1,143,198,028.04

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Interest payable

RMB		
Item	Closing balance	Opening balance
Interest payable on convertible loan notes	42,222,222.22	42,222,222.22
Interest payable on medium-term notes	146,081,967.21	146,482,191.78
Interest payable on short-term borrowings	127,746,755.25	100,976,923.11
Total	316,050,944.68	289,681,337.11

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

36. Dividends payable

RMB		
Name of entity	Closing balance	Opening balance
China Orient Asset Management Corp.	9,475,888.34	8,850,086.58
Mitsui & Co., Ltd.	3,564,645.30	78,115.99
Corning (Hong Kong) Ltd.	2,082,443.05	2,082,443.05
Toyota Tsusho Corporation	1,183,893.19	-
Nanjing New Line Logistics Co., Ltd.	900,000.00	-
Guizhou Aluminium Plant	853,743.23	-
Shengsi State Capital Investment and Operation Co., Ltd.	-	3,457,171.58
Others	22,022.21	22,022.21
Total	18,082,635.32	14,489,839.41

37. Other payables

(1) Details of other payables are as follows:

RMB		
Name of entity	Closing balance	Opening balance
Guarantee and deposit fees	467,873,965.67	477,259,636.72
Advanced fund	120,990,107.30	95,385,813.58
Transportation and port fees	9,369,011.78	115,102,316.64
Construction fees payable	1,671,771.14	2,300,762.43
Land compensation	31,094,071.26	49,016,850.40
Relief fund	15,016,932.34	13,016,932.34
Commission fees	2,197,331.27	7,878,039.65
Others	132,396,990.95	105,994,616.01
Total	780,610,181.71	865,954,967.77

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

(3) Description of significant other payables aged more than one year:

The other payables aged more than one year amount to RMB146,313,726.27, which is guarantee payable in nature under long-term service contracts.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Non-current liabilities due within one year

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

Item	RMB	
	Closing balance	Opening balance
Long-term borrowings due within one year	4,065,340,680.00	667,876,403.21
Long-term payables due within one year	2,758,493,923.17	2,868,833,680.10
Bonds payable due within one year	9,985,833,845.12	-
Total	16,809,668,448.29	3,536,710,083.31

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

Item	RMB	
	Closing balance	Opening balance
Credit loans	4,065,340,680.00	667,876,403.21

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

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

Lender	Inception date of borrowing	Maturity date	Original currency	Interest rate (%)	Opening balance	
					Amount in USD	Amount in RMB
Sumitomo Mitsui Banking Corporation (China) Limited	07 June 2010	02 September 2011	USD	LIBOR+1.1%	30,000,000.00	198,681,000.00
Sumitomo Mitsui Banking Corporation (China) Limited	03 November 2009	28 January 2011	USD	LIBOR+0.5%	24,000,000.00	158,944,800.00
Sumitomo Mitsui Banking Corporation (China) Limited	03 November 2009	28 January 2011	USD	LIBOR+0.5%	16,000,000.00	105,963,200.00
Standard Chartered Bank (China) Limited	18 March 2010	19 September 2011	USD	6 LIBOR+2.03%	15,000,000.00	99,340,500.00
China Construction Bank	18 September 2009	18 September 2011	EUR	FIBOR+0.305%	5,750,384.74	50,640,763.21
Total						613,570,263.21

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term payables due within one year

RMB		
Item	Closing balance	Opening balance
Payables for the acquisition of Luojing assets	2,758,493,923.17	2,868,833,680.10

(4) Bonds payable due within one year

RMB									
Name of bond	Par value	Issue date	Term of the bond	Issue amount	Opening interest payable	Accrued interest for the period	Interest paid during the period	Closing interest payable	Closing balance
Medium Term Note (0982075) (Note)	5,000,000,000.00	25 May 2009	3 Years	5,000,000,000.00	79,800,000.00	132,781,967.21	133,000,000.00	79,581,967.21	4,993,643,618.25
Medium Term Note (0982097) (Note)	5,000,000,000.00	30 June 2009	3 Years	5,000,000,000.00	66,682,191.78	132,817,808.22	133,000,000.00	66,500,000.00	4,992,190,226.87
Total	10,000,000,000.00			10,000,000,000.00	146,482,191.78	265,599,775.43	266,000,000.00	146,081,967.21	9,985,833,845.12

Note : In May 2009, the National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB10 billion medium-term notes in China by the Company. The notes can be issued within the subsequent two years and by installment. The Company issued on 25 May 2009 the first tranche of three-year medium notes (09 Baosteel MTN1) for RMB5 billion, with a coupon rate of 2.66% per annum, a par value of RMB100 at a fixed interest rate. The second tranche (09 Baosteel MTN2), with the same worth, coupon rate, par value, fixed interest rate, was launched on 30 June 2009. The medium-term notes are tradable at the inter-bank bond market with 3 years' duration.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Long-term borrowings

(1) Categories of long-term borrowings

RMB

Item	Closing balance	Opening balance
Credit loans	7,325,679,720.00	8,586,976,200.00

(2) Top five long-term borrowings

RMB

Lender	Inception date of borrowing	Maturity date	Currency	Annual interest rate (%)	Closing balance	
					Amount in foreign currency	Amount in domestic currency
The Export-import Bank of China (EIBC)	15 September 2010	15 July 2013	USD	6 LIBOR+2.8%	200,000,000.00	1,260,180,000.00
EIBC	19 July 2010	19 July 2013	USD	6LIBOR+2.1%	100,000,000.00	630,090,000.00
EIBC	16 December 2010	16 December 2013	USD	6LIBOR+0.5%	100,000,000.00	630,090,000.00
EIBC	16 December 2010	16 December 2013	USD	6LIBOR+0.5%	100,000,000.00	630,090,000.00
EIBC	11 January 2011	16 December 2013	USD	6LIBOR+1%	100,000,000.00	630,090,000.00
Total						3,780,540,000.00

RMB

Lender	Inception date of borrowing	Maturity date	Currency	Annual interest rate (%)	Closing balance	
					Amount in foreign currency	Amount in domestic currency
EIBC	15 September 2010	15 July 2013	USD	6 LIBOR+2.8%	200,000,000.00	1,324,540,000.00
EIBC	29 December 2010	16 December 2013	USD	6LIBOR+0.5%	100,000,000.00	662,270,000.00
BOC	4 May 2009	4 May 2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
BOC	8 May 2009	8 May 2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
BOC	20 May 2009	20 May 2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
Total						3,973,620,000.00

Bank facilities

As at 31 December 2011, the unutilized bank facilities of the Group reach RMB89.048 billion. The management of the Company believes that the above mentioned facilities and the net cash flows from operating activities will be sufficient to repay the current liabilities due in the coming period.

40. Bonds payable

RMB

Name of bond	Par value	Issue date	Term of the bond	Issue amount	Opening interest payable	Accrued interest for the period	Interest paid during the period	Closing interest payable	Closing balance
08 Baosteel Bond (126016) (Note)	10,000,000,000.00	20 June 2008	6 years	10,000,000,000.00	42,222,222.22	80,000,000.00	80,000,000.00	42,222,222.22	8,918,663,150.96

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Long-term payables

RMB		
Item	Closing balance	Opening balance
Payable to Luoqing assets	2,758,493,923.17	5,410,891,926.22
Less: Long-term payables due within one year	2,758,493,923.17	2,868,833,680.10
Total	-	2,542,058,246.12

The delivery price of Luoqing assets and businesses, which the Group acquired from Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. on 1 April 2008, was RMB14,344,168,400.50. The payment is made by interest-free mortgage within five years, with 20% of the total paid each year. The first sum has been paid in 2008, while the rest installments will be paid on 31 December every year, with the last sum on 31 December 2012.

The long-term payables in the Group are initially measured at fair value and its subsequent value is measured at amortized cost. As at 31 December 2011, the original carrying amount of the long-term payables totals at RMB2,868,833,680.10, and the unrecognized financing charge to be amortized was RMB10,339,756.93.

42. Special payables

RMB				
Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Government subsidies	458,086,945.11	530,850,000.00	77,521,213.96	911,415,731.15

43. Other non-current liabilities

RMB		
Item	Closing carrying amount	Opening carrying amount
Deferred income (Note)	1,319,044,230.80	1,088,486,622.56

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

44. Share capital

As at 31 December 2011, the registered and paid-in capital of the Company totals at RMB17,512,048,088.00 with par value of RMB1.00 each. The share class and structure are set out as follows:

RMB							
	Opening balance	Changes for the period					Closing balance
		New issue of shares	Bonus issue	Capitalization of surplus reserve	Others	Subtotal	
2011:							
I. Tradable shares							
I. Ordinary shares denominated in RMB	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00
II. Total shares	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00
2010:							
I. Tradable shares							
I. Ordinary shares denominated in RMB	17,512,000,000.00	-	-	-	48,088.00	48,088.00	17,512,048,088.00
II. Total shares	17,512,000,000.00	-	-	-	48,088.00	48,088.00	17,512,048,088.00

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at the end of 31 December 2011, Baosteel Group holds 13,111,255,230 common shares of the total tradable RMB common stocks.

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

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

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

In order to further the non-tradable share reform program so as to prevent the Company's shares from irrational fluctuation and protect the interests of the investors, Baosteel Group made further efforts by promising the Company and its shareholders that, in case that the share price of the Company drops to a level below RMB4.53 per share six months after the above-mentioned two-month period, the Group shall inject another sum of no more than RMB2 billion in aggregation, together with the remaining of the first injection if it has not being used up to purchase the Company's shares by means of competitive pricing at the Stock Exchange of Shanghai until the promised sum has been used up or the Company's share price rises above RMB4.53 per share. The promise shall be fulfilled before the China Securities Regulatory Commission exempts the Group from the duties in purchasing the shares of the Company and the non-tradable share reform program will be approved by the Company's Shareholders' General Meeting. The Group shall not sell the newly purchased shares and is obliged to disclose the related information within the six months after the supporting program. The China Securities Regulatory Commission has agreed to exempt the Group from the duties in the purchase referred to. Up to 31 December 2005, additional 412,183,690 shares were purchased by the Group. During 1 to 5 January 2006, the Group increased its shares of the Company by 79,596,591. Up to 5 January 2006, the Group had fulfilled the promise of the second RMB2-billion injection, with its holding of the Company's shares amounting to 491,780,281 shares.

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

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

Up to 19 August 2008, a total of 11,900,917,441 conditional shares of the Company that Baosteel Group held were allowed to be circulated on market, making all the shares of the Company unconditional shares tradable, of which Baosteel Group owns 73.97%.

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

Due to a total of 157,737,789 unconditional shares of the Company purchased by Baosteel Group, during the year of 2011, the total proportion of equity interest by Baosteel Group reached 74.87%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Capital reserve

				RMB
Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
2011:				
Capital premium				
Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Exercise of conversion option of convertible loan notes	29,703,329,723.00	-	-	29,703,329,723.00
Other comprehensive income				
Including: Provision for equity investment ^(Note 1)	(15,351,774.09)	-	26,911,250.99	(42,263,025.08)
Changes in fair value of available-for-sale financial assets	736,419,156.09	-	624,314,429.67	112,104,726.42
Income tax impact of changes in fair value of available-for-sale financial assets	(184,283,858.54)	148,250,451.45	-	(36,033,407.09)
Other capital reserve				
Including: Equity component split from convertible loan notes	-	-	-	-
Other capital reserves ^(Note 2)	1,599,163,102.82	267,781,299.74	-	1,866,944,402.56
Total	37,565,832,959.01	416,031,751.19	651,225,680.66	37,330,639,029.54
2010:				
Capital premium				
Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Exercise of conversion option of convertible loan notes	27,370,337,395.58	2,332,992,327.42	-	29,703,329,723.00
Other comprehensive income				
Including: Provision for equity investment ^(Note 1)	(1,939,645.96)	-	13,412,128.13	(15,351,774.09)
Changes in fair value of available-for-sale financial assets	655,706,324.46	80,712,831.63	-	736,419,156.09
Income tax impact of changes in fair value of available-for-sale financial assets	(152,675,258.18)	-	31,608,600.36	(184,283,858.54)
Other capital reserve ^(Note 2)				
Including: Equity component split from convertible loan notes	2,332,472,977.02	-	2,332,472,977.02	-
Other capital reserves	1,383,850,096.08	215,313,006.74	-	1,599,163,102.82
Total	37,314,308,498.73	2,629,018,165.79	2,377,493,705.51	37,565,832,959.01

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

Note 2: Increase in other capital reserves is mainly contributable to the monetary refund from the port construction in accordance with the relevant regulations of the Ministry of Transport and the Ministry of Finance upon collection of port construction fee from Shanghai Port.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Special reserve

				RMB
Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
2011:				
Operation security fee	15,291,362.80	29,222,813.83	32,725,189.94	11,788,986.69
2010:				
Operation security fee	8,314,857.96	27,840,911.13	20,864,406.29	15,291,362.80

47. Surplus reserve

				RMB
Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
2011:				
Statutory surplus reserve	8,424,451,077.42	505,950,338.78	-	8,930,401,416.20
Discretionary surplus reserve	11,695,903,417.20	505,950,338.78	-	12,201,853,755.98
Total	20,120,354,494.62	1,011,900,677.56	-	21,132,255,172.18
2010 (Restated):				
Statutory surplus reserve	7,278,158,936.61	1,146,292,140.81	-	8,424,451,077.42
Discretionary surplus reserve	10,549,611,276.39	1,146,292,140.81	-	11,695,903,417.20
Total	17,827,770,213.00	2,292,584,281.62	-	20,120,354,494.62

According to China Company Laws and the Article of the Company, the Company is required to transfer 10% of its net profit to the statutory surplus reserve.

The discretionary surplus reserve is appropriated subsequent to the appropriation of statutory surplus reserve and subject to approval. Upon approval, the discretionary surplus reserve can be used to make up the losses from previous years or increase the Company's share capital.

48. Retained profits

			RMB
Item	Amount	Proportion of appropriation	
2011:			
Before adjustment: Retained profits at beginning of period	29,674,047,101.69		
Adjustment: Total Retained profits at beginning of year	(16,188,188.93)		Note
After adjustment: Retained profits at beginning of year	29,657,858,912.76		
Add: Net profit attributable to owners of the Company for the period	7,361,961,636.41		
Less: Appropriation to statutory surplus reserve	505,950,338.78	10% of net profit of the Company	
Appropriation to discretionary surplus reserve	505,950,338.78	10% of net profit of the Company	
Declaration of dividends on ordinary shares	5,253,614,426.40		
Retained profits at the end of the period	30,754,305,445.21		
2010 (Restated):			
Retained profits at beginning of period	22,583,995,111.41		
Add: Net profit attributable to owners of the Company for the period	12,868,848,082.97		
Less: Appropriation to statutory surplus reserve	1,146,292,140.81	10% of net profit of the Company	
Appropriation to discretionary surplus reserve	1,146,292,140.81	10% of net profit of the Company	
Declaration of dividends on ordinary shares	3,502,400,000.00		
Retained profits at the end of the period	29,657,858,912.76		

Note 1: The effect of prior period adjustment on retained profits at the beginning of year is RMB16,188,188.93. The effect refer to Note (II) 25.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49. Operating income and operating costs

(1) Operating income

Item	RMB	
	Amount recognized in the current period	Amount recognized in the prior period
Principal operating income	220,932,311,946.53	200,979,794,788.27
Other operating income	1,572,372,747.20	1,169,357,576.50
Operating income	222,504,684,693.73	202,149,152,364.77
Operating costs (Restated)	203,040,720,884.79	175,394,408,303.02

(2) Principal operating activities (classified by industries)

Name of industry	RMB'000			
	Amount recognized in the current period		Amount recognized in the prior period	
	Operating income	Operating costs	Operating income	Operating Costs (Restated)
Iron & steel manufacturing	189,281,420	176,682,544	173,411,363	152,252,229
Sales of iron & steel products	194,694,626	190,632,307	171,058,204	166,930,018
Others	14,110,443	12,363,060	12,246,936	10,687,611
Writing off between industries	(177,154,177)	(177,891,360)	(155,736,708)	(155,443,419)
Total	220,932,312	201,786,551	200,979,795	174,426,439

(3) Principal operating activities (classified by products)

Name of product	RMB'000			
	Amount recognised in the current period		Amount recognised in the prior period	
	Operating income	Operating costs	Operating income	Operating costs (Restated)
Iron & steel	213,701,635	196,266,971	194,547,928	170,162,197
Others	7,230,677	5,519,580	6,431,867	4,264,242
Total	220,932,312	201,786,551	200,979,795	174,426,439

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

Name of geographical area	RMB'000			
	Amount recognised in the current period		Amount recognised in the prior period	
	Operating income	Operating costs	Operating income	Operating costs (Restated)
Domestic	197,070,683	179,544,190	180,976,333	155,828,471
Overseas	23,861,629	22,242,361	20,003,462	18,597,968
Total	220,932,312	201,786,551	200,979,795	174,426,439

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

Name of customer	Operating income	RMB	
		Operating income	Proportion to total operating income of the Company (%)
Entity One	12,023,460,913.25	5	
Entity Two	11,621,056,955.93	5	
Entity Three	2,944,143,367.02	2	
Entity Four	2,260,958,609.09	1	
Entity Five	2,051,587,120.46	1	
Total	30,901,206,965.75	14	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Business taxes and levies

RMB			
Item	Amount recognized in the current period	Amount recognized in the prior period	Basis of calculation
Business tax	73,962,758.47	63,120,117.72	Note
City construction and maintenance tax	179,602,083.70	290,369,417.70	Note
Education surcharges	158,676,917.79	131,957,787.54	Note
Tariff	2,442,286.75	7,377,775.20	Note
Others	26,520,419.44	32,230,104.58	Note
Total	441,204,466.15	525,055,202.74	

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

51. Financial expenses

RMB		
Item	Amount recognized in the current period	Amount recognized in the prior period
Interest expenses	2,106,995,340.39	1,815,579,485.34
Less: Capitalized interest expenses	301,847,155.28	217,845,686.64
Less: Interest income	179,485,470.05	50,545,045.75
Exchange differences	(1,612,183,741.87)	(787,994,117.59)
Less: Capitalized exchange differences	-	-
Others	58,841,551.22	47,379,867.30
Total	72,320,524.41	806,574,502.66

52. Impairment losses of assets

RMB		
Item	Amount incurred in the current period	Amount incurred in the prior period
I. Bad debt losses	(118,156,257.37)	43,807,890.08
II. Written-down of inventory provision	439,110,198.04	147,637,481.07
III. Impairment on long-term equity investments	-	3,311,720.00
IV. Impairment on fixed assets	-	3,378,509.51
V. Impairment/ (reversal) on loans	29,348,650.00	(10,450,000.00)
Total	350,302,590.67	187,685,600.66

53. Gains from changes in fair values

RMB		
Items resulting in gains from changes in fair values	Amount recognized in the current period	Amount recognized in the prior period
Held-for-trading financial assets	(10,786,427.47)	9,259,323.78
Held-for-trading financial liabilities	3,480,773.10	2,804,251.85
Total	(7,305,654.37)	12,063,575.63

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54. Investment income

(1) Details of investment income

Item	RMB	
	Amount recognized in the current period	Amount recognized in the prior period
Income from long-term equity investments under cost method	241,758,561.65	407,797,852.78
Income from long-term equity investments under equity method	260,237,983.08	444,906,040.66
Stock investment income/ (losses)	22,979,687.46	(4,991,994.89)
Bond investment income	22,143,391.44	21,841,070.53
Fund investment income/ (losses)	6,150,267.98	(21,834,304.41)
Investment losses from disposal of derivative financial instruments	14,595,716.93	(39,415,758.00)
Investment income from disposal of equity investment	38,395,507.64	897,313.53
Others	24,209,613.94	17,481,320.94
Total	630,470,730.12	826,681,541.14

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

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

Investee	RMB		
	Amount recognized in the current period	Amount recognized in the prior period	Reasons for movement in the current period
Henan Longyu Energy Co., Ltd.	217,032,336.89	324,394,553.95	Cash dividend
Shanghai Luojing Mining Port Co., Ltd.	8,830,841.82	4,793,785.60	Cash dividend
CISDI Engineering Co., Ltd.	8,791,450.49	19,199,112.85	Dividend distribution
Baovale Mining Co., Ltd.	6,780,832.45	12,324,680.38	Cash dividend
Anhui Huishang Co., Ltd.	240,000.00	-	Cash dividend
Henan Zhenglong Coal Co., Ltd.	-	45,847,620.00	Cash dividend
Total	241,675,461.65	406,559,752.78	

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

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

Investee	RMB		
	Amount recognized in the current period	Amount recognized in the prior period	Reasons for movement in the current period
BNA	165,253,670.30	313,522,385.06	Profit of the joint venture
Bao-Island Enterprise	76,770,165.60	69,402,584.65	Profit of the joint venture
STAL Precision	50,579,295.04	52,905,305.01	Profit of the associate
Welding Co.	25,516,392.24	27,291,527.07	Profit of the associate
Wuxi Baomit	7,620,097.98	-	Profit of the associate
Baojiang Shipping	-	6,720,552.96	Profit of the associate
Total	325,739,621.16	469,842,354.75	

As at 31 December 2011, no significant limitation exists regarding investment income repatriation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

55. Non-operating income

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Total gains on disposal of non-current assets	18,919,204.88	9,685,533.95
Including: Gains on disposal of fixed assets	18,919,204.88	9,685,533.95
Government grants	485,817,570.33	507,705,701.77
Compensation income	13,152,197.32	8,994,839.88
Others	128,524,155.99	63,453,908.57
Total	646,413,128.52	589,839,984.17

56. Non-operating expenses

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Total losses on disposal of non-current assets	178,886,100.76	133,386,264.64
Including: Losses on disposal of fixed assets	148,293,984.62	133,386,264.64
Donations to third parties	14,740,800.00	12,249,565.29
Others	31,558,304.21	33,736,182.89
Total	225,185,204.97	179,372,012.82

57. Income tax expenses

RMB

Item	Amount incurred in the current period	Amount incurred in the prior period
Current tax expense calculated according to tax laws and relevant requirements	1,651,419,228.97	3,725,399,454.34
Adjustment to prior period's income tax	(166,723,721.22)	(33,611,326.28)
Adjustment to deferred income tax	39,629,681.44	23,557,297.86
Total	1,524,325,189.19	3,715,345,425.92

Reconciliation of income tax expenses to the accounting profit is as follows:

RMB

	Amount for the current period	Amount for the prior period (Restated)
Accounting profit	prior period (Restated)	17,055,997,794.32
Income tax expenses calculated at 25% (prior period: 25%)	2,315,031,339.06	4,263,999,448.58
Adjustment to prior period's income tax	(166,723,721.22)	(33,611,326.28)
Effect of expenses that are not deductible for tax purposes	26,373,882.28	70,245,663.57
Effect of tax-free income	(34,780,442.78)	(212,378,164.87)
Effect of unrecognized deductible losses and deductible temporary differences	64,191,445.06	64,515,599.56
Effect of using previously unrecognized deductible losses and deductible temporary differences	(65,960,361.96)	(72,514,465.28)
Changes in opening balances of deferred tax assets/liabilities due to the change in tax rate	(9,015,706.69)	(5,901,476.08)
Additional tax incentives	(556,407,004.04)	(363,142,644.39)
Others	(48,384,240.52)	4,132,791.11
Total	1,524,325,189.19	3,715,345,425.92

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Calculation process of basic earnings per share

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

		RMB
	Amount for the current period	Amount for the prior period (Restated)
Net profit for the current period attributable to ordinary shareholders	7,361,961,636.41	12,868,848,082.97
Including: Net profit from continuing operations	7,361,961,636.41	12,868,848,082.97
Net profit from discontinued operations	-	-

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

		RMB
	Number for the current period	Number for the prior period
Number of ordinary shares outstanding at the beginning of year	17,512,048,088.00	17,512,000,000.00
Add: Weighted average number of ordinary shares issued in the current period	-	24,044.00
Less: Weighted average number of ordinary shares repurchased in the current period	-	-
Number of ordinary shares outstanding at the end of period	17,512,048,088.00	17,512,024,044.00

Earnings per share

		RMB
	Amount for the current period	Amount for the prior period (Restated)
Calculated based on net profit attributable to shareholders of the Company: Basic earnings per share	0.42	0.73
Calculated based on net profit from continuing operations attributable to shareholders of the Company: Basic earnings per share	0.42	0.73
Calculated based on net profit from discontinued operations attributable to shareholders of the Company: Basic earnings per share	-	-

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

59. Other comprehensive income

		RMB
Item	Amount for the current period	Amount for the prior period
1. Gains (losses) arising from available-for-sale financial assets	(620,268,928.62)	60,831,146.09
Less: Tax effects arising from available-for-sale financial assets	(147,787,648.50)	26,638,178.97
Net amount included in other comprehensive income in the prior periods that is transferred to profit or loss for the period	2,268,848.38	-
Subtotal	(474,750,128.50)	34,192,967.12
2. Share of other comprehensive income of the investee accounted for using the equity method	(26,911,250.99)	(13,412,128.15)
Subtotal	(26,911,250.99)	(13,412,128.15)
3. Exchange differences of financial statements denominated in foreign currencies	(100,403,037.69)	(35,651,622.04)
Subtotal	(100,403,037.69)	(35,651,622.04)
Total	(602,064,417.18)	(14,870,783.07)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Notes to items in the cash flow statement

(1) Other cash receipts relating to operating activities

RMB		
Item	Amount for the current period	Amount for the prior period
Non-operating income, government grant and etc.	2,765,023,762.90	2,068,141,410.04

(2) Other cash payments relating to operating activities

RMB		
Item	Amount for the current period	Amount for the prior period
Selling expenses	1,247,099,370.45	1,294,477,609.17
Administrative expenses	1,468,577,972.42	1,524,370,349.04
Others	166,507,098.08	176,479,629.57
Total	2,882,184,440.95	2,995,327,587.78

(3) Other cash receipts relating to investing activities

RMB		
Item	Amount for the current period	Amount for the prior period
Interest income	179,485,470.05	50,545,045.75

(4) Other cash payments relating to investing activities

RMB		
Item	Amount for the current period	Amount for the prior period
Cash payment upon the settlement of derivative instruments	2,977,331.19	41,713,292.10

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

61. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

RMB		
Supplementary information	Current period	Prior period (Restated)
I. Reconciliation of net profit to cash flow from operating activities:		
Net profit	7,735,800,167.04	13,340,652,368.40
Add: Provision for impairment losses of assets	350,302,590.67	187,685,600.66
Depreciation of fixed assets and investment properties	12,906,321,794.69	13,031,861,219.93
Amortization of intangible assets	208,224,717.38	205,783,446.80
Amortization of long-term prepaid expenses	9,532,660.28	31,272,485.15
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "-")	159,966,895.88	123,700,730.69
Losses on changes in fair values (gains are indicated by "-")	7,305,654.37	(12,063,575.63)
Financial expenses (income is indicated by "-")	13,478,973.19	759,194,635.36
Losses arising from investments (gains are indicated by "-")	(630,470,730.12)	(826,681,541.14)
Decrease in deferred tax assets (increase is indicated by "-")	(53,561,399.73)	(80,701,316.25)
Increase in deferred tax liabilities (decrease is indicated by "-")	68,341,855.89	104,116,054.03
Decrease in inventories (increase is indicated by "-")	244,515,920.26	(8,712,787,971.53)
Decrease in receivables from operating activities (increase is indicated by "-")	(5,080,365,872.74)	(4,372,485,203.34)
Increase in payables from operating activities (decrease is indicated by "-")	(3,797,163,479.08)	5,075,979,430.72
Net cash flow from operating activities	12,142,229,747.98	18,855,526,363.85
2. Significant investing and financing activities that do not involve cash receipts and payments:		
Conversion of debt into capital	-	-
Convertible loan notes due within one year	-	-
Fixed assets acquired under finance leases	-	-
3. Net changes in cash and cash equivalents:		
Closing balance of cash	12,899,442,675.29	7,887,919,424.23
Less: Opening balance of cash	7,887,919,424.23	4,724,082,906.98
Add: Closing balance of cash equivalents	280,780,713.36	50,000,000.00
Less: Opening balance of cash equivalents	50,000,000.00	100,000,000.00
Net increase in cash and cash equivalents	5,242,303,964.42	3,113,836,517.25

(2) Composition of cash and cash equivalents

RMB		
Item	Closing balance	Opening balance
I. Cash	12,899,442,675.29	7,887,919,424.23
Including: Cash on hand	800,496.99	865,587.11
Bank deposits	12,822,889,149.87	7,706,180,590.65
Other monetary funds	75,753,028.43	180,873,246.47
II. Cash equivalents	280,780,713.36	50,000,000.00
Including: Funds from monetary market	280,780,713.36	50,000,000.00
III. Closing balance of cash and cash equivalents	13,180,223,388.65	7,937,919,424.23

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent of the Company

Name of parent company	Baosteel Group Corporation (Baosteel Group)
Related party relationship	Parent company
Type of the entity	Limited company (state-owned)
Place of incorporation	Shanghai
Legal representative	Xu Lejiang
Nature of business	Iron and steel manufacturing & processing
Registered capital (RMB)	51,082,620,998.89
Proportion of the Company's ownership interest held by the parent (%)	74.87
Proportion of the Company's voting power held by the parent (%)	74.87
Ultimate controlling party of the Company	State-owned Asset Supervision and Administration Commission of the State Council
Organization code	13220082-1

2. Subsidiaries of the Group

Please refer to Note (IV)1 for details of subsidiaries of the Group.

3. Associates and joint ventures of the Group

Please refer to Note (V)15 for details of associates and joint ventures of the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4. Other related parties of the Group

Name of other related party	Relationship between other related parties and the Company	Organization code
Baosteel Resources (International) Limited (Baosteel Resources (International))	Fellow subsidiary	#6080030-0
Baosteel Metal Co., Ltd. and its subsidiaries (Baosteel Metal and its subsidiaries)	Fellow subsidiary	13223304-1
Shanghai Baosteel Engineering & Technology Group Co., Ltd. and its subsidiaries (Engineering & Technology Co. and its subsidiaries)	Fellow subsidiary	63083393-9
Hwabao Trust Co., Ltd. (Hwabao Trust)	Fellow subsidiary	63124192-7
Hwabao Investment Co., Ltd. (Hwabao Investment)	Fellow subsidiary	13222881-6
Baosteel Group Baoshan Hotel (Baoshan Hotel)	Fellow subsidiary	13342754-2
Baosteel Development Co., Ltd. and its subsidiaries (Baosteel Development and its subsidiaries)	Fellow subsidiary	13343894-6
Baosteel Group Shanghai No.2 Iron & Steel Co., Ltd. and its subsidiaries (No. 2 Steel and its subsidiaries)	Fellow subsidiary	13320566-7
Baosteel Group Shanghai No.1 Iron & Steel Co., Ltd. and its subsidiaries (No. 1 Steel and its subsidiaries)	Fellow subsidiary	13220760-1
Baosteel Group Shanghai Pipes Co., Ltd. (Shanghai Pipes)	Fellow subsidiary	63057927-2
Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries (Meishan Steel and its subsidiaries)	Fellow subsidiary	13226493-X
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries (Pudong Steel and its subsidiaries)	Fellow subsidiary	13221291-0
Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries (No. 5 Steel and its subsidiaries)	Fellow subsidiary	13220240-5
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries (Xinjiang Bayi and its subsidiaries)	Fellow subsidiary	22860110-1
Baosteel Group Resource Co., Ltd. and its subsidiaries (Baosteel Resource and its subsidiaries)	Fellow subsidiary	79144036-X
Nanjing Baori Steel Wires Co., Ltd. (Baori Wires)	Fellow subsidiary	60897903-4
Shanghai Institute of Steel and Iron (Institute of Steel and Iron)	Fellow subsidiary	13342720-0
Zhanjiang Longteng Logistics Co., Ltd. (Zhanjiang Longteng)	Fellow subsidiary	79779551-6
Ningbo Iron & Steel Co., Ltd. (Ningbo Steel)	Fellow subsidiary	74497613-7
Guangdong Iron & Steel Group Corporation (Guangdong Iron & Steel)	Fellow subsidiary	67706963-2
Baosteel Zhanjiang Iron & Steel Co., Ltd. (Zhanjiang Iron & Steel)	Fellow subsidiary	57241911-4
Baosteel Desheng Stainless Steel Co., Ltd. (Baosteel Desheng)	Fellow subsidiary	78216761-3
Shanghai Baohua International Tendering Co., Ltd. (Baohua Tendering)	Fellow subsidiary	78425734-8
Beijing Huili Property Development Co., Ltd. (Beijing Huili)	Fellow subsidiary	76847696-2
Shanghai Baosteel Technical and Economic Development Corporation (Technical & Economic Development Co., Ltd. and its subsidiaries)	Fellow subsidiary	13220712-6

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5. Related party transactions

Sales and purchases of goods, provision and receipt of services

(1) Sales of goods, provision and receipt of services

RMB'000

Related party	Transaction type	Details of related party transaction	Pricing of related party transactions	Amount for the current period		Amount for the prior period	
				Amount	Proportion of the amount of related party transactions to that of similar transactions (%)	Amount	Proportion of the amount of related party transactions to that of similar transactions (%)
Baosteel Group	Sales	Energy and auxiliary materials	Fair value	7,079	-	9,755	-
No. 1 Steel and its subsidiaries	Sales	Steel and iron products and auxiliary materials	Fair value	40,325	0.02	192,208	0.10
No. 2 Steel and its subsidiaries	Sales	Steel and iron products	Fair value	-	-	106,310	0.05
No. 5 Steel and its subsidiaries	Sales	Energy	Fair value	10,473	-	14,223	0.01
Pudong Steel and its subsidiaries	Sales	Auxiliary materials	Fair value	174	-	478	-
Baosteel Development and its subsidiaries	Sales	Steel and iron products and auxiliary materials	Fair value	3,055,605	1.38	2,733,155	1.35
Engineering & Technology Co. and its subsidiaries	Sales	Steel and iron products, energy, and auxiliary materials	Fair value	451,738	0.20	119,164	0.06
Baosteel Metal and its subsidiaries	Sales	Steel and iron products and energy	Fair value	2,976,176	1.34	1,493,304	0.74
BNA	Sales	Steel and iron products, energy, and auxiliary materials	Fair value	11,955,895	5.38	10,264,028	5.08
Meishan Steel and its subsidiaries	Sales	Steel and iron products, energy, and auxiliary materials	Fair value	1,808,676	0.81	1,553,608	0.77
Baori Wires	Sales	Steel and iron products	Fair value	853	-	1,129	-
Examination & Maintenance Co. ^(Note 1)	Sales	Energy and auxiliary materials	Fair value	-	-	55,644	0.03
Examination Co. and its subsidiaries ^(Note 1)	Sales	Energy and auxiliary materials	Fair value	-	-	227,445	0.11
Baosteel Resource and its subsidiaries	Sales	Raw materials	Fair value	11,536,297	5.19	8,996,604	4.45
Welding Co.	Sales	Steel and iron products	Fair value	574,773	0.26	509,714	0.25
Tianjin BCM	Sales	Steel and iron products	Fair value	71,072	0.03	19,685	0.01
Zhanjiang Longteng	Sales	Raw materials	Fair value	2,051,587	0.92	1,093,221	0.54
Ningbo Steel	Sales	Steel and iron products	Fair value	40,472	0.02	35,512	0.02
Xinjiang Bayi and its subsidiaries	Sales	Steel and iron products	Fair value	36,734	0.02	-	-
Zhanjiang Iron & Steel	Sales	Steel and iron products	Fair value	117,284	0.05	-	-
Wuxi Baomit	Sales	Steel and iron products	Fair value	29,417	0.01	-	-
Baosteel Desheng	Sales	Energy and auxiliary materials	Fair value	43,907	0.02	-	-
Baosteel Resources (International)	Sales	Raw materials	Fair value	898,343	0.40	-	-
Others	Sales	Auxiliary materials	Fair value	5,432	-	13,828	-
Total				35,712,312	16.05	27,439,015	13.57

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Purchase of goods

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Amount for the current period		Amount for the prior period	
				Amount	Proportion of the amount of related party transactions to that of similar transactions (%)	Amount	Proportion of the amount of related party transactions to that of similar transactions (%)
No. 1 Steel and its subsidiaries	Purchase	Auxiliary materials	Fair value	241,201	0.12	284,888	0.16
No. 2 Steel and its subsidiaries	Purchase	Steel and iron products	Fair value	-	-	188	-
No. 5 Steel and its subsidiaries	Purchase	Auxiliary materials and energy	Fair value	152	-	500	-
Engineering & Technology Co. and its subsidiaries	Purchase	Equipment	Fair value	1,770,884	0.87	1,425,675	0.80
Baosteel Development and its subsidiaries	Purchase	Steel and iron products and auxiliary materials	Fair value	2,467,487	1.22	1,957,348	1.10
Baosteel Metal and its subsidiaries	Purchase	Auxiliary materials	Fair value	50,616	0.02	53,881	0.03
BNA	Purchase	Steel and iron products	Fair value	12,857,935	6.33	11,164,905	6.28
Examination Co. and its subsidiaries (Note 1)	Purchase	Auxiliary materials	Fair value	-	-	7,014	0.00
Examination & Maintenance Co. (Note 1)	Purchase	Auxiliary materials	Fair value	-	-	220,307	0.12
Meishan Steel and its subsidiaries	Purchase	Raw materials and auxiliary materials	Fair value	1,476,813	0.73	1,177,332	0.66
Baosteel Resource and its subsidiaries	Purchase	Raw materials	Fair value	9,941,000	4.90	8,318,178	4.68
Baosteel Resources (International)	Purchase	Raw materials	Fair value	730,082	0.36	2,505,273	1.41
Xinjiang Bayi and its subsidiaries	Purchase	Steel and iron products	Fair value	1,605,722	0.79	1,415,756	0.80
Ningbo Steel	Purchase	Steel and iron products	Fair value	2,353,612	1.16	1,092,432	0.61
Zhanjiang Longteng	Purchase	Steel and iron products	Fair value	2,045,727	1.01	1,166,900	0.66
Baosteel Desheng	Purchase	Steel and iron products	Fair value	89,658	0.04	-	-
Others	Purchase	Auxiliary materials and energy	Fair value	9,493	-	177,197	0.10
Total				35,640,382	17.55	30,967,774	17.41

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Provision of transportation service and technical supports

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Amount for the current period	Amount for the prior period
Baosteel Group	Provision of services	Technical supports	Contract price	36,185	13,443
No. 1 Steel and its subsidiaries	Provision of services	Technical supports	Contract price	140	226
No. 5 Steel and its subsidiaries	Provision of services	Technical supports	Contract price	493	1,205
Welding Co.	Provision of services	Technical supports	Contract price	1,437	731
Hwabao Trust	Provision of services	Technical supports	Contract price	10,513	-
Examination Co. and its subsidiaries ^(Note 1)	Provision of services	Technical supports	Contract price	-	858
Xinjiang Bayi and its subsidiaries	Provision of services	Technical supports	Contract price	6,700	1,183
Pudong Steel and its subsidiaries	Provision of services	Technical supports	Contract price	491	1
Baosteel Development and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	14,927	10,725
Engineering & Technology Co. and its subsidiaries	Provision of services	Technical supports	Contract price	31,837	22,135
Baosteel Metal and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	9,598	5,102
Meishan Steel and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	44,187	15,883
Baosteel Resource and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	109,460	27,164
Examination & Maintenance Co. ^(Note 1)	Provision of services	Technical supports	Contract price	-	436
BNA	Provision of services	Transportation services and technical supports	Contract price	93,227	60,970
Ningbo Steel	Provision of services	Technical supports	Contract price	13,708	-
Baohua Tendering	Provision of services	Technical supports	Contract price	12,514	-
Others	Provision of services	Transportation services and technical supports	Contract price	2,071	8,462
Total				387,488	168,524

(4) Receipt of services

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Amount for the current period	Amount for the prior period
Baosteel Group	Receipt of services	Training fees	Contract price	42,029	32,363
BNA	Receipt of services	Processing fees	Contract price	175,595	269,774
Examination & Maintenance Co. ^(Note 1)	Receipt of services	Project, examination, and maintenance fees	Contract price	-	940,401
Engineering & Technology Co. and its subsidiaries	Receipt of services	Project, examination, and maintenance fees	Contract price	2,232,641	473,832
Meishan Steel and its subsidiaries	Receipt of services	Logistics, project, transportation, examination, and maintenance fees	Contract price	820,081	1,015,367
No. 1 Steel and its subsidiaries	Receipt of services	Logistics fees	Contract price	114,105	377,533
Pudong Steel and its subsidiaries	Receipt of services	Transportation fees	Contract price	-	72
Bao-Island Enterprise	Receipt of services	Transportation fees	Contract price	591,526	373,056
Examination Co. and its subsidiaries ^(Note 1)	Receipt of services	Examination and maintenance fees	Contract price	-	568,564
Baosteel Development and its subsidiaries	Receipt of services	Logistics, project, transportation, examination, and maintenance fees	Contract price	1,921,708	1,488,936
No. 5 Steel and its subsidiaries	Receipt of services	Logistics and transportation fees	Contract price	72,303	143,120
Baosteel Resource and its subsidiaries	Receipt of services	Transportation fees	Contract price	280,435	-
Baosteel Resources (International)	Receipt of services	Transportation fees	Contract price	38,314	-
Others	Receipt of services	Transportation fees	Contract price	8,023	97,412
Total				6,296,760	5,780,430

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Other main related party transactions

			RMB'000
Items	Note	Amount for the current period	Amount for the prior period
Rental expenses	2	272,699	239,701
Rental income	2	83,811	27,163
Financial service income	3	219,727	174,329
Financial service expenses	4	183,229	146,817
Joint research and development expenses	5	659,081	719,020
Proceeds on disposal of a long term equity	6	79,556	-

Note 1: On 1 January 2011, Baosteel Group transferred its 100% equity interest in Shanghai Baosteel Industrial Examination Co., Ltd. and its subsidiaries (Examination Co. and its subsidiaries) and Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. (Examination & Maintenance Co.) to Shanghai Baosteel Engineering & Technology Group Co., Ltd.

Note 2: When founded, the Company signed a twenty-year agreement with Baosteel Group for the lease of the plant site land use right. In September 2001, the Company enter into a further twenty-year lease agreement with Baosteel Group for the use of the land for the plant site for assets acquired for Phase 3. In November, 2002, the Company signed a new twenty-year lease agreement with Baosteel Group for the land use of the plant site for assets in custody due to acquisitions. In year 2011, land use right lease expense of the Company amounted to RMB234,186,471 (2010: RMB234,186,471).

The Group leased properties to such related parties as BNA, Baosteel Resources, Hwabao Trust, equipments to Meishan Steel and its subsidiaries, and land to BNA and Meishan Steel and its subsidiaries. In the meantime, the Group leased properties from No. 5 Steel and BNA, leased vehicles from Baosteel Development and Baosteel Metal and its subsidiaries. These leases are priced at negotiated price.

Note 3: The Group provided, via Finance Co., one of its subsidiaries, with loans, discount and entrusted financing services to Baosteel Group and its subsidiaries, and hereby obtained interest income, discount income and fees from entrusted financing.

Note 4: The Group collected deposits from Baosteel Group and its subsidiaries, and paid interest expenses at the RMB interest rate on saving as set by the People's Bank of China.

Note 5: In April 2010, the Company and Baosteel Group entered into agreements of "Baosteel COREX-3000 Key Production Technology Platform Construction and Joint Research and Development Agreement" and "Baosteel Special Steel Research Center (Platform) Technology and Product Research under Joint Research and Development Agreement". In accordance with the above agreements, the Company and Baosteel Group equally share the technology achievement of joint research and development, such as patent, proprietary technology, and equally assume the research and development expenses as well.

Note 6: The Group disposed of all its equity interest in Shanghai Baoyang International Shipping Agency Co., Ltd., Zhejiang Shengsi Baojie International Shipping Agency Co., Ltd. and Shanghai Baojiang Shipping Co., Ltd. to Baosteel Resource and its subsidiaries at a consideration of RMB79,556,297.64.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

6. Amounts due from / to related parties

(1) Notes receivable

RMB'000		
Item	Closing balance	Opening balance
Baosteel Development and its subsidiaries	721,860	118,672
Engineering & Technology Co. and its subsidiaries	9,176	-
Meishan Steel and its subsidiaries	412,149	262,182
Xinjiang Bayi and its subsidiaries	7,150	-
Baosteel Resource	-	300,000
Tianjin BCM	14,316	20,148
BNA	-	442,278
Zhanjiang Longteng	-	452,617
Baosteel Metal	388,986	70,571
Guangdong Iron & Steel	-	10,227
Others	1,764	4,538
Total	1,555,401	1,681,233

(2) Accounts receivable

RMB'000		
Item	Closing balance	Opening balance
Baosteel Group	898	6,299
Baosteel Development and its subsidiaries	115,668	88,191
Meishan Steel and its subsidiaries	99,658	68,437
Pudong Steel and its subsidiaries	2,301	7,439
No. 5 Steel and its subsidiaries	1,408	5,698
Xinjiang Bayi and its subsidiaries	12,628	2,434
Baosteel Resource and its subsidiaries	34,294	7,063
Hwabao Trust	1,736	6,153
Baosteel Metal and its subsidiaries	18,795	22,573
Engineering & Technology Co. and its subsidiaries	182,618	95,677
Examination Co. and its subsidiaries ^(Note1)	-	41,805
Examination & Maintenance Co ^(Note1)	-	13,773
Zhanjiang Longteng	454,463	384
BNA	146,473	391,392
Welding Co.	2,509	39,973
Ningbo Steel	28,054	46,475
Baosteel Resources (International)	3,083	-
Others	7,641	11,641
Total	1,112,227	855,407

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(3) Prepayments

	RMB'000	
Item	Closing balance	Opening balance
Baosteel Development and its subsidiaries	7,395	10,990
Meishan Steel and its subsidiaries	7,569	22,981
Xinjiang Bayi and its subsidiaries	252,012	134,629
Baosteel Resource and its subsidiaries	276,994	417,370
Engineering & Technology Co. and its subsidiaries	345,549	383,899
Examination & Maintenance Co.	-	1,014
BNA	340,312	326,654
Ningbo Steel	298,845	374,360
Baosteel Metal and its subsidiaries	557,840	-
Others	458	690
Total	2,086,974	1,672,587

(4) Other receivables

	RMB'000	
Item	Closing balance	Opening balance
Baosteel Group	167,028	199,170
Meishan Steel and its subsidiaries	26,648	107,421
Engineering & Technology Co. and its subsidiaries	1,014	825
Welding Co.	1,970	1,008
Zhanjiang Iron & Steel	12,514	-
Ningbo Steel	15,780	-
Others	6,623	3,151
Total	231,577	311,575

(5) Loans and advances to customers

	RMB'000	
Item	Closing balance	Opening balance
Baosteel Development and its subsidiaries	260,000	143,254
Pudong Steel and its subsidiaries	-	50,000
Xinjiang Bayi and its subsidiaries	700,000	1,000,000
Baosteel Resource and its subsidiaries	667,600	871,231
Baosteel Metal and its subsidiaries	65,735	114,343
Engineering & Technology Co. and its subsidiaries	225,000	316,000
Examination & Maintenance Co. (Note 1)	-	50,000
Ningbo Steel	652,787	550,000
Henan Pingbao	140,000	180,000
Others	622,500	230,000
Total	3,333,622	3,504,828

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(6) Long-term receivables

RMB'000

Item	Closing balance	Opening balance
Engineering & Technology Co. and its subsidiaries	27,389	-
Total	27,389	-

(7) Customer deposits and deposits from banks and other financial institutions

RMB'000

Item	Closing balance	Opening balance
Baosteel Group	7,838,751	8,480,245
No. 5 Steel and its subsidiaries	27,383	51,850
Hwabao Investment	1,988	1,822
Hwabao Trust	270,337	232,837
Engineering & Technology Co. and its subsidiaries	33,608	18,445
Institute of Steel and Iron	31,015	32,200
Baosteel Resource and its subsidiaries	86,830	-
BNA	78,531	-
Others	48,343	88,620
Total	8,416,786	8,906,019

(8) Notes payable

RMB'000

Item	Closing balance	Opening balance
Baosteel Development and its subsidiaries	9,500	-
Meishan Steel and its subsidiaries	44,164	-
Xinjiang Bayi and its subsidiaries	76,816	70,523
Baosteel Resource and its subsidiaries	-	-
Engineering & Technology Co. and its subsidiaries	195,505	30,500
BNA	701,327	621,344
Others	123	8,000
Total	1,027,435	730,367

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(9) Accounts payable

		RMB'000
Item	Closing balance	Opening balance
Baosteel Group	242,615	8,264
Baosteel Development and its subsidiaries	580,921	448,518
No. 1 Steel and its subsidiaries	12,997	47,178
Meishan Steel and its subsidiaries	317,481	481,741
Pudong Steel and its subsidiaries	30	30
No. 5 Steel and its subsidiaries	6,277	20,625
Baosteel Resource and its subsidiaries	586,323	605,985
Engineering & Technology Co. and its subsidiaries	645,402	422,167
Examination Co. and its subsidiaries(Note1)	-	84,041
Examination & Maintenance Co.(Note1)	-	105,224
Bao-Island Enterprise	42,163	13,660
BNA	193,910	202,445
Baojiang Shipping	-	15,883
Baosteel Resources (International)	-	398,044
Zhanjiang Longteng	185,070	208,751
Others	88,895	58,025
Total	2,902,084	3,120,581

(10) Receipts in advance

		RMB'000
Item	Closing balance	Opening balance
Baosteel Group	-	24
Baosteel Development and its subsidiaries	191,520	143,657
No. 2 Steel and its subsidiaries	200	3,830
No. 1 Steel and its subsidiaries	-	666
Meishan Steel and its subsidiaries	73,608	61,358
Pudong Steel and its subsidiaries	13,490	153
No. 5 Steel and its subsidiaries	143	143
Baosteel Resource and its subsidiaries	6	838
Baosteel Metal and its subsidiaries	203,513	235,078
Engineering & Technology Co. and its subsidiaries	103,430	86,377
Tianjin BCM	25,990	37,719
Others	45,522	4,790
Total	657,422	574,633

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(11) Other payables

		RMB'000
Item	Closing balance	Opening balance
Baosteel Development and its subsidiaries	3,953	2,571
Meishan Steel and its subsidiaries	2,307	2,353
Baosteel Metal and its subsidiaries	1,150	700
Engineering & Technology Co. and its subsidiaries	10,093	5,502
Baosteel Resource and its subsidiaries	6,003	-
Others	270	59
Total	23,776	11,185

(12) Interest payable

		RMB'000
Item	Closing balance	Opening balance
Baosteel Group	40,786	29,980
No. 5 Steel and its subsidiaries	118	453
Others	2,453	1,240
Total	43,357	31,673

Note 1: On 1 January 2011, Baosteel Group transferred its 100% equity interest in Shanghai Baosteel Industrial Examination Co., Ltd. and its subsidiaries (Examination Co. and its subsidiaries) and Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. (Examination & Maintenance Co.) to Shanghai Baosteel Engineering & Technology Group Co., Ltd.

Note 2: Amounts due from / to related parties other than those recorded in notes receivable, loans and advances to customers, notes payable, customer deposits and deposits from banks and other financial institutions, long-term borrowings, and interest payable are free from interests, pledges, and maturity. Please see Note (V) 41 for details of long-term payables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(VII) CONTINGENCIES

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

(VIII) COMMITMENTS

1. Significant commitments

(1) Capital commitments

	RMB'000	
	Closing balance	Opening balance
Capital commitments that have been entered into but have not been recognized in the financial statements:		
Contracted but not provided	10,219,316	19,278,707
Approved by the Board but not contracted	4,826,128	2,933,816
Total	15,045,444	22,212,523

(2) Operating lease commitments

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

	RMB'000	
	Closing balance	Opening balance
Minimum lease payments under non-cancellable operating leases:		
1st year subsequent to the balance sheet date	294,254	267,519
2nd year subsequent to the balance sheet date	280,023	259,178
3rd year subsequent to the balance sheet date	279,423	253,566
Subsequent periods over 3 years	1,716,647	1,705,403
Total	2,570,347	2,485,666

(IX) EVENTS AFTER THE BALANCE SHEET DATE

1. Explanations of significant events after the balance sheet date

- (1) As approved by Baosteel Group and the sixteenth meeting of the fourth Board of Directors, on 30 December 2011, Baosteel International, a subsidiary of the Company, acquired the equity interests of Shanghai Baosteel Vehicle Wheel Co., Ltd., Yantai Baosteel Vehicle Wheel Co., Ltd., Shanghai Baosteel Hot Stamped Parts Co., Ltd. and Shanghai Baosteel Hydrform Parts Co., Ltd. formerly belonging to Baosteel Metal, a subsidiary of Baosteel Group, by delisting them from Shanghai United Assets and Equity Exchange (SUAE). The consideration is RMB542 million, which has been paid as at 31 December 2011. Based on the resolution of Baosteel International and the Baosteel Metal, the operating results and cash flows from 1 January 2012 will be included in the consolidated income statement and consolidated statement of cash flows.
- (2) The Group will dispose of Baoshan Iron & Steel Co., Ltd Stainless Steel Business Unit and Special Steel Business Unit to Baosteel Group in order to optimize assets allocation, enhance the leadership in the field of quality carbon steel flat products and improve the Company's performance. As approved by the seventeenth meeting of the fourth Board of Directors on 28 February 2012, the Group entered into share transfer agreement with Baosteel Group. The consideration is RMB45.192 billion, which is subjected to be approved by non-related shareholders in the first Interim Shareholders' Meeting held on 15 March 2012.

2. Profit appropriation after the balance sheet date

As approved by the eighteenth meeting of the fourth Board of Directors held from 29 March 2012 to 30 March 2012, on the basis of 17,512,048,088 outstanding shares (Note (V) 44), the Board of Directors proposed a cash dividend of RMB2.00 per 10 shares (pre-tax), with a total of dividend payable amounting to RMB3,502,409,617.60. The proposal has been submitted to the General Shareholders' Meeting for final approval.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

RMB

Item	Opening balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognized in equity (post income tax)	Provision for impairment losses in the current period	Closing balance
Financial assets					
1. Financial assets at fair value through profit or loss	297,133,851.72	(10,786,427.47)	-	-	352,804,683.86
2. Available-for-sale financial assets	1,403,992,935.22	-	(474,750,128.50)	-	1,670,413,994.37
Sub-total of financial assets	1,701,126,786.94	(10,786,427.47)	(474,750,128.50)	-	2,023,218,678.23
Financial liabilities	3,480,773.10	3,480,773.10	-	-	-

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

RMB

Item	Opening balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognized in equity (post income tax)	Provision for impairment losses in the current period	Closing balance
Financial assets					
1. Loans and receivables (including accounts receivable, other receivables, and prepayments)	2,900,763,877.48	-	-	-	16,483,441,598.17
2. Derivative financial assets	11,507,631.72	(11,507,631.72)	-	-	-
Sub-total of financial assets	2,912,271,509.20	(11,507,631.72)	-	-	16,483,441,598.17
Financial liabilities	27,962,209,334.29	-	-	-	41,323,132,812.91

3. Key terms of annuity plan and major changes therein

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Others

4(1) Borrowing costs

			RMB
Item	Amount of borrowing costs capitalized during the year	Capitalization rate	
Construction in progress	301,847,155.28	4.59%-5.55%	
Fixed assets	-	-	
Sub-total of borrowing costs capitalized during the year	301,847,155.28	-	
Borrowing costs recognized in profit or loss during the year	1,805,148,185.11	-	
Total borrowing costs during the year	2,106,995,340.39	-	

4(2) Segment reporting

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

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

- (1) Iron & steel manufacturing: the Company, Meishan Steel, Ningbo Baoxin, Yantai Lubao, Huangshi Coating & Galvanizing, Yantai Baosteel, Baoyin Special Steel, Nantong Steel Baoma Tube and other steel and iron producing units;
- (2) Iron & steel trade: Baosteel International and its subsidiaries, Special Metal, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-Island Enterprises, Baosteel Brazil Trading and other trading subsidiaries;
- (3) Others: Finance Co., Chemical Co., Baosight Software, No.5 Steel Gas, Huagongbao and others.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

(1) Segment information

	Iron & steel manufacturing		Iron & steel trade		Others		Unallocated items		
	Current period	Prior period	Current period	Prior period	Current period	Prior period	Current period	Prior period	
Operating income									
External revenue	41,523,629	33,466,058	175,135,430	163,318,944	6,230,703	5,632,877	-	-	
Inter-segment revenue	149,217,501	140,970,361	19,646,474	7,815,499	8,439,051	7,072,549	-	-	
Total segment operating income	190,741,130	174,436,419	194,781,904	171,134,443	14,669,754	12,705,426	-	-	
Operating expenses (Restated)	186,294,598	160,796,634	192,427,890	168,634,378	13,399,424	11,635,423	-	-	
Operating profit (Restated)	4,446,532	13,639,785	2,354,014	2,500,065	1,270,330	1,070,003	-	-	

	Iron & steel manufacturing		Iron & steel trade		Others		Unallocated items		
	Current period	Prior period	Current period	Prior period	Current period	Prior period	Current period	Prior period	
Total segment assets	209,026,576	203,939,910	55,153,189	38,895,491	18,887,215	18,773,417	-	-	
Total segment liabilities (Restated)	44,096,227	41,155,182	28,509,191	25,930,302	11,953,970	12,159,848	-	-	
Supplementary information:									
Depreciation and amortization	12,481,193	12,687,559	366,190	295,327	276,696	286,031	-	-	
Impairment loss recognized in the current period	275,162	86,109	(106,139)	133,704	60,936	26,155	-	-	
Capital expenditures	16,342,085	10,824,404	1,151,755	808,062	716,425	463,408	-	-	

(2) External revenue by geographical area of source and non-current assets by geographical location

RMB'000

Item	Amount recognized in the current period	Amount recognized in the prior period
External revenue from domestic customers	199,018,178	182,396,673
External revenue from foreign customers	23,871,584	20,021,206
Sub-total	222,889,762	202,417,879

RMB'000

Item	Amount at the end of period	Amount at the beginning of period
Non-current assets located in domestic country	141,023,490	136,237,082
Non-current assets located in foreign countries	212,316	210,531
Writing off	-	-
Sub-total	141,235,806	136,447,613

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

External revenue includes:

RMB'000

Item	Amount recognized in the current period	Amount recognized in the prior period
Investment income of Finance Co.	33,211	4,428

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

The segment profit does not include:

RMB'000

Item	Amount recognized in the current period	Amount recognized in the prior period
Financial expenses	72,321	806,575
Impairment losses of assets	350,303	187,686
Losses from changes in fair values (gains)	7,306	(12,064)
Investment income (excluding Finance Co.)	(597,260)	(822,253)
Total	(167,330)	159,944

Segment assets do not include:

RMB'000

Item	Amount at the end of period	Amount at the beginning of period
Deferred tax assets	1,188,690	1,135,371

Segment liabilities do not include:

RMB'000

Item	Amount at the end of period	Amount at the beginning of period
Short-term borrowings	38,876,458	23,611,246
Non-current liabilities due within one year	16,809,668	3,536,710
Long-term borrowings	7,325,680	8,586,976
Long-term payables	-	2,542,058
Bonds payable	8,918,663	18,474,795
Deferred tax liabilities	316,781	396,226
Total	72,247,250	57,148,011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

RMB'000

Inter-segment eliminations		Total	
Current period	Prior period	Current period	Prior period
-	-	222,889,762	202,417,879
(177,303,026)	(155,858,409)		
(177,303,026)	(155,858,409)	222,889,762	202,417,879
(177,903,716)	(155,454,029)	214,218,196	185,612,406
600,690	(404,380)	8,671,566	16,805,473

RMB'000

Inter-segment eliminations		Total	
Current period	Prior period	Current period	Prior period
(53,155,924)	(46,679,085)	229,911,056	214,929,733
(39,176,888)	(31,650,502)	45,382,500	47,594,830
-	-	13,124,079	13,268,917
120,344	(58,282)	350,303	187,686
(132,758)	-	18,077,507	12,095,874

4(3) Financial instruments and risk management

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

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

The Group's accounting policy of derivatives is set out in Note (II) 9.

1. Risk management objectives and policies

The Group's risk management objectives are to achieve proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other equity investors. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyze the industry's exposure to various risks, establish appropriate bottom line for risk tolerance, implement risk management, and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

1.1 Market risk

Market risk is the fluctuation of fair value of financial instruments. It is sensitive to market price fluctuation due to the change of foreign currency exchange rates (exchange rate risk), market price (price risk), market interest rates (interest rate risk), and etc.. All fluctuation is caused by the specific impact as a single financial instrument or the issuers or the entire market transactions of all financial instruments.

1.1.1 Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. The exchange rate risk which the Group faced is mainly dealt with in the operating activities (When settled by foreign currencies).

The iron ore imports of the Group are mainly settled in US dollars, which lead to unfavorable balance of US dollars. The Group prioritizes and selects financing activities in USD and financing activities in RMB according to the comprehensive financing cost ratio with the most preferential financing cost ratio in RMB currently available as the benchmark. At the same time, the Group traces the exchange trend of RMB against USD and evaluates the exchange rate risk related to liabilities in US dollars. In view of the practical situation of more bilateral fluctuations in the exchange rate of RMB against USD and changes in the trend of unilateral appreciation, the Group conducts financing activities in USD matched with forward exchange contracts to mitigate the exchange rate risk.

The risk management measure is to ensure that the risk of exchange rate fluctuation is set within an acceptable level at the beginning. The above mentioned synthetic fund cost is the netting of the loan interest paid and gain/loss upon the settlement of the forward contracts. During the period of US dollar borrowing, the foreign exchange rate will not have substantial effect upon the Group's operations but will probably have timing effect during different reporting period due to the revaluation of foreign exchange rate.

1.1.2 Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flow fluctuates due to changes in interest rate. The risk of the interest rate that the Group faces mainly related to the debt whose interest is on a floating basis. The Group's policy is that the fixed-rate debt and the floating-rate debt are combined as a portfolio to facilitate the interest cost management.

The interest rate of the RMB loans is adjusted according to the benchmark interest rate issued by the People's Bank of China after the maturity or the date upon the contracts. And the interest rate risk of most long-term foreign currency floating rate loans is set at the beginning by the interest rate swap as well as the interest rate of most of short-term foreign currency in the whole term is set at the beginning.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

Interest rate risks of the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

Bonds	RMB	
	Amount at the end of period Available-for-sale financial assets	Amount at the beginning of period Available-for-sale financial assets
Within 1 year	165,441,000.00	150,362,590.00
More than 1 year	379,419,320.00	-
Total	544,860,320.00	150,362,590.00
Effective interest rate (Annual interest rate)	4.55%-6.02% Per annum	4.37%-4.88% Per annum

Other financial assets	Amount at the end of period			
	Loans to banks and other financial institutions	Financial assets purchased under resale agreements	Loans granted	Long-term receivables
Within 1 year	-	-	-	-
More than 1 year	-	-	3,410,144,438.27	28,830,000.00
Total	-	-	3,410,144,438.27	28,830,000.00
Effective interest rate (Annual interest rate)	-	-	1.40%-8.80%	6.65%

Financial liabilities	Amount at the end of period				
	Borrowings	Financial assets sold under repurchase agreements	Customer deposits	Bonds payable	Long-term payables
Within 1 year	42,941,798,312.91	300,000,000.00	8,433,585,032.21	9,985,833,845.12	2,758,493,923.17
More than 1 year	7,325,679,720.00	-	-	8,918,663,150.96	-
Total	50,267,478,032.91	300,000,000.00	8,433,585,032.21	18,904,496,996.08	2,758,493,923.17
Effective interest rate (Annual interest rate)	0.835%-7.21%	1.745%-6.15%	0.36%-6.4%	2.99%-5.62%	4%

1.1.3 Other price risk

The group is exposed to the market price risk of changes in financial assets and liabilities measured at the market price, affecting the profit and loss in available-for-sale financial assets and held-for-trading financial assets.

The risk of the investments is mainly due to changes in the price of the financial instruments, which is because of the factor that affects the specific financial assets or their issuers or the whole market.

Equity price risk

Equity price risk refers to potential loss in fair value of equity security resulting from adverse changes in a particular stock or stock index. As at 31 December 2011, the Group was exposed to equity price risks from individual equity investments which belong to held-for-trading equity investment (Note (V) 3) and available-for sale equity investment (Note (V) 13). The exchange traded investment of the Group is at Shanghai Stock Exchange and Shenzhen Stock Exchange, and is measured on basis of market quota at the balance sheet date.

The stock index on the day nearest to the balance sheet date at the following stock exchange and the highest and lowest closing prices in the year are shown as follows:

	31 December 2011	Highest/Lowest 2011	31 December 2010	Highest/Lowest 2010
Shanghai—A share indexes of Shanghai Stock Exchange	2,199	3,067/2,134	2,940	3,443/2,478
Shenzhen—A share indexes of Shenzhen Stock Exchange	867	1,316/829	1,351	1,455/965

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

RMB					
	Amount at the beginning of period				
	Loans to banks and other financial institutions	Financial assets purchased under resale agreements	Loans granted	Long-term receivables	
	-	-	-	-	
	-	-	3,931,800,234.92	-	
	-	-	3,931,800,234.92	-	
	-	-	1.46%-6.30%	-	
RMB					
	Amount at the beginning of period				
	Borrowings	Financial assets sold under repurchase agreements	Customer deposits	Bonds payable	Long-term payables
	24,279,122,827.03	-	8,908,340,779.32	-	2,868,833,680.10
	8,586,976,200.00	-	-	18,474,795,283.20	2,542,058,246.12
	32,866,099,027.03	-	8,908,340,779.32	18,474,795,283.20	5,410,891,926.22
	0.658%-5.04%	-	0.36%-5.8%	2.99%-5.62%	4%

The following table represents the sensitivity of the pre-tax profit and equity against every 5% change in fair value of equity instruments (on basis of the book value as at the balance sheet date), while all other variables remain constant and before any impact of taxation is considered. From the perspective of sensitivity analysis, the impact upon available-for-sale equity instrument investment can be regarded as one upon the change in fair value of the investment, without taking into consideration of possible deduction in income statements.

RMB'000			
2011	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease in capital reserve
Investments at following stock exchanges:			
Shanghai—Available-for-sale investment	493,952	-	24,698
—Held-for-trading investment	-	-	-
Shenzhen—Available-for-sale investment	631,601	-	31,580
RMB'000			
2010	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease in capital reserve
Investments at following stock exchanges:			
Shanghai—Available-for-sale investment	728,650	-	36,432
—Held-for-trading investment	-	-	-
Shenzhen—Available-for-sale investment	350,980	-	17,549

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

1.2 Credit risk

Credit risk refers to the risk that one party of financial instruments is not able to perform obligations, which causes the financial loss of the other party. For fixed-income investment, credit risk is the risk of financial losses caused by the debtors who could not pay the principal or interest on time. For equity investment, it is the risk of losses incurred by the failure of the business operation of the invested companies.

Credit risks of the Group mainly result from all types of receivable and loans and advances to customers. In order to control the credit risks, the Group conducts transactions with authorised well-known third parties. In accordance with the Group's policy, all customers who need credit transactions are required to be assessed under credit review. In addition, the Group performs ongoing monitoring on accounts receivable balance to ensure that the Group will not face significant risks of bad debts. In the relevant sales settlement, the Group mainly requests full advances or deposit with delivery on cash. For only a few strategic clients, the Group applies lines of credit and deadlines of payment after credit assessments and transactions are settled via bank acceptance notes when possible. In the relevant purchase settlement, the Group mainly applies cash on demand and payment with credit to settle. Only for building contractors of construction object, part of demand of long-cycle constructions and resources in short supply, the Group provides a certain advance to suppliers subject to lines of credit and deadlines after they pass the credit assessments.

The disbursement of loans and advances of the Group is due to principal operations of Finance Co. and debtors are only limited to members of Baosteel Group with a good credit assessment. The credit risk is controlled within an appropriate level.

The Group's credit risk of other financial assets and liabilities result from the default of the counterparties. When there is no collateral or other credit enhancement, the maximum credit exposure of the Group is the carrying amount of these financial instruments. The Group has not provided any form of guarantee which may put itself in a situation of risks. As at 31 December 2011, only 17% of the receivables were due from the top five debtors, the Group is not found to be exposed to significantly intensive credit risks.

1.3 Liquidity risk

Liquidity risk is the risk that the Group may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group exercises trade financing, convertible loan notes, medium-term notes, long-term and short-term loans, other interest-bearing loans and other means to strike a balance between continuity and flexibility of financing. The Group also acquires sufficient credit from major financial institutions to satisfy short-term and long-term demands for funds. The Group monitors the short-term and long-term demands for funds on a real time basis to ensure the abundance of cash reserves and securities for cash outflows at any time. Bonds issuance, medium-term notes and bank borrowings are the Group's main source of fund. The group's current liabilities exceed current assets at RMB19.604 billion. As at 31 December 2011, the Group has achieved unutilised bank loan facilities of approximately RMB89.048 billion. Consequently, the management of the Company believes that no significant liquidity risk was noted for the Group.

2. Fair value

2.1 Methods and assumptions used by the Group to estimate the fair value of a financial instrument:

- (1) Investment with a fixed date of maturity: the Group adopts the market quoted price to determine the fair value of the said investment. When the market quoted price is not accessible, the Group estimates the price on the basis of the latest transaction or the current cash flow of the available prices or interest rates of similar investment.
- (2) Investment funds and equity securities: the Group adopts the market quoted price to determine the fair value of the said investment where such quoted prices are not available, investments are determined reasonably by its cost.
- (3) The book values of all assets and liabilities approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(X) OTHER SIGNIFICANT EVENTS (CONTINUED)

2.2 Fair value hierarchy

Level 1 – those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				RMB
Closing Balance				
	Level 1	Level 2	Level 3	Total
Held-for-trading financial assets				
– Held-for-trading bond investment	-	72,023,970.50	-	72,023,970.50
– Held-for-trading fund investment	280,780,713.36	-	-	280,780,713.36
– Derivative financial assets	-	-	-	-
Available-for-sale financial assets				
– Equity instruments	1,116,763,674.37	-	-	1,116,763,674.37
– Debt instruments	544,860,320.00	-	-	544,860,320.00
– Others	8,790,000.00	-	-	8,790,000.00
Total	1,951,194,707.73	72,023,970.50	-	2,023,218,678.23
Held-for-trading financial liabilities				
– Derivative financial liabilities	-	-	-	-
Total	-	-	-	-
				RMB
Opening balance				
	Level 1	Level 2	Level 3	Total
Held-for-trading financial assets				
– Held-for-trading fund investment	-	235,626,220.00	-	235,626,220.00
– Held-for-trading equity instruments	50,000,000.00	-	-	50,000,000.00
– Others	-	11,507,631.72	-	11,507,631.72
Available-for-sale financial assets				
– Equity instruments	1,079,630,345.22	-	-	1,079,630,345.22
– Debt instruments	150,362,590.00	-	-	150,362,590.00
– Others	-	174,000,000.00	-	174,000,000.00
Total	1,279,992,935.22	421,133,851.72	-	1,701,126,786.94
Held-for-trading financial liabilities				
– Derivative financial liabilities	-	3,480,773.10	-	3,480,773.10
Total	-	3,480,773.10	-	3,480,773.10

4(4) Other events bearing upon investors

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable by categories:

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable that are individually significant	5,857,028,197.09	80	302,654,712.06	74	3,873,816,863.73	65	194,965,226.92	54
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	44,084,405.25	1	44,084,405.25	11	77,271,717.36	1	77,271,717.36	22
Accounts receivable recognizing provision for bad debts classified into groups	1,405,773,800.19	19	63,369,102.56	15	1,964,216,466.85	34	86,440,785.12	24
Total	7,306,886,402.53	100	410,108,219.87	100	5,915,305,047.94	100	358,677,729.40	100

The aging analysis of accounts receivable is as follows:

RMB

Aging	Closing balance				Opening balance			
	Carrying amount	Proportion (%)	Bad debt provision	Net carrying amount	Carrying amount	Proportion (%)	Bad debt provision	Net carrying amount
Within 1 year	7,166,137,181.94	98	346,255,399.94	6,819,881,782.00	5,739,686,851.86	97	275,981,633.45	5,463,705,218.41
More than 1 year but not exceeding 2 years	82,113,060.58	1	15,318,287.47	66,794,773.11	30,732,486.93	1	4,147,333.41	26,585,153.52
More than 2 years but not exceeding 3 years	14,551,754.76	-	4,450,127.21	10,101,627.55	67,127,280.65	1	1,277,045.18	65,850,235.47
More than 3 years	44,084,405.25	1	44,084,405.25	-	77,758,428.50	1	77,271,717.36	486,711.14
Total	7,306,886,402.53	100	410,108,219.87	6,896,778,182.66	5,915,305,047.94	100	358,677,729.40	5,556,627,318.54

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

RMB

Content of accounts receivable	Carrying amount	Bad debt provision	Proportion of provision (%)	Reasons for the provision
Receivables with significant balances	5,857,028,197.09	302,654,712.06	5	Note 1
Receivables with long age	44,084,405.25	44,084,405.25	100	Note 2
Total	5,901,112,602.34	346,739,117.31		

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

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

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

RMB

Name of entity	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Baosteel Group	300,258.95	15,012.95	246,903.83	12,345.19

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

RMB

Name of entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total accounts receivable (%)
Entity one	Related party	3,222,773,956.02	Within 1 year	44
Entity two	Related party	1,361,270,292.74	Within 1 year	19
Entity three	Related party	616,717,090.97	Within 2 year	8
Entity four	Related party	454,402,620.07	Within 1 year	6
Entity five	Related party	201,864,237.29	Within 1 year	3
Total		5,857,028,197.09		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

(1) Disclosure of other receivables by categories:

RMB

Category	Closing balance				Closing balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant	459,462,938.83	89	8,985,891.64	68	336,103,750.20	87	9,948,976.30	47
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	939,405.00	-	939,405.00	7	192,145.60	-	192,145.60	-
Accounts receivable recognizing provision for bad debts classified into groups	56,459,110.10	11	3,327,109.31	25	50,244,822.93	13	11,349,581.12	53
Total	516,861,453.93	100	13,252,405.95	100	386,540,718.73	100	21,490,703.02	100

Aging analysis of other receivables is as follows:

RMB

Aging	Closing balance				Closing balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	470,564,953.31	92	11,699,107.25	458,865,846.06	309,852,583.70	81	11,483,011.62	298,369,572.08
More than 1 year but not exceeding 2 years	2,427,878.92	-	404,363.68	2,023,515.24	20,551,998.18	5	1,797,151.05	18,754,847.13
More than 2 years but not exceeding 3 years	349,216.70	-	209,530.02	139,686.68	13,363,991.25	3	8,018,394.75	5,345,596.50
More than 3 years	43,519,405.00	8	939,405.00	42,580,000.00	42,772,145.60	11	192,145.60	42,580,000.00
Total	516,861,453.93	100	13,252,405.95	503,609,047.98	386,540,718.73	100	21,490,703.02	365,050,015.71

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

RMB

Content of other receivables	Carrying amount	Amount of bad debt	Proportion of provision (%)	Reasons
Other receivables with significant balances	459,462,938.83	8,985,891.64	2	Note 1
Other receivables with long age	939,405.00	939,405.00	100	Note 2
Total	460,402,343.83	9,925,296.64		

Note 1: Other receivables with significant balances mainly consist of R&D expense receivables from Baosteel Group, custom's deposit and government compensation for relocation. The Company didn't fully make bad debt provision to the RMB279,745,106.03 in view of the low risk of recollection, using the aging analysis approach.

Note 2: Bad debt provision is fully recognized in view of long age and a slim chance of recollection.

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

RMB

Name of Entity	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Baosteel Group	166,627,610.84	8,354,438.92	198,769,904.31	9,948,976.30

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

RMB

Name of Entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total other receivables (%)
Entity one	Third party	188,970,000.00	Within 1 year	37
Entity two	Related party	166,627,610.84	Within 1 year	32
Entity three	Third party	47,756,273.64	Within 1 year	9
Entity four	Third party	43,480,000.00	Note	8
Entity five	Related party	12,629,054.35	Within 1 year	3
Total		459,462,938.83		

Note: The amount more than 1 year but not exceeding 2 years is RMB900,000.00, and the amount more than 3 years is RMB42,580,000.00.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

3. Investments in joint ventures and associates

Name of investee	Type	Place of incorporation	Legal representative	Nature of business	Paid-in capital		Proportion of ownership interest held by the Company (%)
					Currency	'000	
1. Joint ventures							
BNA	LLC	Shanghai	Wang Jing	Manufacturing	RMB	3,000,000	50
Bao-Island Enterprise	LLC	Hong Kong	Not applicable	Ship chartering	HKD	3,300	50
2. Associates							
STAL Precision	LLC	Shanghai	Wang Xiaodong	Manufacturing	USD	96,560	40
Rihong Stainless	LLC	Shanghai	Hiraoka Yoshifumi	Manufacturing	RMB	95,000	20

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

						RMB
	Proportion of voting power in the investee held by the Company (%)	Investee's total assets at the end of the period	Investee's total liabilities at the end of the period	Total net assets at the end of the period	Total operating income for the period	Net profit for the period
	50	4,970,318,103.73	1,561,635,250.90	3,408,682,852.83	13,833,628,544.99	271,225,282.55
	50	1,463,226,502.50	276,949,758.60	1,178,759,770.20	917,058,189.60	153,540,331.20
	40	1,534,183,874.46	195,041,482.32	1,339,142,392.14	1,313,766,187.43	127,703,197.60
	20	216,620,044.74	169,030,591.66	47,589,453.08	524,098,425.16	237,989.37

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments

Details of long-term equity investments are as follows:

Name of investee	Accounting method	Initial investment cost	Opening balance	Increase / (decrease)	Closing balance
Subsidiaries					
Yantai Lubao	Cost method	243,248,705.24	361,404,905.16	-	361,404,905.16
Huangshi Coating & Galvanizing	Cost method	12,254,475.04	40,658,477.39	135,000,000.00	175,658,477.39
Baosteel International	Cost method	4,735,670,804.11	6,013,886,552.67	-	6,013,886,552.67
Meishan Steel	Cost method	6,609,321,102.70	8,938,982,988.14	-	8,938,982,988.14
Ningbo Baoxin	Cost method	1,786,187,133.16	1,383,555,177.57	-	1,383,555,177.57
Baosight Software	Cost method	241,213,064.59	275,664,363.08	-	275,664,363.08
Baosteel America	Cost method	42,567,875.48	187,562,180.98	-	187,562,180.98
Howa Trading	Cost method	154,073,767.03	221,975,780.12	-	221,975,780.12
Baosteel Europe	Cost method	93,801,781.59	328,631,981.58	-	328,631,981.58
Baosteel Singapore	Cost method	76,419,617.09	154,883,364.09	-	154,883,364.09
Bao-Trans Enterprises	Cost method	29,882,599.80	81,867,650.27	-	81,867,650.27
Baosteel Brazil Trading	Cost method	526,327.52	728,647.73	-	728,647.73
No.5 Steel Gas	Cost method	117,190,067.55	120,755,597.59	-	120,755,597.59
Special Metal	Cost method	50,000,000.00	50,000,000.00	-	50,000,000.00
Baosteel Chemical	Cost method	3,006,227,819.74	3,006,227,819.74	-	3,006,227,819.74
Finance Co.	Cost method	372,864,751.93	568,270,003.65	-	568,270,003.65
Baoyin Tubes	Cost method	130,000,000.00	130,000,000.00	-	130,000,000.00
Yantai Tubes	Cost method	640,000,000.00	1,600,000,000.00	-	1,600,000,000.00
Nantong Steel	Cost method	518,520,310.51	948,520,310.51	-	948,520,310.51
Baoma Tube	Cost method	36,673,650.00	-	36,673,650.00	36,673,650.00
Subtotal of subsidiaries		18,896,643,853.08	24,413,575,800.27	171,673,650.00	24,585,249,450.27
Joint ventures					
BNA	Equity method	1,500,000,000.00	1,784,350,861.32	(80,009,435.15)	1,704,341,426.17
Bao-Island Enterprise	Equity method	143,084,132.00	538,789,758.50	50,590,126.60	589,379,885.10
Subtotal of joint ventures		1,643,084,132.00	2,323,140,619.82	(29,419,308.55)	2,293,721,311.27
Associates					
STAL Precision	Equity method	122,004,541.93	531,473,021.82	4,183,935.04	535,656,956.86
Rihong Stainless	Equity method	9,473,440.98	-	9,517,890.62	9,517,890.62
Subtotal of associates		131,477,982.91	531,473,021.82	13,701,825.66	545,174,847.48
Baovale Mining Co., Ltd.	Cost method	-	103,282,213.00	-	103,282,213.00
Shanghai Luojing Mining Port Co., Ltd.	Cost method	-	88,734,096.00	-	88,734,096.00
China Aviation Industry (Xi'an) Special Material Co., Ltd.	Cost method	-	-	40,000,000.00	40,000,000.00
Bsteel Online Co., Ltd.	Cost method	-	-	16,308,530.65	16,308,530.65
Others	Cost method	-	980,000.00	-	980,000.00
Subtotal		-	192,996,309.00	56,308,530.65	249,304,839.65
Total		-	27,461,185,750.91	212,264,697.76	27,673,450,448.67

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

						RMB
Proportion of ownership interest held by the Company (%)	Proportion of voting power in the investee held by the Company (%)	Explanation of the inconsistency between the proportion of ownership interest and the proportion of voting power	Provision for impairment losses	Provision for impairment losses for the period	Cash dividends for the period	
79.82	79.82		-	-	16,844,577.92	
58.45	More than half		-	-	-	
100	100		-	-	-	
77.04	77.04		-	-	6,870,868.49	
54	54		-	-	-	
55.5	55.5		-	-	43,666,821.00	
100	100		-	-	-	
100	100		-	-	-	
100	100		-	-	-	
100	100		-	-	-	
100	100		-	-	-	
100	100		-	-	-	
94.5	94.5		-	-	-	
100	100		-	-	3,615,353.87	
100	100		-	-	447,818,132.75	
62.1	62.1		-	-	145,508,938.76	
58.5	58.5		-	-	-	
80	80		-	-	-	
95.82	95.82		-	-	-	
75	75		-	-	-	
			-	-	664,324,692.79	
50	50		-	-	245,333,855.45	
50	50		-	-	-	
			-	-	245,333,855.45	
40	40		-	-	46,395,360.00	
20	20		-	-	-	
			-	-	46,395,360.00	
50	Note	Note	-	-	6,780,832.45	
12	12		-	-	8,830,841.82	
9.71	9.71		-	-	-	
17	17		-	-	-	
Insignificant	Insignificant		-	-	23,100.00	
			-	-	15,634,774.27	
			-	-	971,688,682.51	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

5. Operating income and operating costs

(1) Operating income

RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Principal operating income	174,042,618,542.78	160,393,311,819.55
Other operating income	629,060,956.08	621,398,807.10
Total	174,671,679,498.86	161,014,710,626.65
Operating costs (Restated)	162,298,753,998.30	140,815,211,436.33

(2) Principal operating activities (classified by industries)

RMB'000

Name of industry	Amount recognized in the current period		Amount recognized in the prior period	
	Operating income	Operating costs	Operating income	Operating costs (Restated)
Iron & steel manufacturing	174,042,619	161,829,893	160,393,312	140,319,558

(3) Principal operating activities (classified by products)

RMB'000

Name of product	Amount recognized in the current period		Amount recognized in the prior period	
	Operating income	Operating costs	Operating income	Operating costs (Restated)
Iron & steel	174,042,619	161,829,893	160,393,312	140,319,558

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

RMB'000

Name of geographical area	Amount recognized in the current period		Amount recognized in the prior period	
	Operating income	Operating costs	Operating income	Operating costs (Restated)
Domestic	157,150,538	145,205,835	146,788,688	127,408,926
Overseas	16,892,081	16,624,058	13,604,624	12,910,632
Total	174,042,619	161,829,893	160,393,312	140,319,558

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

RMB

Name of customer	Operating income	Proportion to total operating income of the Company (%)
Total operating income from the Company's top five customers	78,843,566,791.50	45

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

6. Investment income

(1) Details of investment income

Item	Amount recognized in the current period	Amount recognized in the prior period
Income from long-term equity investments under cost method	679,959,467.06	1,110,687,478.77
Income from long-term equity investments under equity method	292,647,580.58	435,830,274.72
Investment income from disposal of held-to-maturity investments	16,733,434.24	-
Investment gains (losses) from disposal of derivative financial instrument	17,573,048.12	(35,329,597.40)
Total	1,006,913,530.00	1,511,188,156.09

(2) Income accounting for more than 5% of the pre-tax profit or ranking the top five highest proportion of the total profit from long-term equity investments under cost method are as follows:

Investee	Amount recognized in the current period	Amount recognized in the prior period	Reasons for movement in the current period
Baosteel Chemical	447,818,132.75	210,441,324.18	Cash dividend
Finance Co.	145,508,938.76	31,050,000.00	Cash dividend
Baosight Software	43,666,821.00	43,666,821.00	Cash dividend
Yantai Lubao	16,844,577.92	-	Cash dividend
Shanghai Luojing Mining Port Co., Ltd.	8,830,841.82	4,793,785.60	Cash dividend
Baosteel International	-	785,867,120.42	Cash dividend
Total	662,669,312.25	1,075,819,051.20	-

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

Investee	Amount recognized in the current period	Amount recognized in the prior period	Reasons for movement in the current period
BNA	165,253,670.30	313,522,385.06	Profit of the joint venture
Bao-Island Enterprise	76,770,165.60	69,402,584.65	Profit of the joint venture
STAL Precision	50,579,295.04	52,905,305.01	Profit of the associate
Rihong Stainless	44,449.64	-	Profit of the associate
Total	292,647,580.58	435,830,274.72	-

As at 31 December 2011, no significant limitation exists regarding investment income repatriation.

7. Bank facilities

As at 31 December 2011, the unutilized bank facilities of the Company reach RMB81.4 billion. The management of the Company believes that the above mentioned facilities and the net cash flow from operating activities would be sufficient to repay the current liabilities due in the coming period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

8. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

Supplementary information	RMB	
	Current period	Prior period (Restated)
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	5,059,503,387.83	11,462,921,408.02
Add: Provision for impairment losses of assets	361,858,893.17	123,354,017.34
Depreciation of fixed assets and investment properties	10,339,028,259.01	10,500,427,206.92
Amortization of intangible assets	95,643,023.63	92,016,627.23
Amortization of long-term prepaid expenses	1,643,331.08	15,372,171.54
Losses on disposal of fixed assets, intangible assets and other long-term assets	129,580,523.10	88,181,643.72
Losses on changes in fair values (gains are indicated by "-")	11,021,542.86	(11,021,542.86)
Financial expenses (income is indicated by "-")	(160,251,537.18)	512,756,668.33
Losses arising from investments (gains are indicated by "-")	(1,006,913,530.00)	(1,511,188,156.09)
Decrease in deferred tax assets (increase is indicated by "-")	(78,015,026.19)	(24,093,254.62)
Increase in deferred tax liabilities (decrease is indicated by "-")	67,076,319.56	101,203,995.87
Decrease in inventories (increase is indicated by "-")	1,517,539,451.30	(7,405,469,091.35)
Decrease in receivables from operating activities (increase is indicated by "-")	(1,201,098,385.24)	82,363,855.08
Increase in payables from operating activities	10,553,119,583.50	2,877,540,415.07
Net cash flow from operating activities	25,689,735,836.43	16,904,365,964.20
2. Significant investing and financing activities that do not involve cash receipts and payments:		
Conversion of debt into capital	-	-
Convertible loan notes due within one year	-	-
Fixed assets acquired under finance leases	-	-
3. Net changes in cash and cash equivalents:		
Closing balance of cash	8,826,002,497.24	4,076,704,419.19
Less: Opening balance of cash	4,076,704,419.19	1,767,579,044.85
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
Net increase in cash and cash equivalents	4,749,298,078.05	2,309,125,374.34

(XII) APPROVAL OF THE FINANCIAL STATEMENTS

The Company's financial statements and the consolidated financial statements were approved by the Board of Directors and authorized for issue on 30 March 2012.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2011

(XIII) SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

Items	RMB Amount
Profit or (loss) on disposal of non-current assets	(121,571,388.24)
Government grants recognized in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard)	485,817,570.33
The excess of attributable fair value of identifiable net assets over the consideration paid for the acquisition of subsidiaries, associates and joint ventures	9,463,440.98
Profit or (loss) on changes in the fair value of held-for-trading financial assets and held-for-trading financial liabilities and investment income on disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets, other than those used in the effective hedging activities relating to normal operating business	42,272,091.82
Other non-operating income or expenses other than the above	85,913,808.12
Tax effects	(119,146,939.10)
Effects attributable to minority interests (after tax)	(29,967,701.17)
Total	352,780,882.74

2. Return on net assets and earnings per share ("EPS")

The return on net assets and EPS have been prepared by Baoshan Iron & Steel Co., Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 - Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revised 2010) issued by China Securities Regulatory Commission.

Profit for the reporting period	Weighted average return on net assets (%)	Basic EPS
Net profit attributable to ordinary shareholders of the Company	7.02	0.42
Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company	6.69	0.40

3. Abnormal financial statements items ("F/S items") and description of reasons

	F/S Items	31 December 2011/ for the year ended	31 December 2010/ for the year ended	Change by %	Cause for the changes
1	Cash and bank balances	14,379,464,105.74	9,200,675,786.05	56%	Considering the curtail of liquidity, and the appreciation of Renminbi against US dollars, the Group raised the scale of US dollar loans for the future repayment of the medium-term notes to be due in the first half of 2012. As a result, cash and bank balances rose by RMB5.179 billion.
2	Notes receivables	12,860,113,254.16	7,879,784,804.93	63%	Due to the continuous tightening monetary policy, the growing sales of the Group, notes receivable hiked by RMB4.98 billion.
3	Construction in progress	16,282,590,033.75	9,762,744,217.47	67%	Construction in progress soared by RMB6.52 billion, mainly due to the hike of RMB17.106 billion, and the transfer to fixed assets by RMB10.586 billion.
4	Short-term borrowings	38,876,457,632.91	23,611,246,423.82	65%	Short-term borrowings surged by RMB15.265 billion, mainly attributable to the widening gap of operating funds deficiency arising from the increase of operating receivables. Meanwhile, with a view to the relatively low financing interest, and the constant appreciation of Renminbi against US dollar, the Group enlarged short-term finance denominated in US dollar.
5	Non-current liabilities due within one year	16,809,668,448.29	3,536,710,083.31	375%	Non-current liabilities due within one year advanced by RMB13.273 billion, mainly due to RMB9.986 billion bonds payable (medium-term notes) and US dollar loans equivalent to RMB3.397 billion were reclassified from long-term borrowings.
6	Income tax expenses	1,524,325,189.19	3,715,345,425.92	(59%)	In 2011, tax incentives slightly increased and profit has been lowered when compared with year 2010. Consequently, the income tax for 2011 dropped.

XI. Documents Available for Reference

1. Copy of the financial statements signed and sealed by the corporate representative, chief accountant and person in charge of the accounting department;
2. The original copies of the Auditor's Report sealed by the accounting firm and signed by the certified public accountant;
3. All original copies of the documents and announcements published on the newspapers designated by the China Securities Regulatory Committee during the reporting period.

Chairman: He Wenbo

Baoshan Iron & Steel Co., Ltd.

30 March 2012

