



2012 Annual Report

BAOSHAN IRON & STEEL CO., LTD.

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2012 was an extremely difficult year for the steel industry. Prices for fuel and raw materials fluctuated at high levels, intensity of the homogeneity competition was ever growing, the steel market remained gloomy and steel enterprises saw continued business deterioration. Confronted with the severe industrial environment, Baosteel stepped up operation to solidify its advantages in differentiated product competitiveness, and enforced strict cost control to pursue production and sales balance under economic operation. The Company made a good performance in production and sales in 2012. It sold 22.995 million tons of steel, including 1.955 million tons and 2.34 million tons of exclusive products and exported products respectively, reporting a 6.6% gross sales profit for major steel products. The Company maintained a comparatively stable level of profitability, and kept its best performance among domestic peers.

While carrying out the daily business carefully, the Company's managerial staff were actively seeking ways to enhance its long-term competitiveness and investment value.

In response to the shareholders' requests and to boost the market confidence, in August 2012, the Company's BOD announced the decision to repurchase the Company stock at a price not more than 5 RMB/share, with the total spending within RMB 5 billion. The total repurchase, if completed, would amount to 1 billion shares, accounting for 5.7% of the Company's overall capital stock, or 22.8% of the shares in public circulation. By the end of 2012, the Company had repurchased 414 million shares accumulatively at the total cost of RMB 1.917 billion. The stock price at the end of 2012 was 20% higher than that before the repurchase announcement.

Being helpful in lifting investors' confidence, and enhancing corporate return on assets in a long run, the Company's huge-amount repurchase scheme won favorable comments from the capital market and was listed as one of the top ten pieces of news of the 2012 securities market by *China Securities News*.

Seizing the opportunity of Shanghai Baoshan district industry planning adjustment, the Company accomplished a series of major asset reorganization in 2012. In the first quarter, an overall transfer of the stainless steel and special steel business to Baosteel Group was made, with a settlement amount of RMB 44 billion. In September after the Luojing Area shut down, the Company sold the Corex furnace and related technical assets to Baosteel Group at a price of RMB 2.73 billion. By peeling off the business and assets of these sections with relatively low profitability, Baosteel has given prominence to the strategic focus on carbon steel, remarkably improved the overall asset quality, and raised its long-term profitability.

In May 2012, the Guangdong Zhanjiang Steel Base Project was approved by National Development and Reform Commission to launch construction. The Company announced in August the plan of investing RMB 40 billion in Zhanjiang Steel Base construction. Considering the location of Zhanjiang Steel Project in the region with a high consumption potential, and with certain advantage in cost and logistics, our goal is to establish the Zhanjiang Base as an efficient and cost-effective flat product production base. Basing itself in the Pearl River Delta, and exporting to the market in Southeast Asia, Zhanjiang Project can form a synergy with Baosteel headquarters to bring their complementary strength into full play, and to enhance the Company's long-term competitiveness.

In the new round strategic planning that has already been made, the Company will focus on carbon steel flat products, and construct three closely collaborated production bases for premium steel products, namely, the Headquarters, Meishan Steel, and Zhanjiang Steel. By actively promoting the strategic upgrading featuring a focus expansion "from steel products to materials, from manufacturing to service, and from China to the world", the Company is committed to developing itself into the world's most competitive steel company and the most valuable listed 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 *2012 Annual Report* (hereinafter the Report) is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the Report.

All members of the Board of Directors attended the board meeting.

Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (special general partnership) gave standard unqualified audit report for the Company.

He Wenbo, Chairman of the Company, Zhu Keping, chief accountant, and Li Qiqiang, Director of the Finance Department in charge of the accounting affairs, attest to the truthfulness and completeness of the financial statements in this *Report*.

Here is the proposed profit appropriation plan for the reporting period approved by the Board of Directors: According to the Company’s policy that the annual dividend distribution should not be lower than 40% of the year’s net profit, with the total cash dividend not less than RMB 4,194,918,871.73. Taking into account the realized stock repurchase, the Company plans to dispatch a total dividend of RMB 2,278,400,000.00 (tax included) to all shareholders as registered on the equity registration date.

The proactive future plans and developing strategies in this *Report* do not constitute actual promises to investors. Investors are kindly reminded that investment involves risks.

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 |
| ○ Term Explanation and Major Risk Warning | 002 |
| ○ I. Company Profile | 003 |
| ○ II. Accounting and Financial Highlights | 005 |
| ○ III. Directors’ Report | 006 |
| ○ IV. Significant Events | 021 |
| ○ V. Capital and Shareholders | 027 |
| ○ VI. Directors, Supervisors, Senior Executives, and Employees | 031 |
| ○ VII. Corporate Governance | 040 |
| ○ VIII. Internal Control | 043 |
| ○ IX. Financial Statements | 044 |
| ○ X. Documents Available for Reference | 146 |

Term Explanation and Major Risk Warning

Term Explanation

| Term | Meaning |
|--|--|
| The 3rd generation advanced high strength automotive steel | High strength automotive steel with better elongation compared with the first generation of such products |
| EVI | Early Vendor Involvement |
| Efficient high-grade non-oriented silicon steel | This refers to the non-oriented silicon steel with higher magnetic induction compared to those of the same grade with the same iron loss. The high-grade non-oriented silicon steel usually refers to non-oriented silicon steel with a grade above B50A400 (B35A360). |
| High silicon high magnetic induction oriented silicon steel | This refers to the oriented silicon steel that contains more than 3.35% silicon, with a magnetic induction of B8 2 I.88T. |
| Low-temperature high magnetic induction oriented silicon steel | This refers to the oriented silicon steel produced by low-temperature heating. |
| Heavy plate TMCP | It refers to the heavy plate produced by thermo mechanical control process. |
| Heavy plate DQ | Refer to the heavy plate produced by direct quenching |
| Deloitte | Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (special general partnership) |

Major Risk Warning

The complicated steel market poses many uncertainties for the Company's operation environment. In 2013, pressure from energy and environmental protection gets more prominent for the Company and it is faced with many challenges in controlling the newly started major projects and in enhancing the comprehensive competitiveness. The Company has already taken measures to reduce and control risks.

Part I. Company Profile

I. Company Name

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

II. Contact Information

| | | |
|---------|---|---|
| | Secretary to Board of Directors | Representative of Securities Affairs |
| Contact | Zhu Keping | Yu Hong |
| Address | Board of Directors of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai | Board of Directors of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai |
| Tel | 86-21-26647000 | 86-21-26647000 |
| Fax | 86-21-26646999 | 86-21-26646999 |
| Email | ir@baosteel.com | ir@baosteel.com |

III. Company Information

| | |
|--------------------|--|
| 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/plc/ |
| Email | ir@baosteel.com |

IV. Company Announcements or Disclosures & Copies of the Report

| | |
|--|--|
| Company Announcements or Disclosures published in | <i>China Securities News, Shanghai Securities News, and Securities Times</i> |
| Annual Report Website Designated by China Securities Regulatory Commission | www.sse.com.cn |
| Copies of the Report can be obtained from | Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai |

V. Company Stock

Company Stock

| Stock type | Stock listed at | Stock name | Stock code | Stock abbreviation before alteration |
|------------|-------------------------|------------|------------|--------------------------------------|
| A share | Shanghai Stock Exchange | 宝钢股份 | 600019 | G宝钢 |

Part I. Company Profile

VI. Changes in Registration in the Reporting Period

(I) Registration details

| | |
|----------------------------|------------------|
| Date of Registration | 31 December 2012 |
| Place of Registration | Shanghai |
| Corporate Business License | 310000000074519 |
| Tax Identification Number | 3101131631696382 |
| Organization Code | 63169638-2 |

(II) Company's initial incorporation

Please refer to "IX. Other Information of the Company" in the Company's 2000 Annual Report for information of the Company's initial incorporation.

(III) Changes of its major business since listing

The Company specializes in iron and steel industry. Starting from 2005, it has been involved in more sectors including trade, shipping, coal chemical industry and information service and so on.

(IV) Changes of controlling shareholders since listing

In 2000 when the Company was first listed, the controlling shareholder is "Shanghai Baosteel Group Corporation". In October 2005, it was changed to "Baosteel Group Corporation".

VII. Other Information

| | | |
|-------------------------------------|---------------------|--|
| Accounting Firm (Mainland China) | Name | Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (special general partnership) |
| | Office of the Firm | 30th Floor, Bund Center, 222 Yan An Rd. East, Shanghai, China (200002) |
| | Signing Accountants | Zhu Xiaolan, Gui Yong |

Part II. Accounting and Financial Highlights

I. Major Accounting Data and Financial Indicators for the Latest Three Years

(I) Major accounting data

| (RMB Million) | | | | |
|---|---------|---------|--|---------|
| Major Accounting Data | 2012 | 2011 | Increase/Decrease from the previous year (%) | 2010 |
| Total operating revenue | 191,136 | 222,505 | -14.1 | 202,149 |
| Net profit attributable to shareholders of the listed Company | 10,386 | 7,362 | 41.1 | 12,869 |
| Net profit attributable to shareholders of the listed Company less non-recurring gains and losses | 4,720 | 7,009 | -32.7 | 12,565 |
| Net cash flow from operating activities | 22,202 | 12,142 | 82.9 | 18,856 |

| Major Accounting Data | As at end of 2012 | As at end of 2011 | Increase/Decrease from the previous year (%) | As at end of 2010 |
|--|-------------------|-------------------|--|-------------------|
| Owners' interest (shareholders' equity) attributable to the listed Company | 111,387 | 106,495 | 4.6 | 104,726 |
| Total asset | 214,357 | 231,100 | -7.2 | 216,065 |

(II) Major financial indicators

| Major Financial Indicators | 2012 | 2011 | Increase/Decrease from the previous year (%) | 2010 |
|---|------|------|--|-------|
| Basic earnings per share (RMB) | 0.60 | 0.42 | 41.6 | 0.73 |
| Diluted earnings per share (RMB) | 0.60 | 0.42 | 41.6 | 0.73 |
| Basic earnings per share less non-recurring gains and losses (RMB) | 0.27 | 0.40 | -32.4 | 0.72 |
| Weighted average return-on-equity (%) | 9.52 | 7.02 | 2.5 ppts down | 12.93 |
| Weighted average return-on-equity less non-recurring gains and losses (%) | 4.33 | 6.69 | 2.4 ppts down | 12.62 |

II. Non-recurring Gains and Losses

| (RMB Million) | | | |
|--|--------|------|------|
| Item | 2012 | 2011 | 2010 |
| Profit and loss from disposal of non-current assets | 9,577 | -121 | -123 |
| Investment income from disposal of available-for-sale financial assets | 19 | 42 | 8 |
| Depreciation reserve for the assets to be disposed of in Luojing Area | -2,645 | | |
| Net increase from other non-operating activities | 632 | 581 | 534 |
| Effect of income taxes | -1,892 | -119 | -98 |
| Effect of minority interest | -24 | -30 | -17 |
| Total of non-recurring gains and losses | 5,667 | 353 | 304 |

Part III. Board of Directors' Report

I. Review of Company Operation in 2012

2012 saw a continued economic slump in the world and a slow-down in economic growth in China. Domestic steel output maintained a slow growth, with an annual production of 0.72 billion tons of crude steel, a YoY increase of 3.1%. The net exported steel registered a 14% YoY increase; the fixed asset investment in the steel industry had a YoY increase of 3%. Its downstream industry, the property sector dropped by 11.9 ppts in growth rate compared to 2011. Other downstream industries including machinery, automobile, and home appliances also slowed down in growth rate at varied speeds. Consequently, the imbalance between demand and supply, especially the structural overcapacity became more serious, resulting in an intensified competition in homogeneity.

In 2012, domestic steel price continued to suffer the downturn. Starting from mid April, the steel price plummeted and dropped to as low as the level of 1994. At the end of 2012, the CSPI steel price index issued by China Iron & Steel Association was 105.3, 12.6% lower than that of the year beginning. In the meantime, the upstream market had ups and downs. In early September, the platts-IODEX dropped to USD 90 per ton, a historic low level, and then continued to surge, up to as high as USD 150 per ton since January 2013.

Amid the slowdown of economic growth both at home and broad, and affected by the over capacity and the obstinately high cost, the production and operation of domestic iron and steel enterprises remained gloomy. The first three quarters fluctuated along the breakeven point, and the fourth quarter saw a moderate improvement. Overall, the steel industry in 2012 was in a state of meager profit.

Faced with complicated external business environment, the Company remained calm, overcame difficulties, improved production, marketing and research system synergy, ensured production and sales balance under economic operation, strengthened carbon steel main business, consolidated key product market share, enhanced operational management, promoted internal full range potential tapping and finished annual production and operation tasks successfully. In 2012, the sales of steel totaled RMB 23.566 billion tons, realizing an operating revenue of RMB 191.51 billion, and a total profit of RMB 13.14 billion, maintaining the best operating performance among its domestic peers.

(I) Analysis of major business

1. Analysis of profit and cash flow

| Item | 2012 | 2011 | (RMB Million) |
|---|---------|---------|---|
| | | | Changes compared with the previous year (%) |
| Operating revenue | 191,136 | 222,505 | -14.1 |
| Operating cost | 176,879 | 203,041 | -12.9 |
| Sales expenses | 1,926 | 1,950 | -1.2 |
| Administrative expenses | 7,238 | 8,584 | -15.7 |
| Financial expenses | 416 | 72 | 474.8 |
| Net cash flow from operating activities | 22,202 | 12,142 | 82.9 |
| Net cash flow from investing activities | 2,649 | -16,130 | 116.4 |
| Net cash flow from financing activities | -30,351 | 9,293 | -426.6 |
| R&D expenditures | 3,807 | 5,060 | -24.8 |

- (1) Financial expenses increased RMB 0.34 billion from that of the previous year mainly because the RMB appreciation against US dollars was at a lower level than that of the previous year, resulting in a reduction in earnings from currency exchange.
- (2) Net cash flow from operating activities increased RMB 10.06 billion from that of the previous year. This is caused by the decrease of the receivables and payables from operating activities.
- (3) Net cash flow from investing activities increased RMB 18.78 billion from that of the previous year, which was resulted from selling the related assets of the business units of Stainless Steel and Special Steel.
- (4) Net cash flow from financing activities dropped by RMB 39.64 billion compared to the previous year due to a financing scale-down in order to balance operating activities and investing activities.

2. Revenue analysis

(1) Sales of iron and steel products

In the reporting period, the Company's operating income was RMB 31.37 billion less than that of the previous year. This is mainly because the revenue from steel products decreased caused by selling the related assets of the business units of Stainless Steel Special Steel unit, shutdown of the Luoqing area, as well as drop in sales prices.

Unit: Ten Thousand Tons

| Product | Sales volume in 2012 | Change from the previous period (%) |
|---|----------------------|-------------------------------------|
| Cold-rolled carbon steel sheets and coils | 942.6 | -1.1 |
| Hot-rolled carbon steel sheets and coils | 802.0 | -3.4 |
| Heavy plates | 185.0 | -20.2 |
| Steel tubes & pipes | 149.5 | -0.3 |
| Stainless steel | 61.7 | -54.4 |
| Special steel | 19.9 | -79.3 |
| Other steel products | 195.8 | 6.6 |
| Total | 2,356.6 | -8.7 |

Note: The sales volume of steel products in 2012 included the 1.663 million tons of hot-rolled carbon steel products sold to BNA, but did not include the 2.051 million tons of cold-rolled carbon steel products sold by BNA.

(2) Inventory of finished steel products

Unit: Ten Thousand Tons

| Product | At the end of 2012 | At the end of 2011 | Difference | Rate of difference |
|---|--------------------|--------------------|------------|--------------------|
| Cold-rolled carbon steel sheets and coils | 117.6 | 104.2 | 13.3 | 13% |
| Hot-rolled carbon steel sheets and coils | 48.5 | 45.7 | 2.8 | 6% |
| Heavy plates | 15.6 | 17.3 | -1.7 | -10% |
| Steel tubes & pipes | 18.2 | 20.9 | -2.6 | -13% |
| Stainless steel | 6.9 | 5.6 | 1.3 | 24% |
| Special steel | 2.9 | 3.8 | -0.9 | -22% |
| Other steel products | 11.0 | 14.1 | -3.1 | -22% |
| Total | 220.7 | 211.6 | 9.2 | 4% |

Note: The finished steel product inventory is under the control of the Company. The product-in-cutting-and-processing inventory existing in the sales channel was recovered as finished product inventory. Apart from selling its own products, the Company's sales channel also works as the sales agent for Baosteel Group's iron and steel products and a small amount of products not related with Baosteel.

(3) Major customers

In 2012, the Company's sales revenue from the top five customers made up 12.5% of its total operating revenue.

Unit: RMB Million

| No. | Name of customer | Sales volume |
|-----|------------------|--------------|
| 1 | Unit One | 11,168 |
| 2 | Unit Two | 5,277 |
| 3 | Unit Three | 2,546 |
| 4 | Unit Four | 2,451 |
| 5 | Unit Five | 2,426 |

3. Cost

(1) Cost analysis

Unit: RMB Million

| Industry | Item | Amount in the period | Ratio in the overall cost (%) | Amount in the same period last year | Ratio in the overall cost (%) | Change of amount in this period from the previous period (%) |
|----------------------------|------------------------|----------------------|-------------------------------|-------------------------------------|-------------------------------|--|
| Iron & steel manufacturing | Fuel and raw materials | 91,947 | 74.9 | 127,430 | 77.7 | -27.8 |
| | Others | 30,814 | 25.1 | 36,636 | 22.3 | -15.9 |
| | Total | 122,762 | 100.0 | 164,066 | 100.0 | -25.2 |

Note: Only the cost of the iron & steel manufacturing was included. Costs of other sectors such as the sales of steel products, finance, chemical industry, and information were not included. Also, because of selling the related assets of the business units of Stainless Steel and Special Steel as well as shutdown of the Luojing Area, the amount of this period saw a considerable drop.

Part III. Board of Directors' Report

(2) Major suppliers

In 2012, the Company's procurement from the top five suppliers made up 38.1% of its annual procurement volume.

| Unit: RMB Million | | |
|-------------------|------------------|--------------------|
| No. | Name of supplier | Procurement volume |
| 1 | Unit One | 9,291 |
| 2 | Unit Two | 8,963 |
| 3 | Unit Three | 4,786 |
| 4 | Unit Four | 3,019 |
| 5 | Unit Five | 1,640 |

4. Expenses

(1) Sales expenses, administrative expenses

| Unit: RMB Million | | | | |
|-------------------------|-------|-------|------------|--------------------|
| Item | 2012 | 2011 | Difference | Rate of difference |
| Sales expenses | 1,926 | 1,950 | -24 | -1.2% |
| Administrative expenses | 7,238 | 8,584 | -1,346 | -15.7% |

Administrative expenses in 2012 was RMB 1.35 billion less due to the reduction of RMB 1.38 billion of administrative expenses resulted from selling the related assets of the business units of Stainless Steel and Special Steel as well as shutdown of the Luojing Area.

(2) Financial expenses

| Unit: RMB Million | | | | |
|---|--------|--------|------------|--------------------|
| Item | 2012 | 2011 | Difference | Rate of difference |
| Interest income | -1,352 | -179 | -1,173 | 653.2% |
| Interest expenses | 1,830 | 1,805 | 25 | 1.4% |
| Gains and losses from currency exchange | -108 | -1,612 | 1,504 | -93.3% |
| Others | 45 | 59 | -14 | -23.2% |
| Total | 416 | 72 | 344 | 474.8% |

Financial expenses increased by RMB 0.34 billion from the previous year; among which, the interest income increased by RMB 1.17 billion mainly because RMB 0.94 billion of interest income from the installment sale was recognized. In the meantime, the exchange gains reduced by RMB 1.5 billion due to a 0.23% YoY RMB appreciation growth against US dollars, while the previous year saw a 4.86% growth.

(3) Income tax expenses

| Unit: RMB Million | | | | |
|---------------------------------|--------|-------|-------------|--------------------|
| Item | 2012 | 2011 | Difference | Rate of difference |
| Total consolidated profit | 13,140 | 9,260 | 3,880 | 41.9% |
| Consolidated income tax expense | 2,707 | 1,524 | 1,183 | 77.6% |
| Effective tax rate | 20.6% | 16.5% | 4.1 ppts up | |

Since the tax preference was roughly the same as that of the previous year; and the Company's total profit increased greatly compared to the previous year, the actual income tax rate was higher than that of 2011.

5. R&D expenditures

| | Unit: RMB Million |
|--|-------------------|
| Expensing of R&D expenditures | 3,807 |
| Capitalizing of R&D expenditures | 0 |
| Total R&D expenditures | 3,807 |
| Ratio of total R&D expenditures to net assets (%) | 3.2 |
| Ratio of total R&D expenditures to operating revenue (%) | 2.0 |

In 2012, the Company conducted research in the automotive sheet products and user-related technology. The Company's third generation advanced high strength steel—quenched ductile steel gained recognition from customers and the product made its world debut. In terms of the automotive sheet user technology, an innovative EVI research pattern for new auto models featured "an overall solution guided by target cost" was established. Stable batch production was realized for high silicon and high magnetic induction silicon steel products, which were successfully put to use in State Grid's Double Million Around Shanghai Electricity Transmission project (1000KV transformer). The Company also became the first domestic company to have successfully developed the 960MPa hot-rolled high strength steel and realized batch application.

6. Cash flow

In 2012, the Company registered a total net profit of RMB 10.43 billion, a depreciation and amortization of fixed assets RMB 11.4 billion, and a total financial expenses and other items RMB 1.05 billion. Leaving out the factor of non-recurring gains and losses from selling the related assets of the business units of Stainless Steel and Special Steel (gains from asset disposal RMB 9.58 billion, and effect of income tax RMB 2.27 billion), the Company had a cash receivable of RMB 15.57 billion. Because the inventory capital reduced by RMB 2.46 billion, and the receivables and payables from operating activities decreased by RMB 4.17 billion, the Company realized a net cash inflow of RMB 22.2 billion.

Net cash inflow increased by RMB 10.06 billion. Without considering the impact of the Finance Co., the net cash inflow arising from operating activities was RMB 20.91 billion, RMB 8.93 billion more than the RMB 11.98 billion net cash inflow at the same period last year. This increase is caused by the following factors:

- (1) Leaving out the influence of the non-recurring gains and losses from selling the related assets of the business units of Stainless Steel and Special Steel (gains from asset disposal RMB 9.58 billion, and effect of income tax RMB 2.27 billion), net profit from operating activities was RMB 5.02 billion lower than that of the previous year, resulting in a drop of net cash inflow;
- (2) Cash flow decreased because the depreciation and amortization dropped by RMB 1.72 billion from that of the previous year.
- (3) Cash flow related with financial expenses and other items increased by RMB 1.57 billion.
- (4) Inventories was RMB 2.46 billion less than that of the beginning of the year, while the inventory decrease was RMB 0.24 billion. As a result, the YoY inventory flow increased by RMB 2.22 billion.
- (5) Cash flow from receivables and payables from operating activities increased by RMB 2.88 billion, while that in the previous year was a decrease of RMB 9 billion. As a result, the cash flow has a YoY increase of RMB 11.88 billion.

The overall flow from operating activities was good.

Net cash inflow from investing activities totaled RMB 2.65 billion, an increase of RMB 18.78 billion compared to the same period last year. Leaving out the factor of the Finance Co., the net cash inflow from investing activities was RMB 2.61 billion, increasing by RMB 18.24 billion compared with the net cash outflow of RMB 15.63 billion at the same period last year. This is caused by the following factors: a YoY increase of RMB 21.3 billion in cash receivables from disposal of fixed assets, intangible assets, and other long-term assets (mainly from the sale of the related assets of the business units of Stainless Steel and Special Steel), a YoY increase of RMB 1.96 billion from disposal of subsidiaries and other units (mainly from disposal of Ningbo Baoxin), a YoY decrease of RMB 2.73 billion in purchasing fixed assets, and a YoY increase of RMB 8.67 billion in cash payment for investment (mainly for the buying of Zhanjiang Steel, and the capital subscription for the PetroChina West-East Gas Pipeline III project).

Net cash outflow from financing activities totaled RMB 30.35 billion, a rise of RMB 39.64 billion from the same period last year. Leaving out the factor of the Finance Co., the net cash outflow from financing activities was RMB 30.10 billion, an increase of RMB 38.62 billion in outflow compared to a net cash inflow of RMB 8.51 billion at the same time last year. This is caused by the following factors: in contrast to a rise of RMB 18.14 billion at the same period last year, the Company's net financing reduced by RMB 22.09 billion from that of the year beginning due to the repayment of US dollar borrowings and cashing of mid-term notes. The Company paid RMB 5.48 billion for dividends and interests, a decrease of RMB 1.5 billion compared to the same period last year due to the decrease of RMB 1.75 billion in dividend payment compared to the previous year. The cash payment for other activities related with financing increased by RMB 1.92 billion (cash payment for share repurchase) compared to the same period last year.

Part III. Board of Directors' Report

(II) Analysis of business by industry, by products or by region

1. Principal business by industry and products

(1) Principal business by segment

Unit: RMB Million

| Segment | Operating revenue | Operating cost | Gross margin | YoY change in revenue (%) | YoY change in cost (%) | YoY Change in gross margin |
|----------------------------|-------------------|----------------|--------------|---------------------------|------------------------|----------------------------|
| Iron & steel manufacturing | 147,961 | 139,049 | 6.0% | -22.4% | -21.8% | -0.7 pts |
| Iron & steel sales | 181,034 | 177,145 | 2.1% | -7.1% | -7.1% | At the same level |
| Others | 15,764 | 13,703 | 13.1% | 7.5% | 8.9% | -1.1 pts |
| Deduction between segments | -153,166 | -152,751 | 0.3% | -13.6% | -14.1% | 0.6 pts |
| Total | 191,593 | 177,146 | 7.5% | -14.0% | -12.8% | -1.3 pts |

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 sales 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.

(2) Operating revenue and cost for major iron and steel products

Unit: RMB Million

| Product | Operating revenue | Operating cost | Gross margin | YoY change in revenue (%) | YoY change in cost (%) | YoY change in gross margin (%) |
|---|-------------------|----------------|--------------|---------------------------|------------------------|--------------------------------|
| Cold-rolled carbon steel sheets and coils | 52,022 | 46,207 | 11.2% | -11.8% | -10.6% | -1.2 pts |
| Hot-rolled carbon steel sheets and coils | 31,949 | 29,137 | 8.8% | -17.7% | -15.8% | -2.1 pts |
| Heavy plates | 8,495 | 9,481 | -11.6% | -27.7% | -25.8% | -2.8 pts |
| Steel tubes and pipes | 10,273 | 9,351 | 9.0% | -5.3% | -4.8% | -0.5 pts |
| Stainless steel | 7,467 | 7,554 | -1.2% | -58.6% | -57.6% | -2.5 pts |
| Special steel | 2,230 | 2,366 | -6.1% | -80.1% | -79.1% | -5.2 pts |
| Other iron and steel products | 8,208 | 8,531 | -3.9% | -6.2% | -2.5% | -3.9 pts |
| Total | 120,645 | 112,627 | 6.6% | -23.8% | -23.2% | -0.7 pts |

Note: Considerable drop in the operating revenue and cost of stainless steel, special steel and heavy plates from that of the same period last year was mainly because of the sales of the related assets of the business units of Stainless Steel and Special Steel as well as the shutdown of the Luoqing Area.

2. Principal business by region

Unit: RMB Million

| Region | Operating revenue | Operating cost | Gross margin | YoY change in revenue (%) | YoY change in cost (%) | YoY change in gross margin (%) |
|-----------------|-------------------|----------------|--------------|---------------------------|------------------------|--------------------------------|
| Domestic market | 172,149 | 158,567 | 7.9% | -13.5% | -12.4% | -1.2 pts |
| Overseas market | 19,444 | 18,579 | 4.4% | -18.5% | -16.5% | -2.4 pts |

In 2012, the Company exported 2.4 million tons of iron and steel products, 345 thousand tons less than the previous year, and the regional distribution of steel products was as follows:

| Region | 2012 | 2011 |
|-------------------|--------|--------|
| East Asia | 40.3% | 38.1% |
| Southeast Asia | 21.3% | 19.4% |
| America | 18.9% | 18.8% |
| Europe and Africa | 19.5% | 23.7% |
| Total | 100.0% | 100.0% |

(III) Analysis of liabilities

1. Analysis of liabilities

As at the end of this reporting period, the Company had a total consolidated asset of RMB 214.36 billion, RMB 16.74 billion less than that of the year beginning, a total debt of RMB 97.02 billion, RMB 20.61 billion less than that of the year beginning, a shareholders' equity of RMB 117.34 billion, RMB 3.87 billion more than that of the year beginning. Its liability-asset ratio was 45.3%, a drop of 5.6 ppts from that at the beginning of the year. For details, see the table below:

| Unit: RMB Million | | | | | |
|---|--------------------|----------------------------|--------------------|----------------------------|------------------|
| Asset | At the end of 2012 | Ratio against total assets | At the end of 2011 | Ratio against total assets | YoY ratio change |
| Current assets | 69,381 | 32.4% | 79,234 | 34.3% | -1.9 ppts |
| Including: Cash and cash equivalents | 8,840 | 4.1% | 14,379 | 6.2% | -2.1 ppts |
| Inventory | 28,791 | 13.4% | 37,390 | 16.2% | -2.7 ppts |
| Receivables | 22,081 | 10.3% | 21,072 | 9.1% | 1.2 ppts |
| Non-current assets | 144,976 | 67.6% | 151,865 | 65.7% | 1.9 ppts |
| Including: Fixed assets | 79,440 | 37.1% | 115,371 | 49.9% | -12.9 ppts |
| Construction-in-progress | 9,967 | 4.6% | 16,283 | 7.0% | -2.4 ppts |
| TOTAL ASSETS | 214,357 | 100.0% | 231,100 | 100.0% | |
| Liabilities and shareholders' equity | At the end of 2012 | Ratio against total assets | At the end of 2011 | Ratio against total assets | YoY ratio change |
| Current liabilities | 82,227 | 38.4% | 98,838 | 42.8% | -4.4 ppts |
| Including: Short-term borrowings | 28,965 | 13.5% | 38,876 | 16.8% | -3.3 ppts |
| Non-current liabilities due within one year | 4,403 | 2.1% | 16,810 | 7.3% | -5.2 ppts |
| Non-current liabilities | 14,789 | 6.9% | 18,792 | 8.1% | -1.2 ppts |
| Including: Long-term borrowings | 2,732 | 1.3% | 7,326 | 3.2% | -1.9 ppts |
| Notes payables | 9,836 | 4.6% | 8,919 | 3.9% | 0.7 ppts |
| Long-term payables | 250 | 0.1% | 0 | 0.0% | 0.1 ppts |
| Total liabilities | 97,016 | 45.3% | 117,630 | 50.9% | -5.6 ppts |
| Shareholders' equity | 117,342 | 54.7% | 113,470 | 49.1% | 5.6 ppts |
| Total Liabilities and shareholders' equity | 214,357 | 100.0% | 231,100 | 100.0% | - |

2. Change of assets by fair value

| Unit: RMB Million | | | | | |
|-------------------------------------|--------------------|--------------------|----------------------------------|-------------------------------|----------------------|
| Item | At the end of 2011 | At the end of 2012 | Purchase in the reporting period | Sales in the reporting period | Change of fair value |
| Held-for-trading financial assets | 353 | 90 | 8,248 | 8,519 | 8 |
| Available-for-sale financial assets | 1,670 | 1,468 | 413 | 584 | -31 |
| Total | 2,023 | 1,558 | 8,661 | 9,103 | -23 |

Part III. Board of Directors' Report

(IV) Analysis of core competitiveness

Sticking to its "Premium Product" strategy, and bring to full play its leading advantage in technology, the Company has been committed to environment friendly operation and innovation. It has been continuously raising its capacity in the differentiated competition, and continued to maintain the best performance among its domestic peers.

1. Products

Sticking to the path of high-end products and differentiated development, the Company has, over the years, formed its strategic product cluster represented by high-grade automotive sheets, efficient high grade non-oriented silicon steel and low temperature high magnetic induction oriented silicon steel, and tin plates for packaging. It has also developed three series of carbon steel including thin sheets, heavy plates and steel tubes, with a full range in types and sizes. The Company has thus secured its leading position in the domestic market. In 2012, the domestic market shares of its cold-rolled automotive sheets, silicon steel and tin plates registered 50%, 19.6% and 26.5% respectively. (Statistics of the market share was from the Company)

2. Manufacturing

The "principle of consistency" for quality management is applied to every stage of production, including the early planning of product quality. The capacity of premium product manufacturing is an important part of the Company's competitive edge.

3. Service

In China, the Company has 6 regional sales companies and 5 specialized companies, and 50 steel processing and distribution centers, with an annual processing capacity of 7 million tons. In the overseas market, it has 4 regional sales companies, 13 sales outlets, and 2 processing centers. As a result, a sales network covering the domestic market and extending to the overseas market has been formed. It has primarily established a customer-centered sales service system. It conducts the EVI service, implements the key account manager responsibility system and provides technical services and extended supply chain service to clients. The Company also boasts an information system integrating the production and trading segments, which supports the efficient operation of the Company's supply chain.

4. R&D

For many years, the Company has been maintaining a high R&D investment. It has established the R&D system based on Research Institute while promoting the production-sales-research and the production-study-research cooperation. Based on the engineering projects, the Company has developed a four-in-one engineering integration system including manufacturing, R&D, design and equipment. It has also established a continuous improvement system focusing on the production site and featuring stable improvement and lean operation. These systems have been playing an important role in the technical advancement in product management, production operation and environmental operation. In 2012 the Company filed 1126 patent applications, 45% of which are patents of invention. With its production of the third generation advanced high strength steel—quenched ductile steel, the Company distinguished itself among its peers to be the very first enterprise to produce the new generation economic, high forming super strength steel in the globe. Its high silicon high magnetic induction oriented silicon steel and its low-temperature super toughness anti-wearing steel produced with flexible quenching process have both reached the world advanced level. The Company is also the first one in China to have successfully developed 960MPa hot-rolled high strength steel and realized batch application of it.

5. Brand

Through developing its brand connotation and building its exterior image, the Company's brand has gained high recognition from users and the society.

6. Employees

The Company boasts a team of employees that are passionate, energetic, responsible and innovative. The labor productivity and the education level of its employees are among the top-ranked domestic peers. Such ideas as honesty, cooperation and innovation are deeply rooted in its corporate culture.

(V) Investment analysis

1. Equity investment outside Baosteel

In 2012, the Company spent RMB 10.65 billion in equity investment, an increase of RMB 8.49 billion, or 393%, from the previous year. The investments mainly included RMB 4.80 billion as the first capital subscription for the PetroChina West–East Gas Pipeline III project, and RMB 4.98 billion for acquiring the equity of Zhanjiang Steel.

(1) Investment in securities

Unit: RMB Million

| Type | Code | Name | Initial investment | Shareholding | Book value as at end of period | Ratio in total share of bond as at end of period (%) | Profit |
|------------------------------------|------|------|--------------------|--------------|--------------------------------|--|--------|
| Profit in bonds sold in the period | - | - | - | - | - | - | 0.07 |
| Total | - | - | - | - | - | - | 0.07 |

(2) Stocks held of other listed companies

Unit: RMB Million

| Code | Stock name | Initial investment | Equity ratio in the company (%) | Book value as at end of period | Profit | Change in shareholders' equity in the period | Accounting type | Share source |
|--------|-------------------------------|--------------------|---------------------------------|--------------------------------|--------|--|-------------------------------------|------------------------|
| 000983 | Xishan Coal Electricity Group | 941.66 | 1.35% | 593.38 | 8.53 | -22.08 | Financial assets available for sale | Acquisition |
| 601699 | Lu'an Environmental Energy | 5.05 | 0.51% | 258.53 | 5.91 | 6.47 | Financial assets available for sale | Investment when issued |
| 600508 | Shanghai Energy | 5.55 | 0.77% | 89.66 | 1.67 | -11.03 | Financial assets available for sale | Investment when issued |
| 600997 | Kailuan Corporation | 3.51 | 0.38% | 47.63 | 0.47 | -3.22 | Financial assets available for sale | Investment when issued |
| 601001 | Datong Coal Industry | 2.57 | 0.22% | 33.26 | 0.62 | -7.88 | Financial assets available for sale | Investment when issued |
| 600000 | SPD Bank | 57.01 | 0.00% | 46.53 | 0.02 | 5.03 | Financial assets available for sale | Acquisition |
| Total | | 1,015.35 | - | 1,068.99 | 17.22 | -32.71 | - | - |

(3) Equities held of non-listing financial enterprises

None.

(4) Transactions of shares of other listed companies

Ten thousand shares, 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 |
|---------------|--|-----------------------------|--|--------------|------------------------|
| SPD Bank | 518.04 | - | 469.04 | - | - |
| Shares bought | - | - | - | - | - |
| Shares sold | - | 49.00 | - | - | 0.03 |

Part III. Board of Directors' Report

2. Investment in entrust financial management products and the derivative products by non-financial companies

(1) Entrusted financial management

None.

(2) Entrusted loans

None.

(3) Other investing activities

| Unit: RMB Million | | | | | | | |
|--|---------------------|-------------------|----------------------|--------------------|-------------------|--------|-------------------------|
| Type | Capital source | Signing party | Shares of investment | Investment term | Anticipated gains | Profit | Involvement in lawsuits |
| I. Other investment | | | | | | | |
| Available for sale financial assets | | | | | | | |
| Bonds and securities | Self-generated fund | Fund company | 59.93 | Less than one year | 1.14 | 0.39 | No |
| Corporate bond | Self-generated fund | Inter bank market | 895.94 | Over one year | 3.23 | 29.75 | No |
| Subtotal | | | 955.87 | | 4.37 | 30.14 | |
| Held-to-maturity investment | | | | | | | |
| Trust plan | Self-generated fund | Trust company | 1,157.10 | Over one year | | 11.70 | No |
| Bank financial product | Self-generated fund | Bank | 531.00 | Less than one year | | 4.16 | No |
| Sub-total | | | 1,688.10 | | | 15.86 | |
| Tradable financial assets | | | | | | | |
| Money Market Fund | Self-generated fund | Fund company | 7,580.78 | Less than one year | | 22.30 | No |
| Trust plan | Self-generated fund | Trust company | 690.00 | Less than one year | | 5.63 | No |
| Financial bond | Self-generated fund | Inter bank market | 50.00 | Less than one year | | 0.07 | No |
| Open-ended securities | Self-generated fund | Fund company | 10.00 | Less than one year | | 0.16 | No |
| Corporate bond | Self-generated fund | Inter bank market | 249.25 | Less than one year | -0.03 | 6.22 | No |
| Sub-total | | | 8,580.03 | | -0.03 | 34.38 | |
| Total | | | 11,224.00 | | 4.34 | 80.38 | |
| II. Investment in derivative products | | | | | | | |
| Forward derivative securities | Self-generated fund | Bank | 6,462.73 | Less than one year | -25.06 | -12.11 | No |

Note: (1) All of the above financial management businesses were carried out by the Company's subsidiary, the Finance Co., a financial subsidiary controlled by the Company. The financial management is within its business scope.
 (2) The "Shares of investment" listed above consisted of the book value as at the end of the previous year and the capital investment in this reporting year.
 (3) The derivative investment is a forward business carried out by the Company and its subsidiary, Baosteel Singapore PTE Ltd., to avoid the exchange risk of asset liabilities calculated by foreign currencies. It is a type of simple-structured monetary derivative transaction.

3. Use of funds raised

The Company was not involved in the use of funds raised in the reporting period.

4. Performance of its controlled subsidiaries and joint stock companies

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

As at the end of 2012, 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, and rolling processing and sales. By the end of 2012, Meishan had a total asset size of RMB 36.60 billion, a net asset of RMB 11.19 billion, and a net yearly profit of RMB -1.17 billion.

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

As at the end of 2012, the Company owned 50% of Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA). With a registered capital of RMB 3 billion, BNA is mainly engaged in the manufacturing and sales of cold-rolled steel sheets and hot-dip and electrolytic galvanized steel sheets for automobile and automotive parts and other services related to its principal business. BNA had a total asset of RMB 4.72 billion and a net asset of RMB 3.56 billion and realized a net profit of RMB 0.16 billion at the end of 2012.

(3) **Yantai Lubao Steel Tubes Co., Ltd.**

As at the end of 2012, 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 0.94 billion and a net asset of RMB 0.73 billion and reporting a net profit of RMB -40 million at the end of 2012.

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

As at the end of 2012, the Company owned 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, aluminium coated steel sheets, color-coated steel sheets and related coated steel products. Huangshi had a total asset size of RMB 0.68 billion, with a net asset of RMB 0.33 billion and reporting a net profit of RMB 10 million as at the end of 2012.

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

As at the end of 2012, 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 36.00 billion, and a net asset of RMB 12.31 billion, reporting a net profit of RMB 1.33 billion in 2012.

(6) **Shanghai Baosight Software Co., Ltd.**

As at the end of 2012, 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 3.22 billion, with a net asset of RMB 1.52 billion, and reporting a net profit of RMB 0.26 billion as at the end of 2012.

(7) **Shanghai Baosteel Chemical Co., Ltd.**

As at the end of 2012, 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 5.73 billion, with a net asset of RMB 4.06 billion, and reporting a net profit of RMB 0.55 billion as at the end of 2012.

(8) **Baosteel Nantong Iron & Steel Co., Ltd.**

As at the end of 2012, 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 2.79 billion, with a net asset of RMB 0.63 billion and reporting a net profit of RMB -0.19 billion as at the end of 2012.

(9) **Baosteel Group Finance Co., Ltd.**

As at the end of 2012, 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 2012, the assets scale of the company reached RMB 11.20 billion, with a total net asset of RMB 1.57 billion and a reporting net profit of RMB 0.17 billion.

Part III. Board of Directors' Report

(10) Yantai Baosteel Tubes Co., Ltd.

As at the end of 2012, the Company owned 80% of Yantai Baosteel Tubes Co., Ltd., with the rest 20% owned by Lubao Steel Tubes. With a registered capital of RMB 2 billion, Yantai Baosteel Tubes is mainly engaged in manufacturing, processing and sales of steel tubes, 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 4.48 billion and a net asset of RMB 1.35 billion and a reporting net loss of RMB -0.24 billion at the end of 2012.

(11) Overseas subsidiaries

By the end of 2012, 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.

5. Major non-fund raising programs

In 2012, the Company invested RMB 10.43 billion in fixed assets.

(1) Completed projects having been put into operation

The product mix and process equipment upgrading and technical revamping project of Meishan Steel: the No. 5 furnace was put into operation on June 2, 2012, indicating the completion of this Phase II project of Meishan Steel, which has a capacity of producing 7.17 million tons of iron, 7.60 million tons of steel, and 7.50 million tons of hot-rolling processing annually.

(2) 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 first phase of the project was completed in October 2011, and the second phase 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 January 2013.

The project of new leveler added to the heavy plate plant of directly affiliated plants and departments: it is to add a leveler to the existing 5000mm heavy plate mill with a view to improve the yield and develop 10,000 t/y high-end TMCP and DQ products. The project is planned to be completed by January 2013.

(3) Newly-started projects

The project of adding the 6#RH refining equipment to the No.2 steel-making workshop of directly affiliated plants and departments: in order to enhance the productivity of such products as oriented steel, high grade non-oriented silicon steel and GA high grade automotive sheets, the Company is to add a new set of RH refining equipment for the No.2 steel-making workshop with an annual production capacity of 1.80 million tons and to be completed by June 2013.

Product mix optimization project for the precision steel tube plant affiliated to the business unit of steel tubes, pipes and bars. In response to the demand of the civil engineering of Shanghai municipality, the Company moved the Zhanghuabang Section of the precision steel tube plant into the site of the directly affiliated plants and departments, with a designed annual production capacity of 56,000 tons of seamless steel tubes for automobile, aviation, military industry, and high pressure boilers. It is planned to be completed and put into use in March 2013.

(VI) Special purpose entities controlled by the Company

None.

II. Discussion and Analysis of the Company's Future Development

(I) Industrial competition pattern and the its trend

1. Industrial competition faced by the Company

With the unchecked expansion of steel production capacity and the slump in the downstream industries in terms of their demands for steel, the situation of supply surpassing demand will remain unchanged for a long period.

The hike in costs for raw materials, energy, environmental protection, labor, and capital has subjected the steel industry to ever growing cost pressure. As a result, "meager production" has become and will continue to be the feature of the steel industry.

Along with the product mix enhancement, the high-end products see fierce homogeneity competition, especially for such products as high quality sheets, and seamless steel tubes. This competition is gradually echoed in those products of silicon-steel and automotive sheets.

Transformation and adjustment remain to be the main features of current steel industry in China. The strategic measures for domestic steel companies will include upgrading products, enlarging resource investment, exploring new businesses, merging and reorganization, and speeding up the layout of overseas market. More and more attention is paid to expanding the business scope and innovating business models.

2. Trend of the steel industry development

2013 continues to see a complicated global economic environment with many uncertainties. The world economy will continue to grow at a low speed and will enter a period of transformation and adjustment.

China is still in its important strategic phase of development. The opportunities presented are not like traditional ones which are characterized by incorporating China into the world labor division system, increasing exports, and speeding up investment. Rather, they requires us to take a long stride in structural adjustment and promoting the transformation of development pattern by expanding internal demands, raising the innovative capacity, and deepening reform. China's economic development is changing from a fast growing period into a moderately fast growing one.

In general, the business environment for domestic steel industry in 2013 is anticipated to be slightly better than that of 2012. Promotion in urbanization, central and western development and the development of advanced manufacturing provide steel industry with stable development space. However, the difficulties facing the industry remain great. Downstream demand slows down while capacity expansion is not effectively curbed. Raw material cost remains high and homogeneity competition expands rapidly to high-end products. Thus the industry's meagre profit status will continue for a long time. The steel industry should adapt to the changes actively, innovate its development pattern, and enhance the capacity of differentiated product competition.

(II) Company's strategy

1. Opportunities for the Company

- (1) As the industry is at a critical stage of adjustment and transformation, it poses more favorable conditions for leading companies of the industry.
- (2) As is clearly stated in the report of the 18th National Congress of CPC, China will stick to the major tasks of speeding up the reform and opening-up of the middle and west China, urbanization and industrialization, which is to create a favorable environment for the long-term development of domestic steel industry.
- (3) China is going through an industry structure upgrading, attaches more importance to the expansion of internal demands and energy saving and environmental protection. In the meantime, the downstream industries pose high requirements for steel products which force the steel industry to step up its product structure upgrading. These changes are favorable for the Company to further bring its current competitive advantages to full play.
- (4) The low-carbon economy and environmental operation pose a serious challenge for the steel industry, but they also provide valuable opportunities for the steel companies committed to environmental operation and sustainable development.

2. Major Challenges faced by the Company

- (1) The domestic steel industry is featured by an overcapacity, low centralization and a spreading of competition from the low-end products to the high-end products, from simple product level to a comprehensive level involving the product, services and even the supply chains.
- (2) Domestic steel industry is faced with a severe challenge in terms of sustainable development due to the impacts of resources, energy and environmental protection.
- (3) The world economy remains gloomy, while there is a rising tide of international trade protection in various forms, posing a grim challenge to the international operation of the steel industry.

Part III. Board of Directors' Report

3. Company's strategy for the future

To adapt to the rapid change in economic environment both at home and abroad, and to the development environment of the steel industry, with "becoming world-class steel producer and service provider, achieving human civilization by creating better life for people" as its mission, the Company will stick to its core value of "integrity, cooperation, innovation, and pursuit of maximum corporate value". The new round of development planning explicitly states the three visions of the Company: "To be the leader of steel technology, the best practitioner of environmental friendship, and the example of common development of enterprise and employees". It has put forward a strategic goal of "becoming the world's most competitive steel company and the most valuable listed company".

Based upon iron and steel business, in order to achieve the goal of "becoming the world's most competitive steel company," the Company will continue to be committed to leading technology and complete the construction of three production bases for premium steel products: the Shanghai base is aimed at the global market, featuring the production of high-end products with high market share and strong competitiveness, and serving as the base for premium products of high-end sheets and steel tubes and bars. The Meishan Steel base stations itself in the East China market, coordinates with the Shanghai base, and acts as the base for hot-rolled, pickled, tin plate premium products. The Zhanjiang Steel base radiates to the Southeast Asia market with its center in the South China, and will be built into the world's most efficient carbon steel flat product factory.

With a proactive view into the future, and to become "the most valuable listed company", the Company will actively explore three major strategies for transformation and upgrading featuring a focus expansion "from steel to material, from manufacturing to service, and from China to the world", through efforts in the following three aspects: extending its service scope, innovating business patterns, and expanding development space. In the meantime, it will promote the IT application in the steel industry, develop e-commerce, and continuously enforce the function of informatization in the company's governance reform and decision making. More efforts will also be made to raise the market operation capacity of the information industry, and to achieve a breakthrough in terms of its performance and market influence. It will also carry out upstream and downstream strategic selective investment and build a safe and reliable resource security system.

(III) Operational plan

1. Company's operational goal and plan

In 2013, sticking to the guiding principle of "deepening synergy to meet the challenges by differentiated competition; innovating to reduce the cost and achieve best performance", the Company will carry forward the product management to consolidate its edges in differentiated product competition. It will also further tap the potential of cost improvement to realize the continued upgrading of the system capacity. The Company has set the following as its goal of operation: "The Company will generate a total operating revenue of RMB 171.5 billion, maintaining its best performance among domestic peers, with a sales volume of 11.33 million tons of exclusive and leading products, and a year-on-year drop of 10% in cost".

In 2013, the iron and steel production is planned to reach 21.49 and 22.56 million tons respectively; the sales of steel products is planned to reach 22.26 million tons; and the total operating revenue and operating cost are planned to reach RMB 171.5 billion and RMB 155.9 billion respectively. The managerial staff of the Company will carry out all major steps in great details so as to ensure its best performance in China against a fiercely competitive market.

2. Work of priority

Guided by the Company's overall operational principle and goal in 2013, and in line with the requirements of the planning as well as the implementation of three plans implemented by the Group Corporation, that is, the leaders plan, the drivers plan and the common growth plan, the Company will promote the following work:

- (1) Stay vigilant, and attach great importance to and step up the safety management
- (2) Promote system synergy, and strengthen construction of customer-centered marketing system
- (3) Implement differentiated competition, and promote the continuous upgrading of product mix
- (4) Advance science and technology, and increase the contribution of technological innovation to business
- (5) Look inwardly to further tap the potential to enhance efficiency
- (6) Spare no efforts in carrying out the construction and operation preparation for Zhanjiang Steel
- (7) Optimize resource allocation, and enhance the labor productivity in all sections
- (8) Practice clean production, and improve the energy and resource efficiency
- (9) Unify the employees, and inspire all to do their best
- (10) Combine the short and long term plans, and promote implementation of the new six-year development plan

(IV) Capital demands

1. Plan for capital needs and use

The Company's 2013 budget includes RMB 10.89 billion fixed asset investment (not including Zhanjiang Steel), mainly for the construction of the oriented silicon steel follow-up project (Phase II), the project of adding the 6#RH refining equipment to the No. 2 steel-making workshop of the Steel-making Plant, and the product mix optimization project for the precision steel tube plant affiliated to the Business Unit of Steel Tubes, Pipes and Bars. Also, a certain amount of capital will be invested in technical revamping.

2. Source of capital

The capital for the investment above consists of the Company's self-generated funds and raised funds.

(V) Risks and counter-measures

1. Major risks

In 2013, the world economy is expected to grow at 3%, and will maintain a slow growth for a very long time in the. There are many uncertainties in the overseas market. The Europe and America will intensify their domestic manufacturing and exportation, resulting in a drop in exterior demand, an intensified competition and stricter trading protection.

The domestic steel industry is faced with severe challenges and will continue to see a meager profit in 2013. The steel production will stay at a high level, whereas there will continue to be a slowdown in growth, leaving the steel price at a vulnerable position. Due to the impact of the competitive peers both at home and abroad and of certain internal manufacturing segments, there are still uncertainties in raising the Company's overall competitiveness.

The pressure on energy saving and environmental protection will be greater. China has issued new standard for pollution control, substantially raising the standard for industrial emissions of gases and water; and adding the emission standards for another 27 items of pollution factors such as NO_x and dioxin. It is highly challenging to reach the goal of energy conservation and emission reduction put forward in the "Twelfth Five-year Plan" and the goal of "10,000 Enterprise Energy Conservation Responsibility Program".

2. Counter-measures

In 2013, confronted with the difficulties and pressures, the Company will stay composed to make clear the focal steps with a self-driven spirit: (1) Design and develop high-end iron and steel materials and speed up the industrialization of debut products on the world scale; (2) Carry out clean production, and conduct environmental protection throughout the process from R&D, purchase, manufacturing, to marketing; (3) Further enhance the labor productivity, strengthen the employee training, and enhance the employees' payment perception level; (4) Speed up the new material base construction; (5) Deepen the customer-centered operation mechanism, and become a value-creating partner for customers; (6) Step up the overseas strategic planning and promote the stable implementation of overseas projects. In the meantime, the Company will strive to realize "no loss" and "more profit" at the same time in operation and management. It will solidify the management at the basic level, initiate the new round of planning, so as to keep its best performance among domestic peers.

It will spare no efforts in carrying out the construction and preparing for the launch of Zhanjiang Steel based on a full understanding of the importance of the Zhanjiang Steel project. As regards the Zhanjiang Steel project, more work will be done to clarify the controlling model of the company, including clarification of the procedures, responsibilities and systems, and appropriately arranging the tasks according to their level of urgency and importance, so as to facilitate the efficient operation of the Zhanjiang project. The Company will adopt a holistic view in making systematical planning and organizing projects. It will make best use of current equipment to maximize the value, and do everything possible to control and reduce the project risks.

It will enforce the effective operation of the energy management and environment management systems, and carry forward the construction and new technology application of energy conservation and emission reduction projects. It will also optimize the energy economy and continuously raise the use efficiency of resources and energy, with a purpose to improve its clean production and create a favorable environment of energy conservation and environmental protection for its sustainable development.

Faced with many uncertainties in and out of the Company and in view of the Company's asset acquisition and capital needs, the Company will step up its budget management with cash flow indicator as the core, make scientific financing strategy, and will appropriately decide the scale of cash income and expenditure. It will also speed up the turnover of the inventory, enhance the capital insurance capacity, and secure contribution of cash flow from every production line. Using asset liabilities as the core indicator, it will improve its liability risk management, and intensify the liability monitoring and warning.

The Company will perfect its risk management system to further strengthen its counter-risk capacity. Focusing on such risks as operational capital risk, credit risk, fluctuation risk for prices of raw materials and fuel, investment risk, cooperation risk, foreign exchange and interest risk, as well as market trading conflict risk, the Company will further complete its risk management plan and counter measures. It will promote the disclosure of risk information, so as to provide support for the decision-making. 18 items of corporate internal control guidance and 30 types of the internal control matrix will be perfected to promote the fusion between the internal management and the risk management.

Part III. Board of Directors' Report

III. Board of Director's Explanation on "Non-standard Audit Report" by the Accounting Firm

Not applicable.

IV. Proposed Profit Appropriation or Capitalizing of Capital Reserves

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 2012 totaled RMB 10,487,297,179.33. With the addition of the RMB 22,768,306,759.11 of undistributed profit at the beginning of the period and deduction of the RMB 3,502,409,617.60 of cash dividend payment for 2011, the distributable profit at the end of 2012 was RMB 29,753,194,320.84.

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 2012:

1. Ten per cent of the net profit, or RMB 1,048,729,717.93, shall be allocated as statutory earnings reserves.
2. Ten per cent of the net profit, or RMB 1,048,729,717.93, shall be allocated as discretionary earnings reserves.
3. Until 31 December 2012, the Company has made a cash repurchase of RMB 1,916,525,868.00, or 414,055,508 shares, and made a write-off of 390,000,000 shares. According to the "Guide of Cash Dividend distribution for Listed Companies by Shanghai Stock Exchange," the cash paid for stock repurchase of the same year should be regarded as cash dividends.
4. According to the policy that the annual cash dividend to be distributed should not be less than 40% of the net profit of the same year, the total cash dividends should not be less than RMB 4,194,918,871.73. In line with the above-stated amount of the cash repurchase, the Board of Directors has proposed a total cash dividend payable of RMB 2,278,400,000.00 (pre-tax).
5. Other models of distribution, such as capitalizing of capital reserves, would not be adopted.
6. Dividend-net profit ratios from 2009 to 2012

| Item | 2012 | 2011 | 2010 | 2009 |
|--|--------|--------|--------|--------|
| 1 Cash dividend per share (pre-tax) (RMB) (Note 1) | | 0.20 | 0.30 | 0.20 |
| 2 Total cash repurchase (RMB 100 million) | 19.17 | | | |
| 3 Total cash dividend (RMB 100 million) (including cash repurchase) (RMB 100 million) (Note 2) | 41.95 | 35.02 | 52.54 | 35.02 |
| 4 Net profit for legal person presented in financial statements (RMB 100 million) | 104.87 | 50.60 | 114.83 | 50.77 |
| 5 Net profit attributable to parent company in consolidated statements (RMB 100 million) | 103.86 | 73.62 | 128.89 | 58.16 |
| 6 Cash dividend against net profit for legal person | 40.00% | 69.22% | 45.75% | 68.99% |
| 7 Cash dividend against net profit attributable to parent company in consolidated statements | 40.39% | 47.57% | 40.76% | 60.22% |

Note (1) The Company is still in the middle of repurchase. According to relevant regulations, the repurchased shares of the listed company are not entitled to profit distribution. Therefore the cash dividend per share is uncertain.

Note (2) For item 3, 6, and 7 in the above form, "Total cash dividend" in 2012= cash repurchase made in 2012 RMB 1.917 billion +total cash dividends RMB 2.278 billion; The cash dividend for 2012 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2012 Shareholders' Meeting.

V. Active Performance in Social Responsibility

(I) Performance of social responsibility

Please refer to the sustainability report of the Company disclosed at <http://www.sse.com.cn> for details.

(II) Regarding the environmental protection

Please refer to the sustainability report of the Company disclosed at <http://www.sse.com.cn> for details.

Part IV. Significant Events

I. Legal Proceedings and Wide Criticism from the Media

The Company was not involved in any material litigation, arbitration proceedings, or wide criticism from the media in the reporting period.

II. Non-operation Capital Occupancy and Debt Settlement

The Company was not involved in any non-operation capital occupancy in the reporting period.

III. Bankruptcies and Re-structuring

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

IV. Asset Transaction and Corporate Merging

(I) Selling of the related assets of the business units of Stainless Steel and Special Steel

In 2012's First Interim Shareholders' Meeting held on 15 March 2012, the *Proposal of selling related assets of Stainless Steel and Special Steel Business Units* was passed.

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

On September 1, 2012, the Company completed the settlement of the following equities previously held by the Company: 54% equity of Ningbo Baoxin Stainless Steel, 40% equity of STAL Precision Stainless Steel, and 20% equity of Rihong Stainless Steel (Shanghai). The above equity transfer totaled RMB 2.66 billion, reporting gains of RMB 0.49 billion.

The above transfer including assets of the business units of Stainless Steel and Special Steel and equities totaled RMB 43.97 billion, reporting gains of RMB 9.58 billion.

(II) Selling of Luojing COREX related assets

In the third meeting of the Fifth Board of Directors held on October 27, 2012, the *Proposal of Transferring the COREX Assets of Luojing Area as a Whole* was passed.

On November 1, 2012, the Company completed the settlement of fixed assets and the production know-how, at a price of RMB 2.73 billion, reporting a loss of RMB 39 million.

(III) Purchasing Zhanjiang Steel

In the third meeting of the Fifth Board of Directors held on October 27, 2012, the *Proposal of Purchasing the Equity of Zhanjiang Steel* was passed for the Company to purchase 71.8032% of the equity of Zhanjiang Steel. The Company paid RMB 4.98 billion to the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government on October 31, 2012 for the equity acquisition, and completed the equity transfer of Zhanjiang Steel in January 2013.

V. Progress of "Share Incentive Scheme" and Its Impact

None.

Part IV. Significant Events

VI. Major Related Party Transactions

(I) 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

| Unit: RMB Million | | | |
|--|--|----------------------------------|-----------|
| Related parties | Transactions | Pricing | Amount |
| Baosteel Stainless Steel Co., Ltd. | Sales of steel products, raw materials and auxiliary materials, etc. | Market price | 5,210.85 |
| Baosteel Metal Co., Ltd. | Sales of steel products and energy media | Market price | 2,531.45 |
| Baosteel Development Corp. | Sales of steel products, etc. | Market price | 2,404.72 |
| Baosteel Resources (International) Co., Ltd. | Sales of raw materials and fuel | Market price | 2,135.13 |
| Baosteel Special Materials Co., Ltd. | Sales of steel products, raw materials and auxiliary materials, etc. | Market price or negotiated price | 1,919.90 |
| Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd. | Sales of steel products, etc. | Market price | 1,872.18 |
| Baosteel Resources Co., Ltd. | Sales of raw materials and fuel | Market price | 1,184.00 |
| Subtotal of sales | | | 17,258.23 |
| Baosteel Stainless Steel Co., Ltd. | Purchase of iron and steel products, etc. | Market price or negotiated price | 11,983.49 |
| Baosteel Resources Co., Ltd. | Purchase of fuel and raw materials | Market price | 6,460.46 |
| Baosteel Special Materials Co., Ltd. | Purchase of iron and steel products, etc. | Market price | 3,933.63 |
| Ningbo Baoxin Stainless Steel Co., Ltd. | Purchase of iron and steel products, etc. | Market price | 2,096.75 |
| Ningbo Iron & Steel Co., Ltd. | Purchase of iron and steel products, etc. | Market price | 1,943.40 |
| Baosteel Development Corp. | Purchase of fuel and raw materials and auxiliary materials | Market price | 1,732.85 |
| Baosteel Engineering & Technology Group Co., Ltd. | Purchase of auxiliary materials and equipment | Market price | 1,572.31 |
| Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Purchase of iron and steel products, etc. | Market price | 1,556.44 |
| Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd. | Purchase of raw and auxiliary materials etc. | Market price | 1,195.52 |
| Subtotal of purchase | | | 32,474.84 |
| Baosteel Development Corp. | Receiving services including comprehensive logistics, project installation, equipment examination & maintenance, as well as storage and transportation, etc. | Negotiated price | 2,062.95 |
| Baosteel Engineering & Technology Group Co., Ltd. | Receiving services including examination and maintenance, and engineering services etc. | Negotiated price | 1,374.42 |
| 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 | 798.22 |
| Subtotal of services received | | | 4,235.59 |

Note: The subsidiaries of the above companies were included.

The sales above accounted for 9.0% of the Company's revenue from its principal businesses in the reporting period; purchases and services received took up 18.4% and 2.4%, 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 reporting period, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 2.24 billion loans to Baosteel Group's controlled companies, with outstanding loan of RMB 2.09 billion and a total interest income of RMB 140 million. At the same time, it absorbed a total deposit of RMB 7.74 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 230 million.

In the reporting period, Finance Co. discounted a total of RMB 0.83 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 0.4 billion and a total sum of interest of RMB 30 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 4.22 billion for management, for which the Finance Co. charged a service fee of RMB 243,000.

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 (I) and (2) between the Company and the related parties are expected to continue.

(II) Related transaction of asset acquisition and selling

Please refer to "Part IV Significant Events: IV. Asset Transaction and Corporate Merging"

(III) Related external investments with related parties

1. The Company and Hwabao Investment Co., Ltd., a wholly owned subsidiary of Baosteel Group, both hold stocks for the PetroChina West-East Gas Pipeline III project. The joint venture is PetroChina Northwest United Oil Pipeline Co., Ltd., with a registered capital of RMB 62.5 billion. The company and Hwabao Investment have contributed RMB 8 billion and RMB 2 billion, with 12.8% and 3.2% shareholding of the joint venture respectively. The Company made its initial contribution of RMB 4.8 billion in December 2012.

2. Baosteel Singapore PTE Ltd., a wholly-owned subsidiary of the Company and Baosteel Metal Co., Ltd., a wholly-owned subsidiary of Baosteel Group, jointly invested in Baosteel Can Making (Vietnam) Co., Ltd., which has a registered capital of USD 35.6 million. Baosteel Singapore has contributed USD 10.68 million, and has 30% shareholding of Vietnam Can Making.

(IV) 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 Luoqing Project assets and businesses from Shanghai Pudong Iron & Steel Co., Ltd. of Baosteel Group. The financial settlement price was RMB 14.34 billion, which would be paid 20% each year in five years free of interest. Starting from 2009, the balance of this acquisition was made on 31 December every year, with the last payment to be made on 31 December 2012. This acquisition was approved by the Shareholders' Meeting. In the beginning of 2012, the long-term payable was RMB 2.76 billion. The subsequent measurement was made on the basis of the post-amortization costs, and the unrecognized financial expenses written off for the year was RMB 0.11 billion. A payment of RMB 2.87 billion was made for the year 2012, and the balance was RMB 0. The recognized interest expenses for 2012 was RMB 0.11 billion.

On April 1, 2012, the Company completed the assets transfer of the business units of Stainless Steel and Special Steel affiliated to the Company. The RMB 22.5 billion of the settlement will be collected at 5 equal installments on April 1 each year from 2013 to 2017. This asset transfer was approved by the Shareholders' Meeting. At the end of 2012, the long-term receivable was RMB 22.5 billion, including the long-term receivable of RMB 13 billion and RMB 9.5 billion from Baosteel Stainless Steel Co., Ltd., and Baosteel Special Steel Co., Ltd. respectively, reporting an interest income of RMB 0.54 billion and RMB 0.4 billion separately.

VII. Major Contracts and Performance

(I) Major trusteeships, contracts or leases

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

(II) Major guarantees

In face of the more and more fierce competition in the domestic and foreign steel markets, and in order to encourage all sales branches at home and abroad to take an active part in the supply and bidding under the guidance and instruction of the Company, the Company offers the joint liability performance guarantee for HOWA Trading Corporation Limited, a wholly-owned subsidiary of the Company. The first performance guarantee was USD 0.257 billion. It started from 19 March 19, 2010, and the duration will not be more than 50 months. The second performance guarantee was USD 0.036 billion, with a duration from September 30, 2011 to January 5, 2015. The Company offers the joint liability performance guarantee of RMB 0.25 billion for Baosteel Europe GmbH, a wholly owned subsidiary of the Company, with a duration from August 30, 2012 to August 30, 2017. The above guarantee totaled RMB 0.543 billion, or 2.9% of the Company's net asset as at the end of the reporting period of the Company. The above performance guarantees were approved by the Shareholders' Meeting in accordance with relevant rules.

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.

Part IV. Significant Events

(III) Other major agreements

None.

VIII. Commitments and Performance

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

1. Commitments related with the initial issuance

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 related with re-financing

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.

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.

On April 1, 2012, the Company completed all asset settlement of its business units of Stainless Steel and Special Steel. The land mentioned above was within the scope of this asset sale, therefore, the Baosteel Group was exempted from the related obligations naturally.

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

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

On April 1, 2012, the Company completed all asset settlement of its business units of Stainless Steel and Special Steel. The land mentioned above was within the scope of this asset sale, therefore, the Company was exempted from the related obligations naturally.

3. Other commitments

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.

Commitments Baosteel Group undertook about Desheng Nickel Project:

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

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

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

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.

On the second interim Shareholders' Meeting of 2012 held on September 17, 2012, the Proposal of Investing in Zhanjiang Steel Base by Baoshan Iron & Steel was passed. These commitments have thus been completed.

Part IV. Significant Events

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

During the period from September 27, 2011 to December 28, 2011, and on January 16, 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 September 27, 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 September 28, 2011 and January 17, 2012.

Until the end of September 2012, 12 months had passed. The Baosteel Group has completed the share increase plan and has not reduced its shareholding. These commitments were discharged upon expiry.

IX. Engagement and/or Termination of Auditor's Service

The Company continued to use the services of Deloitte Touche Tohmatsu (Deloitte) 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 2011 Annual Shareholders' Meeting, the auditing fees payable to Deloitte in 2012 was RMB 2.88 million. In addition, the Company paid Deloitte RMB 1.1 million for its service in the internal control auditing work in 2012, which does not influence the independence of the auditors in their work for the Company, as the Board of Directors believes.
3. Until the year 2012, Deloitte has been providing auditing service to the Company for three years continuously. Signatory auditors to the Company's 2011 Financial Statements are Zhu Xiaolan and Gui Yong, the former, Zhu Xiaolan, has been providing auditing service to the Company for three consecutive years, and the latter, Gui Yong, has provided auditing service to the Company for the first time.

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. Other Significant Events

None.

Part V. Capital and Shareholders

I. Changes in Share Capital

(I) Changes in share capital

1. Changes in share capital

Unit: 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 | | | | | | | | | |
| 1.RMB ordinary shares | 17,512,048,088 | 100 | | | | -390,000,000 | -390,000,000 | 17,122,048,088 | 100 |
| 2.Domestic listed international investment shares | | | | | | | | | |
| 3.Overseas listed international investment shares | | | | | | | | | |
| 4.Others | | | | | | | | | |
| III.Total | 17,512,048,088 | 100 | | | | -390,000,000 | -390,000,000 | 17,122,048,088 | 100 |

2. Changes in shares

On September 21, 2012, the Company performed the first repurchase. Until the end of 2012, it repurchased 414,055,508. At the end of 2012, the Company wrote off 390,000,000 shares from among the repurchased ones, reducing the Company's capital stock from 17,512,048,088 shares to 17,122,048,088 shares. The shareholding by Baosteel Group rose to 76.68%.

(II) Changes in shares subject to conditional sales

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

(III) Convertible corporate bonds

1. Issuance of convertible bonds

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

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

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

Part V. Capital and Shareholders

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 | | 8,718 |
| 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 | 16.9 |
| New China Insurance Co., Ltd. | 1,449,378,000 | 14.5 |
| National Council for Social Security Fund—305 Combo | 499,158,000 | 5.0 |
| Daton Securities Co., Ltd. | 392,575,000 | 3.9 |
| New China Life Insurance Co., Ltd.--Wanneng-Deyi financial bond, fund account | 384,108,000 | 3.8 |
| China Petroleum Finance Co., Ltd. | 383,936,000 | 3.8 |
| China Petroleum Finance Co., Ltd. | 377,073,000 | 3.8 |
| Bank of Communications Co., Ltd.—ICBC Ruixin bond security investment fund | 336,603,000 | 3.4 |
| Citic Securities Co., Ltd. | 318,090,000 | 3.2 |
| China Pacific Insurance Co., Ltd. | 250,961,000 | 2.5 |

3. Changes of the Convertible Bond Price

Unit: RMB

| 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 CWB1" was ended | | |

II. Issuance of Securities

(I) Issuance of securities in the previous three years

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

(II) Changes of the Company's total shares and share structure

On September 21, 2012, the Company performed the first repurchase. At the end of 2012, the Company wrote off 390,000,000 shares from among the repurchased ones, reducing the Company's capital stock from 17,512,048,088 shares to 17,122,048,088 shares. In this share change, the Company reduced the capital stock by RMB 390 million, and the capital reserve by RMB 1,410,740,000.

(III) Status of existing employee stocks

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

III. Shareholders

(I) Shareholders and their shares

Unit: Share

| | | | |
|---|---------|---|---------|
| Number of shareholders in the end of 2012 | 539,035 | Number of shareholders in the end of the fifth transaction day before disclosure of this report | 525,907 |
|---|---------|---|---------|

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 | 76.68 | 13,128,825,267 | 17,570,037 | 0 | None |
| ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD. | N/A | 0.37 | 63,419,861 | 0 | 0 | None |
| RUGAO CHANGRONG ORE STORAGE LIMITED | N/A | 0.37 | 62,777,182 | -7,408,165 | 0 | None |
| INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD. | N/A | 0.30 | 52,009,386 | 4,261,837 | 0 | None |
| ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD. | N/A | 0.29 | 48,894,600 | -9,732,001 | 0 | None |
| ZHANGJIAGANG FREE TRADE ZONE RONGRUN INTERNATIONAL TRADE CO., LTD. | N/A | 0.27 | 45,524,951 | 4,624,757 | 0 | None |
| INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND | N/A | 0.25 | 42,237,509 | -14,152,018 | 0 | None |
| ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD. | N/A | 0.25 | 42,120,356 | -9,492,420 | 0 | None |
| ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD. | N/A | 0.24 | 41,544,158 | -870,000 | 0 | None |
| NINGBO FREE TRADE ZONE HONGGUANG INTERNATIONAL TRADE CO., LTD. | N/A | 0.24 | 40,804,594 | 4,150,000 | 0 | None |

Top 10 tradable-share holders

| Shareholders | Shareholdings of unconditional share | Share type |
|---|--------------------------------------|--------------------|
| BAOSTEEL GROUP CORP. | 13,128,825,267 | RMB ordinary share |
| ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD. | 63,419,861 | RMB ordinary share |
| RUGAO CHANGRONG ORE STORAGE LIMITED | 62,777,182 | RMB ordinary share |
| INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD. | 52,009,386 | RMB ordinary share |
| ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD. | 48,894,600 | RMB ordinary share |
| ZHANGJIAGANG FREE TRADE ZONE RONGRUN INTERNATIONAL TRADE CO., LTD. | 45,524,951 | RMB ordinary share |
| INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND | 42,237,509 | RMB ordinary share |
| ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD. | 42,120,356 | RMB ordinary share |
| ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD. | 41,544,158 | RMB ordinary share |
| NINGBO FREE TRADE ZONE HONGGUANG INTERNATIONAL TRADE CO., LTD. | 40,804,594 | 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, the shareholders of Zhangjiagang Free Trade Zone Qianxing Investment & Trading Co., Ltd., Zhangjiagang Free Trade Zone Rongrun International Trade Co., Ltd., and Ningbo Free Trade Zone Hongguang International Trade Co., Ltd. are Shagang Group's shareholders. Rugao Changrong Ore Storage Limited is the joint stock company of the subsidiary controlled by Shagang Group. 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.

Part V. Capital and Shareholders

IV. Status of Controlling Shareholders and Actual Controller

(I) Controlling shareholders

| | |
|---|--|
| Name | Baosteel Group Corporation |
| Legal representative | Xu Lejiang |
| Date of incorporation | November 17, 1998 |
| Organization Code | 132200821 |
| Registered capital | RMB 52.791 billion |
| 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. |
| Operating results | The sales revenue of 2012 totaled RMB 285.6 billion (unaudited) |
| Financial situation | The annual profit of 2012 totaled RMB 11.2 billion (unaudited) |
| Cash flow and future strategy | The cash flow is in a good situation. The strategic goal of Baosteel group is: to become a respected world-class public company and an excellent enterprise among the world top 500 that has its own intellectual property rights and a comprehensive competitiveness, featuring "Excellence in one industry, with coordinated development in related industries". |
| Shareholdings of other listed companies at home and abroad in the period | According to the 2012 Third Quarter Report of the listed companies, direct or indirect holdings of over 5% equities by Baosteel Group Corp. were as follows: 53.12% A stock of Bayi Iron and Steel Co., Ltd., 36.27% A stock of *ST Shao Steel Co., Ltd., 15.16% A stock of China Pacific Insurance Co., Ltd. and 15.11% A stock of New China Insurance Co., Ltd. |

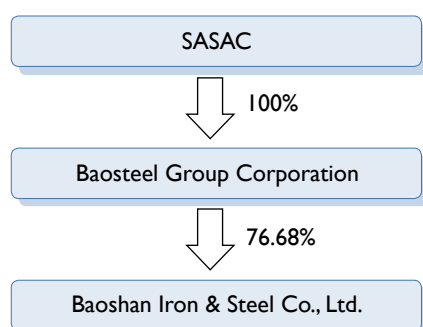
(II) Actual controller

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

(III) Changes of the holding company and actual controller

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

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



V. 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.

Part VI. Directors, Supervisors, Senior Executives and Employees

I. Shareholding and Remuneration

(I) Shareholding and remuneration of directors, supervisors, and senior executives in service or leaving the Company during the period

| Name | Position | Gender | Age | Beginning of office | End of office | Shares held at beginning of the year | Shares held at end of the year | Share change (Note 1) | Remuneration from the Company in reporting period (pre-tax) (RMB ten thousand) | Note about the payment length for Non-yearly remuneration from the Company | Compensation from share-holders or affiliated companies (RMB ten thousand) |
|---------------------|--|--------|-----|---------------------|---------------|--------------------------------------|--------------------------------|-----------------------|--|--|--|
| He Wenbo | Chairman of Board of Directors | M | 57 | 4/27/2012 | 4/30/2015 | 80,000 | 80,000 | - | - | | Note 2 |
| Ma Guoqiang | Director; President | M | 49 | 4/27/2012 | 4/30/2015 | 100,000 | 150,000 | 50,000 | 150.8 | | |
| Zhao Zhouli | Director | M | 56 | 4/27/2012 | 4/30/2015 | | | | - | | Note 2 |
| Zhu Junsheng | Director | M | 52 | 4/27/2012 | 4/30/2015 | 40,800 | 70,800 | 30,000 | 135.3 | | |
| Wang Li | Director | M | 56 | 4/27/2012 | 4/30/2015 | | | | - | | Note 3 |
| Buck Pei | Director | M | 55 | 4/27/2012 | 4/30/2015 | | | | 35 | | Note 2 |
| Wong Plk Kuen Helen | Independent Director | F | 51 | 4/27/2012 | 4/30/2015 | | | | 23.3 | May-December | |
| Yuh-chang Hwang | Independent Director | M | 57 | 4/27/2012 | 4/30/2015 | | | | 23.3 | May-December | |
| Liu Wenbo | Independent Director | M | 44 | 4/27/2012 | 4/30/2015 | | | | 23.3 | May-December | |
| Liu Zhanying | Chairperson of Board of Supervisors | F | 57 | 4/27/2012 | 4/30/2015 | | | | - | | Note 2 |
| Guo Bin | Supervisor | M | 41 | 4/27/2012 | 4/30/2015 | | | | - | | Note 3 |
| Wu Kunzong | Supervisor | M | 41 | 4/27/2012 | 4/30/2015 | | | | - | | Note 3 |
| Lin An | Supervisor | M | 56 | 4/27/2012 | 4/30/2015 | 35,800 | 35,800 | | 121.5 | | |
| Zhang Pijun | Supervisor | M | 53 | 4/27/2012 | 4/30/2015 | | | | 38.1 | Jan-July | Note 3 |
| Li Yongxiang | Vice President | M | 52 | 4/27/2012 | 4/30/2015 | 38,000 | 66,500 | 28,500 | 133.3 | | |
| Zhou Jianfeng | Vice President | M | 49 | 4/27/2012 | 4/30/2015 | 35,000 | 60,000 | 25,000 | 133.3 | | |
| Wang Jing | Vice President | F | 49 | 4/27/2012 | 4/30/2015 | 36,000 | 76,000 | 40,000 | 133.3 | | |
| Feng Taiguo | Vice President | M | 49 | 8/27/2012 | 4/30/2015 | 158,200 | 51,000 | -107,200 | 128.9 | | |
| Chu Shuangjie | Vice President | M | 48 | 8/27/2012 | 4/30/2015 | 53,500 | 70,000 | 16,500 | 133.4 | | |
| Zhu Kebing | Chief Accountant, Secretary to Board of Directors | M | 38 | 8/27/2012 | 4/30/2015 | | | | 71.5 | Sep-Dec. | Note 3 |
| Liu Zhanying | Retired Director | F | 57 | 4/29/2010 | 4/27/2012 | | | | - | | Note 2 |
| Wu Yaowen | Retired Director | M | 69 | 4/28/2009 | 4/27/2012 | | | | 1 | Jan-April | Note 2 |
| Katherine Tsang | Retired Independent Director | F | 55 | 4/28/2009 | 4/27/2012 | | | | 11.7 | Jan-April | |
| Edward Tse | Retired Independent Director | M | 56 | 4/28/2009 | 4/27/2012 | | | | 11.7 | Jan-April | |
| Li Li | Retired Chairperson of Board of Supervisors | F | 59 | 4/28/2009 | 4/27/2012 | 30,000 | 30,000 | | 11.7 | Jan-April | |
| Zhou Guiquan | Retired Supervisor | M | 57 | 4/28/2009 | 4/27/2012 | | | | - | | Note 3 |
| Zhu Kebing | Retired Supervisor | M | 38 | 4/28/2009 | 4/27/2012 | | | | - | | Note 3 |
| Jiang Licheng | Retired Vice President | M | 54 | 4/27/2012 | 8/27/2012 | 41,900 | 41,900 | | 39.7 | Jan-August | |
| Chen Ying | Retired Vice President and Secretary to Board of Directors | F | 41 | 4/27/2012 | 8/27/2012 | 60,000 | 60,000 | | 39.7 | Jan-August | Note 2 |
| Lou Dingbo | Retired Vice President | M | 50 | 4/28/2009 | 4/27/2012 | 35,000 | 35,000 | | 19.9 | Jan-April | |
| Pang Yuanlin | Retired Vice President | M | 49 | 4/28/2009 | 4/27/2012 | 38,800 | 38,800 | | 19.9 | Jan-April | |
| Total | - | - | - | - | - | 783,000 | 865,800 | 82,800 | 1439.6 | | |

Note 1: The above shareholding changes were all due to purchase at the secondary market. The stock sale by Feng Taiguo took place before being elected Vice President.

Note 2: It is not available yet since the parent company of the shareholding company has not completed its annual performance evaluation and remuneration calculation.

Note 3: It is not available yet since the shareholding company has not completed its annual performance evaluation and remuneration calculation.

Part VI. Directors, Supervisors, Senior Executives and Employees

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

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

Mr. He has extensive experience in manufacturing technology, marketing, operation and human resource management of steel industry. Mr. He joined Baosteel in February 1982 and has successively held positions of Head of Blooming Plant, Head of Hot-rolling plant, Director of Technology Department. He has worked as Assistant to President of Baosteel in September 1994, Vice President of Baosteel in April 1996, Vice President of Baosteel International Trading in August 1996, Director and Vice President of Baosteel Group Corporation in November 1998, Director of Baoshan Iron & Steel Co., Ltd. in February 2000, President of Baosteel International Trading from October 2001 to June 2003, Chairman of Baosteel International Trading from October 2001 to May 2006, Vice President of Baosteel Group Corporation, Director of Baoshan Iron & Steel Co., Ltd. in October 2005, Mr. He has been elected as Director and President of Baosteel Group Corporation, Director of Baoshan Iron & Steel Co., Ltd. in April 2008, Vice Chairman of Baoshan Iron & Steel Co., Ltd. in April 2009, Chairman of Baoshan Iron & Steel Co., Ltd. since April 2010.

Mr. He graduated from Northeastern University of Technology in 1982, and received an EMBA degree from China Europe International Business School in March 2000.

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

Mr. Ma is highly experienced in industrial accounting, finance, and investment management. Since he joined Baosteel in July 1995, Mr. Ma held various positions with the company, including vice director and director of the department of planning and accounting of Shanghai Baosteel Group. Since March 2001, he was vice president of Shanghai Baosteel Group, since October 2005, vice president of Baosteel Group, since August 2006, vice president and chief accountant of Baosteel Group, and since April 2009, director and president of Baoshan Iron & Steel Co., Ltd.

Mr. Ma graduated from Beijing Institute of Iron & Steel in 1986 and obtained an EMBA degree from a program jointly managed by Arizona State University and National Institute of Accounting in Shanghai in August 2005.

Zhao Zhouli (born in April 1956), Chinese, senior engineer at professor level, is currently vice president of Baosteel Group Corporation, and member of the BOD of Baoshan Iron & Steel Co., Ltd.

Mr. Zhao is highly experienced in enterprise production and operation, production and equipment management in the steel industry, as well as human resource management. Since he started to work for Baosteel in 1982, Mr. Zhao held various positions with the company, including vice director and, later, director of the department of equipment, and assistant to President of Baosteel Corporation since April 1996. Since May 2000, he became vice president of Baoshan Iron & Steel (during the period, he worked concurrently as the general manager, and Party Secretary of Baosteel Branch from May 2007 to March 2008), vice president of Baosteel Group since July 2010 (concurrently chairman of Baosteel Engineering & Technology Group Co., Ltd. from January 2010 to December 2010), and president of Baosteel Zhanjiang Iron & Steel Co., Ltd. since December 2010. Since April 2011, he worked concurrently as director of Baoshan Iron & Steel, and in July 2012, he became chairman of Baosteel Zhanjiang Steel.

Mr. Zhao graduated from Northeastern University of Technology in 1982, and obtained his PhD in Machinery Manufacturing and Automation from Northeastern University in 2002.

Zhu Junsheng (born in November 1960), Chinese, Senior Engineer, is currently member of the BOD.

Mr. Zhu is highly experienced in management of human resources, the supply chain, and safe production management. Since he joined Baosteel in 1983, Mr. Zhu held various positions with the company, including vice director of the department of production planning, vice director and later director of the department of cost management, vice director of the personnel department, and director of the personnel department of Baoshan Iron & Steel. Since May 2001, he was director of the personnel department and worked concurrently as assistant to the president of the Company. Since June 2003, he was vice president and deputy secretary of CPC committee of the Company (during the period, he was only vice president of Baoshan Iron & Steel from August 2006 to March 2010). In September 2010, he assumed the position of deputy secretary of CPC committee of the Company. Since April 2011, he was director and deputy secretary of CPC committee of the Company.

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

Wang Li (born in June 1956), Chinese, Senior Engineer, is currently assistant to the president of Baosteel Group Corporation, member of the BOD of Baoshan Iron & Steel.

Mr. Wang is highly experienced in information management, system innovation management, and operation management. Since joining Baosteel in February 1982, he held various positions with the company including vice director of the department of Baosteel Enterprise Management, director of the department of systematical development, head of the institution of automation, general manager of Baosteel Computer Co., Ltd., as well as deputy party secretary and concurrently secretary for the Commission of Discipline, vice president, senior vice president and president of Baosight Software Co., Ltd. Since October 2006, he was the assistant to the president of Baoshan Iron & Steel, as well as director of the system innovation department. He was the business director, and secretary to BOD of Baosteel Group since January 2009. He retired from the position of business director for Baosteel Group in May 2009. From May 2009 to March 2011, he worked concurrently as the general manager of the operation improvement department. Since May 2011, he was secretary to BOD, and assistant to president of Baosteel Group. In September 2012, he stopped to be the secretary to BOD of Baosteel Group. He assumed the position of director of Baoshan Iron & Steel since May, 2012.

Mr. Wang graduated from Northeastern University of Technology in 1982.

Buck Pei (born in March 1957), American, professor of accounting, PhD supervisor, is currently executive dean (China region) of WP Carey School of Business, Arizona State University, and an independent director of the Company.

Mr. Pei is well known in the field of accounting in the U.S. From 1996 to 1997, he was chairman of the global committee of American Accounting Association. In the same year, he helped to establish the Accounting Society of China. He worked as the chairman of the Chinese Accounting Professors Association of North America in 1993, 1994 and 2004. From 2006 to 2011, he served as an independent director of Baoshan Iron & Steel. He became director of the Fifth BOD of Baoshan Iron & Steel in April 2012.

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

Wong Pik Kuen Helen (born in June 1961), Hong Kong China, vice chairperson, President and SEP of HSBC Bank (China), an independent director of the Company.

Ms. Wong is highly experienced in capital operation and financial management. Since joining HSBC Bank in 1992, she held various positions with the company, including manager of syndicated loan, senior manager of capital market department, dean of the debt issuance department of Greater China, and standing director of global bank department (Hong Kong). She became the vice senior executive president of HSBC Bank China in September 2009, and assumed the position of president and SEP of HSBC Bank China in July 2010. She became an independent director of the Fifth BOD of the Company since April 2012.

Ms. Wong graduated from Hong Kong University in 1983.

Yuh-chang Hwang (born in January 1955), American, Associate Professor of the Accounting department of Arizona State University WP Carey School of Business, Professor of Sino-European International Management Institute, and an independent director of the Company.

Mr. Hwang specializes in such areas as management accounting, strategic cost management, incentive mechanism and performance evaluation. During the 16 years of teaching in Carey School of Business, he taught various MBA courses, EMBA courses designed for senior managers, and supervised the doctoral research in management accounting. Mr. Hwang is currently coordinator of the PhD studies of the Accounting Department. He has supervised over 20 PhD candidates. Before joining Arizona State University WP Carey School of Business, he taught in Katz Business School, the University of Pittsburgh of Pennsylvania. He was elected chief secretary of the Management Accounting Association of America Accounting Association for the period from 2007-2009. Since April 2012, he became an independent director of the Fifth BOD of the Company.

Mr. Hwang graduated from National Chengchi University in Taiwan with a Master's degree in 1979, and gained PhD degree from University of California-Berkeley in 1987.

Liu Wenbo (born in August 1968), Chinese, Global Senior Partner and Vice President of Greater China of Roland Berger Strategy Consultants, and an independent director of Baoshan Iron & Steel.

Mr. Liu is highly experienced in enterprise management consultant business. Before joining the consultant industry, Mr. Liu spent 7 years in Siemens and DHL. He acted as the exterior special consultant for P&G (UK) since February 2002, the exterior special consultant for Smartbead Technology Corp. since November 2002, a senior consultant in A.T. Kearney since September 2003, director of North Asia district for Accenture since September 2005, and a Global Senior Partner and Vice President of Greater China of Roland Berger Strategy Consultants since June 2007. He became an independent director of Baoshan Iron & Steel since April 2012.

Mr. Liu graduated from North China University of Technology in 1991, gained his Master's degree from Cranfield University in the UK in September 2002, and his MBA degree from Cambridge University in September 2003. He took courses on global energy in Harvard University in November 2011.

Liu Zhanying (born in October 1955), Chinese, Senior Political Engineer, is currently Secretary of CPC Committee for Disciplinary Inspection of Baosteel Group Corporation, and Chairperson of Board of Supervisors of Baoshan Iron & Steel Co., Ltd.

Ms. Liu has extensive experience in discipline inspection and supervision. Ms. Liu has successively held positions of Deputy Director of Division I in No.1 Supervision Office of Ministry of Supervision of P.R.C., Director of Division I and 2 in No.1 Supervision Office of Central Commission for Discipline Inspection, Deputy Bureau Director level Inspector and Supervisor of No.1 Supervision Office, Deputy Bureau level Director of No.2 Discipline Inspection and Supervision Office of Central Enterprise Discipline and Work Commission, Deputy CPC Committee Secretary and Inspection Commission Secretary of Central Enterprise Work Commission, Deputy Party Secretary and Inspection Commission Secretary of SASAC. Ms. Liu joined Baosteel in October 2005 and has worked as Discipline Inspection Commission Secretary and member of the CPC Committee of Baosteel Group Corporation, she has held positions of Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Discipline Inspection Commission Secretary of Baoshan Iron & Steel Co., Ltd. in June 2006, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd. in August 2006, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd. and Chairwoman of Board of Supervisors of Guangdong Steel Group Co. Ltd. in June 2008, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd., Discipline Inspection Commission Secretary and Chairwoman of Board of Supervisors of Guangdong Steel Group Co. Ltd. in September 2008, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Discipline Inspection Commission Secretary and Chairwoman of the Board of Supervisors of Guangdong Steel

Part VI. Directors, Supervisors, Senior Executives and Employees

Group Co. Ltd. in March 2010, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation in January 2012, Director of the Board of Directors of Baoshan Iron & Steel Co., Ltd. from 2010 to 2012, Chairperson of the Fifth Board of Supervisors since April 2012.

Ms. Liu graduated from Shandong College of Oceanography in 1979, and received a postgraduate degree in Sociology from the Party School of the Central Committee CPC in January 2004.

Lin An (born in April 1956), Chinese, 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 president 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 graduated from Wuhan Institute of Iron & Steel in July 1982.

Guo Bin (born in August 1971), Chinese, Assistant to president of Baosteel Group Corporation, and concurrently general manager of the HR department, Engineer, member of board of supervisors of the Company.

Mr. Guo has rich experience in HR management, and enterprise operation. Since joining Baosteel in July 1994, he took various positions, including vice director, director of the HR department of Baoshan Iron & Steel, and director of the HR department of Baosteel Group corporation. From March 2011, he served as Assistant to president, and concurrently general manager of the HR department of Baosteel Group. He has been a member of the Fifth Board of Supervisors of the Company since April 2012.

Mr. Guo graduated from Northeastern University in 1994, and gained MBA degree from Fudan University in September 2002.

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

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 of Baosteel Central Research Institute. He has been on the Board of Supervisors since April 2009.

Mr. Zhang graduated from Beijing Institute of Iron & Steel in 1982 and he obtained his MSc from Beijing University of Science and Technology in January 1989 and his PhD from Northeastern University in March 2006.

Wu Kunzong (born in February 1971), Chinese, director of the auditing department of Baosteel Group Corporation, Senior Accountant, is currently on the board of supervisors of the Company.

Mr. Wu has rich experience in auditing management and financial management. Since joining Baosteel in July 1993, he served in various positions, including team leader for the audit check team of Baoshan Iron & Steel, deputy head of the auditing office, vice director, and director of the auditing department, and director of the financial affairs department. He has been the director for the auditing department of Baosteel Group Corporation since March 2011, and has been a member of the Fifth Board of Supervisors of Baoshan Iron & Steel since April 2012.

Mr. Wu graduated from East China College of Metallurgy in 1993, gained his Master's degree in economics from Shanghai University of Finance and Economics in February 2004, and his MBA degree from China Europe International Business School in September 2008.

Li Yongxiang (born in October 1960), Chinese, 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 member 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 graduated from Northeastern University of Technology in 1982, obtained his EMBA from China Europe International Business School in 2001, and his Master's degree in metallurgy engineering from Northeastern University in 2003.

Zhou Jianfeng (born in September 1963), Chinese, 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 Baosteel 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 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), Chinese, 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 Guanghai School of Management, Beijing University in 2000, her PhD degree in engineering from Northeastern University in 2009, and her EMPAcc degree from the Chinese University of Hong Kong in 2011.

Feng Taiguo (born in March 1963), Chinese, Senior Engineer, is currently Vice President of the Company.

Mr. Feng has rich experience in iron and steel manufacturing and quality management. Since joining Baosteel in 1987, he took various positions with the company, including member of the steel sheet section of Baosteel production unit, deputy head, and head of the steel sheet section, deputy director, and acting director of the steel sheet office of Baosteel production unit, acting director of the production control center of the manufacturing management department, vice director of the production department, vice director of the manufacturing management department, manager of the strip steel plant, manager of the manufacturing management department, vice president and president of the sales center and the marketing department respectively, assistant to general manager of the subsidiary of Baosteel, standing vice president of the special steel subsidiary, assistant to the president and director of the manufacturing management department of Baoshan Iron & Steel, assistant to the president and general manager of the business unit of steel tubes, pipes and bars of Baosteel Group. He has been working as Vice President of Baoshan Iron & Steel Co., Ltd. since August 2012.

Mr. Feng graduated from the East China University of Metallurgy with a major in metal pressure processing in 1987, and gained his MBA degree from Fudan University in 2003.

Chu Shuangjie (born in December 1964), Chinese, Senior Engineer of professor level, is currently Vice President of the Company.

Mr. Chu has rich experience in iron and steel manufacturing and technical management. He joined Baosteel in 1996 and took various positions with the company, including engineer of Baosteel cold-rolling plant, vice manager and manager of the silicon steel sub-plant of the cold-rolling section, vice manager and manager of the cold-rolling plant, director of the silicon steel department, assistant to the general manager of the Baosteel subsidiary and director of the silicon steel department, assistant to the general manager of Baoshan Iron & Steel and director of the silicon steel department, manager of the follow-up project team of oriented silicon steel, general manager of Baoshan Iron & Steel and manager of the cold-rolling plant, team manager of the newly-built continuous annealing coating project, team manager of the fifth cold-rolling project, and assistant to president of Baoshan Iron & Steel. He has been the vice president of Baoshan Iron & Steel since August 2012.

Mr. Chu graduated from the hot processing major of the machinery department of Anhui Polytechnic University in 1987, gained his Master's degree from the Northwestern Polytechnical University with a major in material science and engineering in 1990, a PhD degree in composite materials from Shanghai Jiaotong University in 1996 and EMBA degree from China Europe International Business School in 2009.

Zhu Kebing (born in October 1974), Chinese, Senior Accountant, Certified Public Accountant, is currently chief accountant and secretary to the Board of Directors 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 of the Company since April 2009 to March 2012. He became chief accountant and secretary to the Board of Directors of the Company in August 2012.

Mr. Zhu graduated from Northeastern University in 1997, and gained the EMPAcc degree from the Chinese University of Hong Kong in 2011.

Part VI. Directors, Supervisors, Senior Executives and Employees

II. Employment of Directors, Supervisors, and Senior Executives in Service or Leaving The Company During the Period

(I) Posts in the shareholding company

| Name | Shareholding company | Post held | Start of term | End of term |
|--------------|----------------------|---|---------------|-------------|
| He Wenbo | Baosteel Group Corp. | Director; President | | |
| Liu Zhanying | Baosteel Group Corp. | Secretary of Committee for Disciplinary Inspection | | |
| Zhao Zhouli | Baosteel Group Corp. | Vice President | | |
| Wang Li | Baosteel Group Corp. | Assistant to President | | |
| Buck Pei | Baosteel Group Corp. | Outside Director | | |
| Guo Bin | Baosteel Group Corp. | Assistant to President | | |
| Wu Kunzong | Baosteel Group Corp. | Director of the Auditing Department | | |
| Zhang Pijun | Baosteel Group Corp. | President of Baosteel Central Research Institute | | |
| Zhou Guiquan | Baosteel Group Corp. | Vice Secretary of Committee for Disciplinary Inspection & Director of Supervision | | |

(II) Posts in other companies

| Name | Name of company | Position | Start of term | End of term |
|---------------------|--|--|---|-------------|
| He Wenbo | The Chinese Society For Metals | Standing council member | | |
| | Second Board of Trustees, Tongji University | Member of the Board | | |
| Ma Guoqiang | Societe General (China) Limited | Independent Director | 08/2008 | |
| | Chinese Society for Prices, Metallurgical Branch | Vice chairman | | |
| | Dongling fund, University of Science and Technology Beijing | Member of the first administrative committee | 05/2011 | |
| | Baosteel Zhanjiang Iron & Steel Co., Ltd. | President | 07/2012 | |
| | Zhanjiang Iron & Steel Engineering Headquarters | Command-in-chief | 03/2011 | |
| Zhao Zhouli | Northeastern University | Doctoral supervisor | | |
| | Factory Construction Committee of China Metallurgical Construction Association | Committee vice chairman | | |
| | The Chinese Society For Metals | Council member | | |
| Wang Li | Baosteel Engineering & Technology Group Co., Ltd. | Director | 11/2010 | |
| | Shanghai Baosight Software Co., Ltd. | Director | 05/2006 | |
| | Shanghai Baosteel Chemical Co., Ltd. | Chairman of the Board | 12/2009 | |
| | Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Director | 1/2008 | |
| Buck Pei | W. P. Carey School of Business, Arizona State University | Executive dean (China region) | 01/2013 | |
| Wong Pik Kuen Helen | HSBC Bank (China) | Vice chairperson, president, and SEP | Vice chairperson since Jan. 2013, and president and SEP since July 2010 | |
| | Hubei Suizhou Cengdu HSBC Rural Bank Company Limited | President | 5/10/2011 | |
| | HSBC Jintrust Fund Management Co., Ltd. | Supervisor | 6/24/2011 | |
| Yuh-chang Hwang | W. P. Carey School of Business, Arizona State University | Associate professor of the Accounting Department | 08/1995 | |
| | Sino-European International Management Institute | Professor | 04/2013 | |
| Liu Wenbo | Roland Berger Strategy Consultants | Global Senior Partner and Vice President of Greater China Area | 06/2007 | |

| Name | Name of company | Position | Start of term | End of term |
|---------------|--|---|---------------|-------------|
| Guo Bin | Baosteel Resources Co., Ltd. | Director | 08/2008 | |
| | Baosteel Resources (International) Co., Ltd. | Director | 12/2010 | |
| | Baosteel Metal Co., Ltd. | Director | 08/2008 | |
| | Hwabao Investment Co., Ltd. | Director | 08/2008 | |
| Wu Kunzong | Baosteel Special Material Co., Ltd., Baosteel Special Steel Co., Ltd. | Supervisor | 04/2012 | |
| | Baosteel Stainless Steel Co., Ltd., Shanghai Baosteel Stainless Steel Co., Ltd. | Supervisor | 04/2012 | |
| | Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Supervisor | 05/2011 | |
| | Baosteel Group Guangdong Shaoguan Iron & Steel Co., Ltd. | Chairman of the board of supervisors | 12/2012 | |
| Zhang Pijun | Experts Academic Council of China International Engineering Consulting Corporation | Expert | 2011 | |
| | Harbin Institute of Technology | Part-time professor | 06/2009 | |
| Zhou Jianjun | Shanghai Society for Advanced Materials | Vice Chairman of the Third Session | 2012 | |
| | The Ninth Council of the Chinese Society For Metals | Council member | 2012 | |
| | The ninth committee of Shanghai Association for Science & Technology | Committee member | 2012 | |
| | The Ninth Council of Shanghai Society For Metals | Vice Chairman | 2012 | |
| Wang Jing | Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd. | Vice President | 2011 | |
| | Shanghai Jiangnan-Changxing Heavy Industry Co., Ltd. | Vice President | 2011 | |
| Feng Taiguo | Shanghai Baosteel Chemical Co., Ltd. | Director | 12/2009 | |
| Chu Shuangjie | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Director | 2012 | |
| | Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA) | Director | 2011 | |
| | Branch Society for Metals electrical steel of China (SMEB) | Committee vice chairman | 2011 | |
| | Shanghai Jiao Tong University | Part-time professor; MA student adviser | 2006 | |
| Zhu Keping | Baosteel Development Corp. | Director | | |
| | Ningbo Iron & Steel Co., Ltd. | Director | 2009 | |
| | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Director | 2012 | |
| | Bsteel E-commerce Co., Ltd. | Director | | |
| | Hwabao Trust Co., Ltd. | Chief Supervisors | | |

III. 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 annual remunerations of those to be paid by shareholding companies and other related companies would be defined by these companies. The remunerations of the Directors, Supervisors and Senior Executives for the year 2012 totaled RMB 14,396,000 (pre-tax).

Part VI. Directors, Supervisors, Senior Executives and Employees

IV. Top Management Change

| Name | Position | Change | Reason |
|---------------------|---|--------------|---|
| He Wenbo | Chairman of the BOD | Hired | Continue to hold office in the new BOD |
| Ma Guoqiang | Director, President | Hired | Continue to hold office in the new BOD |
| Zhao Zhouli | Director | Hired | Continue to hold office in the new BOD |
| Zhu Junsheng | Director | Hired | Continue to hold office in the new BOD |
| Wang Li | Director | Hired | Continue to hold office in the new BOD |
| Buck Pei | Director | Hired | Continue to hold office in the new BOD |
| Wong Pik Kuen Helen | Independent Director | Hired | Newly hired for the new BOD |
| Yuh-chang Hwang | Independent Director | Hired | Newly hired for the new BOD |
| Liu Wenbo | Independent Director | Hired | Newly hired for the new BOD |
| Liu Zhanying | Director | Leave office | Leave office upon expiry |
| Wu Yaowen | Director | Leave office | Leave office upon expiry |
| Katherine Tsang | Director | Leave office | Leave office upon expiry |
| Edward C. Tse | Director | Leave office | Leave office upon expiry |
| Liu Zhanying | Chairperson of the Board of Supervisors | Hired | Newly hired for the new Board of Supervisors |
| Lin An | Supervisor | Hired | Continue to hold office in the new BOS |
| Guo Bin | Supervisor | Hired | Newly hired for the new Board of Supervisors |
| Zhang Pijun | Supervisor | Hired | Continue to hold office in the new BOS |
| Wu Kunzong | Supervisor | Hired | Newly hired for the new Board of Supervisors |
| Li Li | Chairperson of the Board of Supervisors | Hired | Leave office upon expiry |
| Zhou Guiquan | Supervisor | Hired | Leave office upon expiry |
| Zhu Kebin | Supervisor | Hired | Leave office upon expiry |
| Li Yongxiang | Vice President | Hired | Continue to hold office upon expiry as the top management |
| Zhou Jianfeng | Vice President | Hired | Continue to hold office upon expiry as the top management |
| Wang Jing | Vice President | Hired | Continue to hold office upon expiry as the top management |
| Feng Taiguo | Vice President | Hired | Newly hired in 2012 |
| Chu Shuangjie | Vice President | Hired | Newly hired in 2012 |
| Zhu Kebin | Secretary to the BOD, Chief Accountant | Hired | Newly hired in 2012 |
| Jiang Licheng | Vice President | Leave office | Resign from the post |
| Chen Ying | Vice President, secretary to the BOD | Leave office | Resign from the post |
| Lou Dingbo | Vice President | Leave office | Leave office upon expiry as the top management |
| Pang Yuanlin | Vice President | Leave office | Leave office upon expiry as the top management |

V. Personnel Change of the Team of Core Technology or Key Technical Employees

No change occurred in this reporting period.

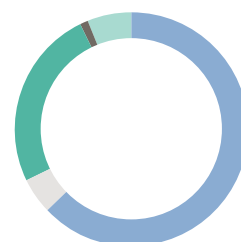
VI. Profile of Employees of the Parent Company and Major Subsidiaries

(I) Overview of employees

| | Unit: persons |
|---|---------------|
| Number of employees on active duty of the Parent | 18,524 |
| Number of employees on active duty of major subsidiaries | 14,074 |
| Total employees on active duty | 32,598 |
| Number of retired employees to be covered by the Parent or subsidiaries of Baoshan Iron & Steel | 0 |

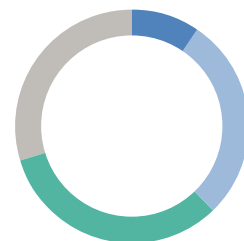
Staff Composition

| Type | Number of employees | |
|----------------------|---------------------|--|
| Production staff | 20,536 | |
| Sales staff | 1,606 | |
| Technical staff | 8,105 | |
| Financial staff | 394 | |
| Administrative staff | 1,957 | |
| Total | 32,598 | |



Education Level

| Type | Number of employees | |
|--|---------------------|--|
| Master degree and above | 3,089 | |
| Bachelor degree holders | 9,227 | |
| Three-year college degree | 10,669 | |
| Secondary vocational school education or lower | 9,613 | |
| Total | 32,598 | |



(II) Compensation Policy

With a compensation budget mechanism oriented toward efficiency and profitability, the Company sticks to the idea of "Compensation in line with the post value, performance, and contribution," and continues to perfect the compensation management system. It carries out varied incentive policies for employees according to the features of their posts.

(III) Training scheme

Aimed at building a professional team, and centering on the competence cultivation including "leadership, technical skills, and on-site capability," the Company will study and summarize the successful experiences in talent cultivation, continuously perfect the cultivation system, and carry out the differentiated training plans for employees to enhance the comprehensive quality of employees.

Part VII. Corporate Governance

I. Progress in Corporate Governance & Registration and Administration for Persons with Insider Information

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

On the 2011 Shareholders' Meeting held on April 27, 2012, the Fifth Board of Directors was elected. There are 9 directors, including 3 independent directors. Mr. Buck Pei, who has been trusted by SASAC as the outside director of Baosteel Group Corp, is concurrently one of the directors of the Company. He assumes a comparatively independent position in terms of his relationship with in 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. Yuh-chang Hwang, associate professor in accounting, acts as the director of the Auditing Committee, whose independent directors take up two third of its members. Ms. Wong Pik Kuen Helen 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, it is ensured that the auditing and evaluation work is fair and effective.

In 2012, the Company was honored as one of the "Top Ten Companies with Best Social Responsibility Performance" on the occasion of CCTV Summit of Listed Companies. It also gained the prize of "Achievement Award for Listed Companies" as one of the "Listed Company with Best Cash Dividend Performance in a 10-Year Period" on the occasion of the annual meeting of China Capital Capacity organized by China Business Network.

The Company has established a registration and administration system for persons with insider information. After self-exams, the Company has not found any situation where the persons with insider information are involved in company stock trading by taking advantage of the insider information before the disclosure of any significant information.

II. Shareholders' Meetings

| Session | Date of the meeting | Proposals | Resolution | Designated web disclosure of the resolutions | Disclosure date |
|--|---------------------|--|------------|--|-----------------|
| 2012 1st Interim Shareholders' Meeting | 3/15/2012 | Proposal of selling part of the assets of the business units of Stainless Steel and Special Steel | Passed | www.sse.com.cn | 3/16/2012 |
| 2011 Shareholders' General Meeting | 4/27/2012 | <ol style="list-style-type: none"> 2011 Board of Director's Report 2011 Board of Supervisor's Report 2011 Annual Report (Report and Abstract) 2011 Remuneration of Directors, Supervisors, and Senior Executives 2011 Financial Statement Report Proposal about 2011 Profit Distribution Proposal about 2012 Budget Proposal about renewal of the Service of Deloitte Touche Tohmatsu as the Independent Accountant for 2012 Proposal about 2012 Day-to-day Related Party Transaction Proposal of BOD election at expiration of office terms Proposal of BOS election at expiration of office terms | Passed | www.sse.com.cn | 4/28/2012 |
| 2012 2st Interim Shareholders' Meeting | 9/17/2012 | <ol style="list-style-type: none"> Proposal of investing in Zhanjiang Steel Base by Baoshan Iron & Steel Proposal of repurchasing the Company stock by Collective bidding trading | Passed | www.sse.com.cn | 9/18/2012 |

III. Directors' Duty Fulfillment

(I) Attendance of the board meetings and the shareholders' meetings by directors

| Name | Independent director | Attendance of the board meetings | | | | | | Attendance of the shareholders' meetings |
|--|----------------------|--|----------------------|------------------------------|-----------------------------|---------|------------------------|--|
| | | Required number of board meetings for the year | Attendance in person | Attendance by correspondence | Entrusting a representative | Absence | Two successive absence | Times of attendance of the meetings |
| He Wenbo | No | 7 | 7 | I | | | No | 3 |
| Ma Guoqiang | No | 7 | 7 | I | | | No | 3 |
| Zhao Zhouli | No | 7 | 7 | I | | | No | 1 |
| Zhu Junsheng | No | 7 | 6 | I | I | | No | |
| Wang Li | No | 7 | 7 | I | | | No | |
| Buck Pei | No | 7 | 7 | I | | | No | 2 |
| Wong Pik Kuen Helen | Yes | 4 | 4 | I | | | No | 1 |
| Yuh-chang Hwang | Yes | 4 | 4 | I | | | No | 1 |
| Liu Wenbo | Yes | 4 | 4 | I | | | No | 2 |
| Liu Zhanying | Yes | 3 | 3 | | | | No | 1 |
| Wu yaowen | No | 3 | 2 | | I | | No | |
| Katherine Tsang | Yes | 3 | 3 | | | | No | |
| Edward C. Tse | Yes | 3 | 2 | | I | | No | |
| Number of board meetings in 2012 | | | | | | 7 | | |
| Including: on-site regular meetings | | | | | | 6 | | |
| Board meeting by correspondence | | | | | | 1 | | |
| On-site Board Meetings combined with other ways of communication | | | | | | 0 | | |

(II) 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.

Part VII. Corporate Governance

IV. Important Opinions and Suggestion Put Forward by the Special Committees Attached to the Board of Directors During the Reporting Period

The Committee for Strategic Development and Risk Management thought: Zhanjiang Steel, as a new project, should be better in repeating the core competitiveness of Baosteel. It is a matter of success or failure for the project whether we can fully motivate the employees and fortify their morale. The committee requested that the Company should give good publicity to the Zhanjiang Steel project, explaining to the public and shareholders why we should construct Zhanjiang Steel, and why it is a new steel project instead a business merge? The Company should also address such issues as how to be guarded against the market risks and ensure investment returns.

The Compensation and Performance Evaluation Committee aired its concern about the operation of Meishan Steel and urged Meishan Steel to enhance its cost competitiveness as soon as possible. The committee thought that Meishan Steel should shorten its learning process and take measures to lower loss and turn loss into gain.

The Auditing Committee thought that there is a discrepancy between the production resilience and the cost resilience. The Company should enhance its production resilience by adjusting the product mix so as to better avoid risks.

V. Explanation by the Board of Supervisors on Risks for the Company

The Board of Supervisors held no objection to all aspects under the supervision during the reporting period.

VI. Establishment and Implementation of the Examination Mechanisms and the Incentive Mechanism for 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.

Part VIII. Internal Control

I. Statements Regarding the Internal Control and Its Construction

The Company's Board of Directors is responsible for establishing and maintaining an adequate internal control system. It is also responsible for the implementation and examination of this system.

Through constituting and revising various financial management regulations such as the *Management Measures on the Financial Accounting Report*, the Company standardizes the accounting work. By continuously solidifying the basic work of accounting, the Company ensures the contact and accuracy of the accounting information and maintains its image of a standardized and transparent listed company.

In terms of the system construction, the Company continued to perfect the system of internal control and promoted the fusion between this system and the management system in accordance with the *Basic Standard for Enterprise Internal Control* and other pertinent regulations. The Company added 23 articles about internal control related to the enforcement of social responsibility and environmental operation, including green manufacturing, environmental operation, and safety management and so on.

No major flaw was found for the internal control of the Company in the reporting period. On the sixth session of the Fifth BOD the 2012 *Internal Control Report of Baoshan Iron & Steel* was passed, and the report was published at www.sse.com.cn.

II. Audit Report for the Company's Internal Control

Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (special general partnership) conducted the internal control audit and gave its audit report for the Company, and the content of the report was disclosed at www.sse.com.cn.

III. The System of Looking into the Responsibility of Major Mistakes in the Disclosure of Information of the Company's Annual Report and Its Implementation

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.

Part IX. Financial Statements

| | |
|--|---------|
| Auditor's report | 45 |
| The Company's and consolidated balance sheets | 46-49 |
| The Company's and consolidated income statements | 50-51 |
| The Company's and consolidated cash flow statements | 52-55 |
| The Company's and consolidated statements of changes in owners' equity | 56-59 |
| Notes to the financial statements | 60-143 |
| Supplementary information | 144-145 |

AUDITOR'S REPORT

De Shi Bao (Shen) Zi (13) No.P0428

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 2012, and the Company's and consolidated income statements, the Company's and consolidated statements 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 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. 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 as of 31 December 2012, 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 LLP

Shanghai, China

Chinese Certified Public Accountant:

Zhu Xiaolan

Gui Yong

29 March 2013

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 2012

RMB

| Item | Notes | Closing Balance | Opening Balance |
|--|-----------|---------------------------|---------------------------|
| Current Assets: | | | |
| Cash and bank balances | (V)1 | 8,840,469,097.21 | 14,379,464,105.74 |
| Held-for-trading financial assets | (V)2 | 89,577,809.31 | 352,804,683.86 |
| Notes receivable | (V)3 | 12,411,303,185.31 | 12,860,113,254.16 |
| Accounts receivable | (V)4 | 8,542,193,127.62 | 6,983,893,119.47 |
| Prepayments | (V)5 | 3,716,337,443.68 | 5,298,265,694.46 |
| Interest receivable | (V)6 | 948,484,949.13 | 11,757,749.94 |
| Dividends receivable | (V)7 | 33,639,886.82 | 246,648,970.16 |
| Other receivables | (V)8 | 1,127,915,016.72 | 1,227,688,540.03 |
| Inventories | (V)9 | 28,790,882,932.79 | 37,389,713,386.91 |
| Non-current assets due within one year | (V)10 | 4,880,000,000.00 | 483,907,475.02 |
| Total Current Assets | | 69,380,803,448.59 | 79,234,256,979.75 |
| Non-current Assets: | | | |
| Loans and advances to customers | (V)11 | 2,763,019,609.19 | 3,410,144,438.27 |
| Available-for-sale financial assets | (V)12 | 1,467,832,301.93 | 1,504,972,994.37 |
| Long-term receivables | (V)13 | 18,035,939,000.00 | 27,388,500.00 |
| Long-term equity investments | (V)14, 15 | 9,118,968,766.28 | 4,498,487,312.97 |
| Investment properties | (V)16 | 477,471,234.63 | 487,474,698.00 |
| Fixed assets | (V)17 | 79,440,015,016.44 | 115,371,361,577.46 |
| Construction in progress | (V)18 | 9,966,930,139.34 | 16,282,590,033.75 |
| Materials for construction of fixed assets | (V)19 | 111,190,366.94 | 805,812,260.74 |
| Intangible assets | (V)20 | 6,152,529,015.20 | 8,126,173,826.75 |
| Long-term prepaid expenses | (V)21 | 906,159,533.22 | 42,017,928.52 |
| Deferred tax assets | (V)22 | 2,026,536,047.54 | 1,188,689,741.88 |
| Other non-current assets | (V)24 | 14,509,906,520.94 | 120,375,537.42 |
| Total Non-current Assets | | 144,976,497,551.65 | 151,865,488,850.13 |
| TOTAL ASSETS | | 214,357,301,000.24 | 231,099,745,829.88 |

Consolidated Balance Sheet (Continued)

AT 31 DECEMBER 2012

RMB

| Item | Notes | Closing Balance | Opening Balance |
|--|-------|---------------------------|---------------------------|
| Current Liabilities: | | | |
| Short-term borrowings | (V)25 | 28,964,525,209.64 | 38,876,457,632.91 |
| Customer deposits and deposits from banks and other financial institutions | (V)26 | 8,071,462,806.92 | 8,433,585,032.21 |
| Taking from banks and other financial institutions | (V)27 | 600,000,000.00 | 300,000,000.00 |
| Held-for-trading financial liabilities | (V)28 | 20,789,685.96 | - |
| Notes payable | (V)29 | 3,255,540,509.18 | 2,677,585,618.61 |
| Accounts payable | (V)30 | 18,655,403,230.17 | 19,270,699,108.70 |
| Receipts in advance | (V)31 | 11,194,900,927.62 | 10,789,724,318.08 |
| Financial assets sold under repurchase agreements | | 437,705,880.63 | - |
| Employee benefits payable | (V)32 | 1,565,024,385.52 | 1,553,291,216.55 |
| Taxes payable | (V)33 | 1,238,213,835.07 | (987,589,062.21) |
| Interest payable | (V)34 | 177,928,027.43 | 316,050,944.68 |
| Dividends payable | (V)35 | 22,155,313.83 | 18,082,635.32 |
| Other payables | (V)36 | 681,525,421.62 | 780,610,181.71 |
| Non-current liabilities due within one year | (V)37 | 4,402,850,000.00 | 16,809,668,448.29 |
| Other current liabilities | (V)38 | 2,938,659,947.30 | - |
| Total Current Liabilities | | 82,226,685,180.89 | 98,838,166,074.85 |
| Non-current Liabilities: | | | |
| Long-term borrowings | (V)39 | 2,731,689,992.42 | 7,325,679,720.00 |
| Bonds payable | (V)40 | 9,835,739,000.07 | 8,918,663,150.96 |
| Long-term payables | (V)41 | 250,000,000.00 | - |
| Special payables | (V)42 | 688,993,701.54 | 911,415,731.15 |
| Deferred tax liabilities | (V)23 | 320,632,524.32 | 316,780,621.85 |
| Other non-current liabilities | (V)43 | 961,802,609.24 | 1,319,044,230.80 |
| Total Non-current Liabilities | | 14,788,857,827.59 | 18,791,583,454.76 |
| TOTAL LIABILITIES | | 97,015,543,008.48 | 117,629,749,529.61 |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | (V)44 | 17,122,048,088.00 | 17,512,048,088.00 |
| Capital reserve | (V)45 | 35,892,221,131.19 | 37,330,639,029.54 |
| Less: Treasury shares | (V)46 | 115,785,165.80 | - |
| Special reserve | (V)47 | 17,894,916.86 | 11,788,986.69 |
| Surplus reserve | (V)48 | 23,229,714,608.04 | 21,132,255,172.18 |
| Retained earnings | (V)49 | 35,540,808,913.80 | 30,754,305,445.21 |
| Translation differences arising on translation of financial statements denominated in foreign currencies | | (299,633,775.37) | (245,545,838.69) |
| Total shareholders' equity attributable to owners of the Company | | 111,387,268,716.72 | 106,495,490,882.93 |
| Minority interests | | 5,954,489,275.04 | 6,974,505,417.34 |
| TOTAL SHAREHOLDERS' EQUITY | | 117,341,757,991.76 | 113,469,996,300.27 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 214,357,301,000.24 | 231,099,745,829.88 |

The accompanying notes form part of the financial statements.

The financial statements on pages 46 to 145 were signed by the following:

Legal Representative: He Wenbo

Person in Charge of the Accounting Body: Zhu Kebing

Chief Accountant: Li Qiqiang

Balance Sheet of the Company

AT 31 DECEMBER 2012

RMB

| Item | Notes | Closing Balance | Opening Balance |
|--|---------|---------------------------|---------------------------|
| Current Assets: | | | |
| Cash and bank balances | | 2,036,143,946.73 | 8,826,002,497.24 |
| Notes receivable | | 13,473,619,237.43 | 14,028,815,911.13 |
| Accounts receivable | (XI)1 | 8,987,172,230.07 | 6,896,778,182.66 |
| Prepayments | | 1,557,782,054.86 | 2,480,162,457.76 |
| Interest receivable | | 938,024,383.57 | - |
| Other receivables | (XI)2 | 315,767,588.48 | 503,609,047.98 |
| Inventories | | 15,942,719,003.25 | 24,621,659,766.83 |
| Non-current assets due within one year | | 4,500,000,000.00 | - |
| Other current assets | | 1,565,650,761.38 | 5,864,685,966.51 |
| Total Current Assets | | 49,316,879,205.77 | 63,221,713,830.11 |
| Non-current Assets: | | | |
| Long-term receivables | | 18,000,000,000.00 | - |
| Long-term equity investments | (XI)3,4 | 30,281,311,482.70 | 27,673,450,448.67 |
| Fixed assets | | 46,760,734,784.44 | 90,615,546,715.70 |
| Construction in progress | | 4,260,158,720.45 | 3,393,924,415.94 |
| Materials for construction of fixed assets | | 22,874,297.42 | 38,286,961.88 |
| Intangible assets | | 1,531,135,771.95 | 3,913,518,973.35 |
| Long-term prepaid expenses | | 1,624,452.28 | 14,394,666.51 |
| Deferred tax assets | | 885,652,585.80 | 418,690,604.77 |
| Other non-current assets | | 14,442,110,959.05 | 117,905,780.14 |
| Total Non-current Assets | | 116,185,603,054.09 | 126,185,718,566.96 |
| TOTAL ASSETS | | 165,502,482,259.86 | 189,407,432,397.07 |

Balance Sheet of the Company (Continued)

AT 31 DECEMBER 2012

RMB

| Item | Notes | Closing Balance | Opening Balance |
|---|-------|---------------------------|---------------------------|
| Current Liabilities: | | | |
| Short-term borrowings | | 9,851,212,641.66 | 20,351,326,028.98 |
| Held-for-trading financial liabilities | | 20,789,685.96 | - |
| Notes payable | | 40,124,006.24 | 61,722,416.46 |
| Accounts payable | | 19,832,191,712.82 | 26,574,715,743.14 |
| Receipts in advance | | 10,553,642,205.32 | 10,265,421,675.61 |
| Employee benefits payable | | 1,067,189,892.33 | 1,073,164,972.01 |
| Taxes payable | | 2,322,523,438.08 | (112,094,016.84) |
| Interest payable | | 66,764,924.11 | 250,161,146.79 |
| Other payables | | 159,471,119.07 | 202,869,701.83 |
| Non-current liabilities due within one year | | 4,399,850,000.00 | 16,758,001,068.29 |
| Other current liabilities | | 1,921,647,447.24 | - |
| Total Current Liabilities | | 50,235,407,072.83 | 75,425,288,736.27 |
| Non-current Liabilities: | | | |
| Long-term borrowings | | 628,550,000.00 | 4,410,630,000.00 |
| Bonds payable | | 9,339,778,162.83 | 8,918,663,150.96 |
| Special payables | | 627,409,321.54 | 769,908,534.23 |
| Deferred tax liabilities | | 298,006,027.57 | 282,207,189.74 |
| Other non-current liabilities | | 586,978,435.75 | 980,722,628.04 |
| Total Non-current Liabilities | | 11,480,721,947.69 | 15,362,131,502.97 |
| TOTAL LIABILITIES | | 61,716,129,020.52 | 90,787,420,239.24 |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | | 17,122,048,088.00 | 17,512,048,088.00 |
| Capital reserve | | 35,894,640,824.12 | 37,207,402,138.54 |
| Less: Treasury shares | | 115,785,165.80 | - |
| Surplus reserve | | 23,229,714,608.04 | 21,132,255,172.18 |
| Retained earnings | | 27,655,734,884.98 | 22,768,306,759.11 |
| TOTAL SHAREHOLDERS' EQUITY | | 103,786,353,239.34 | 98,620,012,157.83 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 165,502,482,259.86 | 189,407,432,397.07 |

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2012

RMB

| Item | Notes | Amount for the current period | Amount for the prior period |
|--|-------|----------------------------------|--------------------------------|
| I. Total operating income | | 191,512,137,670.60 | 222,856,551,230.36 |
| Including: Operating income | (V)50 | 191,135,536,828.10 | 222,504,684,693.73 |
| Interest income | | 371,630,234.13 | 346,304,088.75 |
| Fee and commission income | | 4,970,608.37 | 5,562,447.88 |
| II. Total operating cost | | 189,117,333,837.44 | 214,640,818,873.43 |
| Including: Operating costs | (V)50 | 176,879,358,812.58 | 203,040,720,884.79 |
| Interest expenses | | 266,450,869.57 | 202,705,805.40 |
| Fee and commission expenses | | 575,355.99 | 366,496.27 |
| Business taxes and levies | (V)51 | 307,987,349.04 | 441,204,466.15 |
| Selling expenses | | 1,925,622,030.62 | 1,949,535,869.48 |
| Administrative expenses | | 7,237,559,690.08 | 8,583,662,236.26 |
| Financial expenses | (V)52 | 415,679,745.91 | 72,320,524.41 |
| Impairment losses of assets | (V)53 | 2,084,099,983.65 | 350,302,590.67 |
| Add: Gains from changes in fair values (Losses are indicated by "-") | (V)54 | (12,975,596.11) | (7,305,654.37) |
| Investment income | (V)55 | 1,214,690,828.50 | 630,470,730.12 |
| Including: Income from investments in associates and joint ventures | | 207,026,633.19 | 260,237,983.08 |
| III. Operating profit | | 3,596,519,065.55 | 8,838,897,432.68 |
| Add: Non-operating income | (V)56 | 10,502,489,013.27 | 646,413,128.52 |
| Less: Non-operating expenses | (V)57 | 959,355,275.97 | 225,185,204.97 |
| Including: Losses from disposal of non-current assets | | 779,567,721.43 | 178,886,100.76 |
| IV. Total profit | | 13,139,652,802.85 | 9,260,125,356.23 |
| Less: Income tax expenses | (V)58 | 2,706,697,134.02 | 1,524,325,189.19 |
| V. Net profit | | 10,432,955,668.83 | 7,735,800,167.04 |
| Net profit attributable to owners of the Company | | 10,386,372,522.05 | 7,361,961,636.41 |
| Profit or loss attributable to minority interests | | 46,583,146.78 | 373,838,530.63 |
| VI. Earnings per share | | | |
| Basic earnings per share | (V)59 | 0.60 | 0.42 |
| VII. Other comprehensive income | (V)60 | (66,884,221.34) | (602,064,417.18) |
| VIII. Total comprehensive income: | | 10,366,071,447.49 | 7,133,735,749.86 |
| Total comprehensive income attributable to owners of the Company | | 10,315,829,103.01 | 6,758,583,369.51 |
| Total comprehensive income attributable to minority interests | | 50,242,344.48 | 375,152,380.35 |

Income Statement of the Company

FOR THE YEAR ENDED 31 DECEMBER 2012

RMB

| Item | Notes | Amount for the current period | Amount for the prior period |
|--|-------|----------------------------------|--------------------------------|
| I. Operating income | (XI)5 | 129,732,149,355.48 | 174,671,679,498.86 |
| Less: Operating costs | (XI)5 | 120,018,114,042.54 | 162,298,753,998.30 |
| Business taxes and levies | | 132,933,823.08 | 219,355,005.46 |
| Selling expenses | | 676,603,354.78 | 821,974,660.74 |
| Administrative expenses | | 5,248,065,665.68 | 6,668,692,807.62 |
| Financial expenses | | (471,572,978.05) | (137,691,432.76) |
| Impairment losses of assets | | 2,338,457,245.04 | 361,858,893.17 |
| Add: Gains from changes in fair values (Losses are indicated by "-") | | (20,789,685.96) | (11,021,542.86) |
| Investment income | (XI)6 | 1,844,283,206.76 | 1,006,913,530.00 |
| Including: Income from investments in associates and joint ventures | | 107,617,111.14 | 292,647,580.58 |
| II. Operating profit | | 3,613,041,723.21 | 5,434,627,553.47 |
| Add: Non-operating income | | 10,182,582,848.03 | 319,056,192.06 |
| Less: Non-operating expenses | | 861,751,399.07 | 144,194,468.71 |
| Including: Losses from disposal of non-current assets | | 717,969,530.11 | 129,580,523.10 |
| III. Total profit | | 12,933,873,172.17 | 5,609,489,276.82 |
| Less: Income tax expenses | | 2,446,575,992.84 | 549,985,888.99 |
| IV. Net profit | | 10,487,297,179.33 | 5,059,503,387.83 |
| V. Other comprehensive income | | (92,180.29) | (26,109,289.00) |
| VI. Total comprehensive income | | 10,487,204,999.04 | 5,033,394,098.83 |

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2012

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 | | 220,057,231,706.70 | 250,862,817,851.43 |
| Net decrease in balance with the central bank and due from banks and other financial institutions | | 261,004,073.03 | - |
| Net decrease in loans and advances to customers | | 622,349,829.08 | 424,251,452.59 |
| Cash receipts from interest, fees and commissions | | 380,236,620.78 | 348,171,670.25 |
| Net increase in taking from banks and other financial institutions | | 300,000,000.00 | 329,451,350.00 |
| Net increase in financial assets sold under repurchase agreements | | 437,705,880.63 | - |
| Receipts of tax refunds | | 236,335,694.24 | 198,250,118.63 |
| Other cash receipts relating to operating activities | (V)61(1) | 1,733,758,724.11 | 2,765,023,762.90 |
| Sub-total of cash inflows from operating activities | | 224,028,622,528.57 | 254,927,966,205.80 |
| Cash payments for goods purchased and services received | | 184,147,619,778.19 | 222,611,487,125.82 |
| Net increase in balance with the central bank and due from banks and other financial institutions | | - | 167,314,947.63 |
| Net decrease in customer deposits and deposits from banks and other financial institutions | | 362,122,225.29 | 472,657,789.23 |
| Cash payments for interest, fees and commissions | | 234,476,212.22 | 191,038,515.12 |
| Cash payments to and on behalf of employees | | 8,780,477,553.29 | 9,093,149,003.85 |
| Payments of various types of taxes | | 4,431,758,211.64 | 7,367,904,635.22 |
| Other cash payments relating to operating activities | (V)61(2) | 3,869,994,679.06 | 2,882,184,440.95 |
| Sub-total of cash outflows from operating activities | | 201,826,448,659.69 | 242,785,736,457.82 |
| Net Cash Flows from Operating Activities | | 22,202,173,868.88 | 12,142,229,747.98 |
| II. Cash Flows from Investing Activities: | | | |
| Cash receipts from disposals and recovery of investments | | 3,449,444,471.54 | 2,637,328,762.55 |
| Cash receipts from investment income | | 602,985,116.92 | 414,483,716.25 |
| Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets | | 21,328,973,756.85 | 31,650,014.98 |
| Net cash receipts from disposals of subsidiaries and other business units | (V)62(2) | 1,973,043,650.38 | 12,703,102.72 |
| Other cash receipts relating to investing activities | (V)61(3) | 413,889,215.27 | 179,485,470.05 |
| Sub-total of cash inflows from investing activities | | 27,768,336,210.96 | 3,275,651,066.55 |
| Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets | | 12,343,614,165.20 | 15,068,201,566.60 |
| Cash payments to acquire investments | | 12,760,475,730.40 | 4,340,991,625.70 |
| Net cash payments for acquisitions of subsidiaries and other business units | | (1,422,513.09) | (6,427,856.16) |
| Other cash payments relating to investing activities | (V)61(4) | 16,864,017.29 | 2,977,331.19 |
| Sub-total of cash outflows from investing activities | | 25,119,531,399.80 | 19,405,742,667.33 |
| Net Cash Flows from Investing Activities | | 2,648,804,811.16 | (16,130,091,600.78) |

Consolidated Cash Flow Statement (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

RMB

| Item | Notes | Amount for the current period | Amount for the prior period |
|--|-------------|----------------------------------|--------------------------------|
| III. Cash Flows from Financing Activities: | | | |
| Cash receipts from capital contributions | | 329,817,398.08 | 211,881,350.11 |
| Including: cash receipts from capital contributions from minority owners of subsidiaries | | 329,817,398.08 | 211,881,350.11 |
| Cash receipts from borrowings | | 62,422,098,535.16 | 69,659,982,105.95 |
| Cash receipts from issue of bonds | (V)38(2),40 | 1,491,500,000.00 | - |
| Other cash receipts relating to financing activities | (V)61(5) | 1,921,647,447.24 | - |
| Sub-total of cash inflows from financing activities | | 66,165,063,380.48 | 69,871,863,456.06 |
| Cash repayments of borrowings | | 86,374,410,725.23 | 50,798,083,624.57 |
| Cash payments for distribution of dividends or profits or settlement of interest expenses | | 5,356,022,090.67 | 6,912,378,714.40 |
| Including: payments for distribution of dividends or profits to minority owner of subsidiaries | | 151,372,940.28 | 244,822,982.15 |
| Cash paid for Luoqing assets | (V)37(3) | 2,868,833,680.10 | 2,868,833,680.10 |
| Cash payments for repurchase of shares | (V)46 | 1,916,525,868.00 | - |
| Sub-total of cash outflow from financing activities | | 96,515,792,364.00 | 60,579,296,019.07 |
| Net Cash Flows from Financing Activities | | (30,350,728,983.52) | 9,292,567,436.99 |
| IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | | (59,021,345.38) | (62,401,619.77) |
| V. Net Increase in Cash and Cash Equivalents | | (5,558,771,648.86) | 5,242,303,964.42 |
| Add: Opening balance of Cash and Cash Equivalents | (V)62(3) | 13,180,223,388.65 | 7,937,919,424.23 |
| VI. Closing Balance of Cash and Cash Equivalents | (V)62(3) | 7,621,451,739.79 | 13,180,223,388.65 |

(No text on this page)

Cash Flow Statement of the Company

FOR THE YEAR ENDED 31 DECEMBER 2012

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 | | 145,643,919,653.85 | 201,094,862,268.01 |
| Other cash receipts relating to operating activities | | 1,236,526,157.06 | 2,046,612,601.01 |
| Sub-total of cash inflows from operating activities | | 146,880,445,810.91 | 203,141,474,869.02 |
| Cash payments for goods purchased and services received | | 128,995,455,330.45 | 166,212,415,076.77 |
| Cash payments to and on behalf of employees | | 5,306,606,006.46 | 5,719,536,036.83 |
| Payments of various types of taxes | | 1,921,163,987.75 | 4,597,078,036.01 |
| Other cash payments relating to operating activities | | 630,217,540.98 | 922,709,882.98 |
| Sub-total of cash outflows from operating activities | | 136,853,442,865.64 | 177,451,739,032.59 |
| Net Cash Flows from Operating Activities | (XI)8 | 10,027,002,945.27 | 25,689,735,836.43 |
| II. Cash Flows from Investing Activities: | | | |
| Cash receipts from disposals and recovery of investments | | 5,472,750,841.49 | 5,260,000,000.00 |
| Cash receipts from investment income | | 1,088,733,793.46 | 1,001,337,217.28 |
| Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets | | 21,272,625,973.16 | 12,775,759.23 |
| Other cash receipts relating to investing activities | | 382,824,054.94 | 160,021,160.37 |
| Sub-total of cash inflows from investing activities | | 28,216,934,663.05 | 6,434,134,136.88 |
| Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets | | 6,014,729,057.22 | 7,375,689,655.42 |
| Cash payments to acquire investments | | 12,511,016,506.88 | 5,487,982,180.65 |
| Other cash payments relating to investing activities | | 16,864,017.29 | 4,114,419.41 |
| Sub-total of cash outflows from investing activities | | 18,542,609,581.39 | 12,867,786,255.48 |
| Net Cash Flows from Investing Activities | | 9,674,325,081.66 | (6,433,652,118.60) |
| III. Cash Flows from Financing Activities: | | | |
| Cash receipts from borrowings | | 19,938,015,021.93 | 44,199,799,674.28 |
| Other cash receipts relating to financing activities | | 6,545,148,228.87 | - |
| Sub-total of cash inflows from financing activities | | 26,483,163,250.80 | 44,199,799,674.28 |
| Cash repayments of borrowings | | 43,759,459,500.20 | 41,433,830,836.31 |
| Cash payments for distribution of dividends or profits or interest expenses | | 4,397,828,962.53 | 6,305,382,111.55 |
| Cash paid for Luoqing assets | | 2,868,833,680.10 | 2,868,833,680.10 |
| Cash payments for repurchase of shares | | 1,916,525,868.00 | - |
| Other cash payments relating to financing activities | | - | 8,090,504,877.00 |
| Sub-total of cash outflow from financing activities | | 52,942,648,010.83 | 58,698,551,504.96 |
| Net Cash Flows from Financing Activities | | (26,459,484,760.03) | (14,498,751,830.68) |
| IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | | (31,701,817.41) | (8,033,809.10) |
| V. Net Increase in Cash and Cash Equivalents | | (6,789,858,550.51) | 4,749,298,078.05 |
| Add: Opening balance of Cash and Cash Equivalents | | 8,826,002,497.24 | 4,076,704,419.19 |
| VI. Closing Balance of Cash and Cash Equivalents | | 2,036,143,946.73 | 8,826,002,497.24 |

Consolidated Statement of Changes in Owners' Equity

FOR THE YEAR ENDED 31 DECEMBER 2012

| Item | Amount for the current year | | | | |
|--|---------------------------------------|--------------------|-----------------------|------------------|-------------------|
| | Attributable to owners of the Company | | | | |
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve | Surplus reserves |
| I. Opening balance of the current year | 17,512,048,088.00 | 37,330,639,029.54 | - | 11,788,986.69 | 21,132,255,172.18 |
| II. Changes for the year | (390,000,000.00) | (1,438,417,898.35) | (115,785,165.80) | 6,105,930.17 | 2,097,459,435.86 |
| (I) Net profit | - | - | - | - | - |
| (II) Other comprehensive income | - | (16,455,482.36) | - | - | - |
| Subtotal of (I) and (II) | - | (16,455,482.36) | - | - | - |
| (III) Owner's contributions and reduction in capital | - | (11,221,713.79) | (1,916,525,868.00) | - | - |
| 1. Capital contribution from owners | - | - | - | - | - |
| 2. Capital contribution from minority interests | - | - | - | - | - |
| 3. Purchase of shares from minority interests | - | - | - | - | - |
| 4. Others | - | (11,221,713.79) | (1,916,525,868.00) | - | - |
| (IV) Profit distribution | - | - | - | - | 2,097,459,435.86 |
| 1. Transfer to surplus reserve | - | - | - | - | 2,097,459,435.86 |
| 2. Distribution to owners of the company | - | - | - | - | - |
| 3. Distribution to minority interests | - | - | - | - | - |
| (V) Transfers within owners' equity | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - | - |
| 1. Others | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - | - |
| (VI) Special reserve | - | - | - | 6,105,930.17 | - |
| 1. Transfer to special reserve in the year | - | - | - | 166,742,174.93 | - |
| 2. Amount utilized in the year | - | - | - | (160,636,244.76) | - |
| III. Closing balance of the current year | 17,122,048,088.00 | 35,892,221,131.19 | (115,785,165.80) | 17,894,916.86 | 23,229,714,608.04 |

| Item | Amount for the same period of last year | | | | |
|--|---|-------------------|-----------------------|-----------------|-------------------|
| | Attributable to owners of the Company | | | | |
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve | Surplus reserves |
| I. Opening balance of the current year | 17,512,048,088.00 | 37,565,832,959.01 | - | 15,291,362.80 | 20,120,354,494.62 |
| II. Changes for the year | - | (235,193,929.47) | - | (3,502,376.11) | 1,011,900,677.56 |
| (I) Net profit | - | - | - | - | - |
| (II) Other comprehensive income | - | (502,975,229.21) | - | - | - |
| Subtotal of (I) and (II) | - | (502,975,229.21) | - | - | - |
| (III) Owner's contributions and reduction in capital | - | 267,781,299.74 | - | - | - |
| 1. Capital contribution from owners | - | - | - | - | - |
| 2. Capital contribution from minority interests | - | - | - | - | - |
| 3. Purchase of shares from minority interests | - | - | - | - | - |
| 4. Others | - | 267,781,299.74 | - | - | - |
| (IV) Profit distribution | - | - | - | - | 1,011,900,677.56 |
| 1. Transfer to surplus reserve | - | - | - | - | 1,011,900,677.56 |
| 2. Distribution to owners 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) | - |
| III. Closing balance of the current year | 17,512,048,088.00 | 37,330,639,029.54 | - | 11,788,986.69 | 21,132,255,172.18 |

RMB

Amount for the current year

| Attributable to owners of the Company | | | | Minority interest | Total owners' equity |
|---------------------------------------|--------------------|--|--------------------|--------------------|----------------------|
| General reserve | Retained earnings | Translation differences arising on translation of financial statements denominated in foreign currencies | Subtotal | | |
| - | 30,754,305,445.21 | (245,545,838.69) | 106,495,490,882.93 | 6,974,505,417.34 | 113,469,996,300.27 |
| - | 4,786,503,468.59 | (54,087,936.68) | 4,891,777,833.79 | (1,020,016,142.30) | 3,871,761,691.49 |
| - | 10,386,372,522.05 | - | 10,386,372,522.05 | 46,583,146.78 | 10,432,955,668.83 |
| - | - | (54,087,936.68) | (70,543,419.04) | 3,659,197.70 | (66,884,221.34) |
| - | 10,386,372,522.05 | (54,087,936.68) | 10,315,829,103.01 | 50,242,344.48 | 10,366,071,447.49 |
| - | - | - | (1,927,747,581.79) | (875,260,926.96) | (2,803,008,508.75) |
| - | - | - | - | - | - |
| - | - | - | - | 359,470,173.87 | 359,470,173.87 |
| - | - | - | - | - | - |
| - | - | - | (1,927,747,581.79) | (1,234,731,100.83) | (3,162,478,682.62) |
| - | (5,599,869,053.46) | - | (3,502,409,617.60) | (195,106,029.81) | (3,697,515,647.41) |
| - | (2,097,459,435.86) | - | - | - | - |
| - | (3,502,409,617.60) | - | (3,502,409,617.60) | - | (3,502,409,617.60) |
| - | - | - | - | (195,106,029.81) | (195,106,029.81) |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 6,105,930.17 | 108,469.99 | 6,214,400.16 |
| - | - | - | 166,742,174.93 | 8,134,643.93 | 174,876,818.86 |
| - | - | - | (160,636,244.76) | (8,026,173.94) | (168,662,418.70) |
| - | 35,540,808,913.80 | (299,633,775.37) | 111,387,268,716.72 | 5,954,489,275.04 | 117,341,757,991.76 |

Amount for the same period of last year

| Attributable to owners of the Company | | | | Minority interest | Total owners' equity |
|---------------------------------------|--------------------|--|--------------------|-------------------|----------------------|
| General reserve | Retained earnings | Translation differences arising on translation of financial statements denominated in foreign currencies | Subtotal | | |
| - | 29,657,858,912.76 | (145,142,801.00) | 104,726,243,016.19 | 6,596,017,233.65 | 111,322,260,249.84 |
| - | 1,096,446,532.45 | (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 |
| - | (6,265,515,103.96) | - | (5,253,614,426.40) | (246,936,233.07) | (5,500,550,659.47) |
| - | (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) |
| - | 30,754,305,445.21 | (245,545,838.69) | 106,495,490,882.93 | 6,974,505,417.34 | 113,469,996,300.27 |

Statement of Changes in Owners' Equity of the Company

FOR THE YEAR ENDED 31 DECEMBER 2012

| Item | Amount for the current year | | | |
|--|-----------------------------|--------------------|-----------------------|------------------|
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current year | 17,512,048,088.00 | 37,207,402,138.54 | - | - |
| II. Changes for the year | (390,000,000.00) | (1,312,761,314.42) | (115,785,165.80) | - |
| (I) Net profit | - | - | - | - |
| (II) Other comprehensive income | - | (92,180.29) | - | - |
| Subtotal of (I) and (II) | - | (92,180.29) | - | - |
| (III) Owner's contributions and reduction in capital | - | 98,071,568.07 | (1,916,525,868.00) | - |
| 1. Capital contribution from owners | - | - | - | - |
| 2. Others | - | 98,071,568.07 | (1,916,525,868.00) | - |
| (IV) Profit distribution | - | - | - | - |
| 1. Transfer to surplus reserve | - | - | - | - |
| 2. Distribution to owners | - | - | - | - |
| (V) Transfers within owners' equity | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| 1. Others | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| (VI) Special reserve | - | - | - | - |
| 1. Transfer to special reserve in the year | - | - | - | 105,699,301.51 |
| 2. Amount utilized in the year | - | - | - | (105,699,301.51) |
| III. Closing balance of the current year | 17,122,048,088.00 | 35,894,640,824.12 | (115,785,165.80) | - |

| Item | Amount for the same period of last year | | | |
|--|---|-------------------|-----------------------|-----------------|
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current period | 17,512,048,088.00 | 36,970,366,712.93 | - | - |
| II. 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) Owner'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 | - | - | - | - |
| III. Closing balance of the current year | 17,512,048,088.00 | 37,207,402,138.54 | - | - |

RMB

| Amount for the current year | | | |
|---|-----------------|--------------------|----------------------|
| Surplus reserves | General reserve | Retained earnings | Total owners' equity |
| 21,132,255,172.18 | - | 22,768,306,759.11 | 98,620,012,157.83 |
| 2,097,459,435.86 | - | 4,887,428,125.87 | 5,166,341,081.51 |
| - | - | 10,487,297,179.33 | 10,487,297,179.33 |
| - | - | - | (92,180.29) |
| - | - | 10,487,297,179.33 | 10,487,204,999.04 |
| - | - | - | (1,818,454,299.93) |
| - | - | - | - |
| - | - | - | (1,818,454,299.93) |
| 2,097,459,435.86 | - | (5,599,869,053.46) | (3,502,409,617.60) |
| 2,097,459,435.86 | - | (2,097,459,435.86) | - |
| - | - | (3,502,409,617.60) | (3,502,409,617.60) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | 105,699,301.51 |
| - | - | - | (105,699,301.51) |
| 23,229,714,608.04 | - | 27,655,734,884.98 | 103,786,353,239.34 |
| Amount for the same period of last year | | | |
| Surplus reserves | General reserve | Retained earnings | Total owners' equity |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

(I) COMPANY PROFILE

Baoshan Iron & Steel Company Limited (the "Company") was incorporated and registered on 3 February 2000 in Shanghai, the People's Republic of China ("PRC"), as a limited company, with the registration number of 310000000074519, 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 on the date of establishment.

The Company issued 1,877,000,000 ordinary shares (A shares) to the general public with a par value of 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 day when it was listed, and the exercising period was the last 5 trading days of the duration. The exercise proportion was 2:1 and the initial exercise price was 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 2010. A total of 113,785 components were successfully exercised before the stock market closed on 2 July 2010, the last effective exercise date for "Baosteel CWB1", increasing 48,088 shares of the Company.

According to "The Board's Resolution on the motion of repurchase shares of the company by centralized bidding"; "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd."; "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised articles of association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price no more than RMB5 per share and amount no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company has repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised articles of association, the Company applied for reduction of share capital RMB0.39 billion and finished all procedures with China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 20 December 2012. The Company renewed all commercial registration in December 2012, and the updated registered share capital is RMB17,122,048,088.00 as at 31 December 2012.

As at 31 December 2012, Baosteel Group holds 13,128,825,267 ordinary shares of the total tradable 17,122,048,088 common shares in RMB. The shareholding percentage is 76.68%.

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 prohibited by the Government).

The Company is also engaged 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 controlling shareholder 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 hereinafter refer to as the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

1. Basis of Preparation of Financial Statements

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

Basis of accounting and principle of measurement

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

2. Statement of compliance with the ASBE

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of 31 December 2012, 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 common control and business combinations not involving enterprises under common control

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

5.1 Business combination involving enterprises under common control

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

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

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

5.2 Business combinations involving enterprises not under common control

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

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The equity interest in the acquiree held before the acquisition date is remeasured at its fair value at the acquisition date, with any difference between its fair value and its carrying amount being recognized as investment income. The other comprehensive income of the acquiree before the acquisition date relating to the previously held interest in the acquiree is transferred to investment income.

The acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, which are acquired in a business combination not involving enterprises under common control, are measured at their fair value at the acquisition date. Where the cost of combination exceeds the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill as an asset and measured at cost. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is accounted for as follows: firstly, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination; then, if after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for 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 not involving enterprises under common 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 common 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 common 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 significant intra-group balances and transactions are eliminated on consolidation.

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 equity interest is recognized as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

7. Recognition criteria of cash and cash equivalents

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

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

8.1 Transactions denominated in foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

When the consolidated financial statements include foreign operations, 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.

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 and the amounts in functional currency remain unchanged. 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

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

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

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

9. Financial instruments

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

9.1 Determination of fair value

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

9.2 Effective interest method

The effective interest 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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 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 loans and advances to customers.

Loans and receivables are subsequently measured at amortized cost using the effective interest 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 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 asset 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

(9) Other objective evidence indicates that there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

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

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

- Impairment of available-for-sale financial assets

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

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

- Impairment of financial assets measure at cost

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

9.5 Transfer of financial assets

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

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

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

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

9.6 Classification, recognition and measurement of financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

9.6.1 Financial liabilities at fair value through profit or loss

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

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

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

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

9.6.2 Other financial liabilities

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

9.7 Derecognition of Financial Liabilities

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

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

9.8 Derivatives and embedded derivatives

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

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

9.9 Offsetting financial assets and a financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to 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.

9.10.1 Repurchase of share capital

The consideration and transaction costs paid to repurchase share capital are deducted from shareholders' equity. No gain or loss is recognised in profit or loss on the repurchase, sale or cancellation of the Company's share capital. Repurchased share capital is presented as treasury share before cancellation or sale, and all the expenditure occurred in repurchase is accounted for at cost of treasury shares. Treasury shares is not counted in profit

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

appropriation. The Company presents treasury shares as the reserve item of shareholders' equity in the balance sheet. When the Company reduces the capital by means of repurchasing ordinary shares in accordance with statutory procedure, it reduces the share capital in the face value of cancelled shares. The Company recognizes the difference between the consideration paid (including transaction costs) and face value of shares in equity. When the amount of consideration paid exceeds total face value, the difference is offset against capital reserve (capital premium), surplus reserve and retained earnings in consequence, when the amount of consideration paid is less than total face value, the difference is recognised in the capital reserve (capital premium).

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. In subsequent periods, the liability component of the convertible loan notes is carried as liability at amortised cost. The conversion option classified as equity remains in equity and does not need subsequent measurement.

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

10. Accounts receivable

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

| | |
|--|--|
| Basis for determining an individually significant receivable | A receivable that ranks top five largest 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 that are not individually significant and receivables that are individually significant but are not impaired individually | The Group regards age of accounts receivable as credit risk characteristics and divide the balance of accounts receivables into several aging group according to the same or similar credit risk characteristics of aging group of accounts receivable of previous year; determine the bad debts rate for each aging group on the basis of the actual loss rate combined with the current situation of the aging group, and make bad debts provision on the basis of calculation. Individual significant or insignificant accounts receivable with no credit risk and that can be collected within short term 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 accounts receivable (%) |
|---|--|--|
| 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% |

10.3 Receivables that are individually not significant but for which bad debt provision is individually assessed

| | |
|---|---|
| Reasons for determining individual provision for receivables | There is objective evidence of impairment. |
| Method of determining provision for receivables | The difference between the estimated recoverable amount and the book value is recognised as bad debt. |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

11. Inventories

11.1 Categories of inventories

The Group's inventories mainly include 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 post balance sheet events.

Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realisable value on an item-by-item basis.

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

11.4 Stock count system

The perpetual inventory system is maintained for stock system.

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

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

12. Long-term equity investments

12.1 Determination of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common 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 common 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 common 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

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

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

12.2.3 Disposal of long-term equity investments

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

12.3 Basis for determining joint control and significant influence over investee

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

12.4 Methods of impairment assessment and determining the provision for impairment loss

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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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 (%) | Annual 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 |

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 Methods of impairment assessment and 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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. Capitalisation 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. Capitalisation is suspended until the acquisition, construction or production of the asset is resumed. 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.

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 Methods of impairment assessment and 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

18. Long-term prepaid expenses

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

19. Assets transferred under repurchase agreements

19.1 Financial assets purchased under resale agreements

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

19.2 Financial assets sold under repurchase agreements

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

20. Revenue

20.1 Revenue from sales of goods

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

20.2 Revenue arising from the rendering of services

Revenue from rendering of services is recognized 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. 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 of services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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.

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 2012

(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.

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

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

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

Key assumptions and uncertainties in accounting estimates

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

25.1 Inventory Provision

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

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

25.2 Bad debt provision

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

25.3 Deferred tax assets

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

25.4 Fixed assets provision

The Group reviews whether there is any indication of impairment for the fixed assets at the balance sheet date. Impairment tests will be carried out when any indications of the book value may not be recoverable. If book value of assets or asset group is higher than the recoverable amount, there is impairment. An asset's fair value less costs to sell, is referenced to the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. When the current value of the expected future cash flow is forecasted, the management estimates the expected future cash flow of the asset or asset group, and selects the appropriate discount rate to determine the present value of future cash flow. Based on procedures mentioned above, the management of the Group considered that the provision has been sufficiently recognized.

(III) TAXES

Major categories of taxes and tax rates

| Category of tax | Basis of tax computation | Tax rate |
|---------------------------------------|--|--|
| Value-added tax | Taxable revenue of goods sales | 6%, 11%, 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 |
| Levies | 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 2012

(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1. Information of primary subsidiaries

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

| Full name of subsidiaries | Type | Place of incorporation | Nature of business | Registered capital ('000) |
|---|------|------------------------|--------------------|---------------------------|
| Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes) | LLC | Yantai | Manufacturing | RMB 100,000 |
| Baosteel Huangshi Coating & Galvanizing Co., Ltd. (Huangshi Coating & Galvanizing) | LLC | Huangshi | Manufacturing | RMB 144,647 |
| Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International) | LLC | Shanghai | Steel trading | RMB 2,248,879 |
| Shanghai Meishan Iron & Steel Co., Ltd. (Meishan Steel) | LLC | Nanjing | Manufacturing | RMB 7,081,426 |
| Shanghai Baosight Software Co., Ltd. (Baosight Software) | LLC | Shanghai | IT | RMB 340,917 |
| Baosteel America Inc (Baosteel America) | LLC | Texas, USA | Steel trading | USD 980 |
| Howa Trading Co., Ltd. (Howa Trading) | LLC | Tokyo, Japan | Steel trading | JPY 876,000 |
| Baosteel Europe GmbH (Baosteel Europe) | LLC | Hamburg, Germany | Steel trading | EUR 2,050 |
| Baosteel Singapore PTE Ltd. (Baosteel Singapore) | LLC | Singapore | Steel trading | SGD 1,500 |
| Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises) | LLC | Hong Kong | Steel trading | HKD 1,000 |
| Baosteel Do Brasil Ltda (Baosteel Brazil Trading) | LLC | Rio de Janeiro, Brazil | Steel trading | BRL 1,253 |
| Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical) | LLC | Shanghai | Manufacturing | RMB 2,110,047 |
| Baosteel Group Finance Co. Ltd. (Finance. Co.) | LLC | Shanghai | Finance | RMB 1,100,000 |
| Nantong Baosteel Steel and Iron Co., Ltd. (Nantong Steel) | LLC | Nantong | Manufacturing | RMB 620,532 |

(2) Newly established or invested subsidiaries

| Full name of subsidiaries | Type | Place of incorporation | Nature of business | Registered capital ('000) |
|--|------|--------------------------|--------------------|---------------------------|
| Yantai Baosteel Steel Tubes Co., Ltd. (Yantai Baosteel) | LLC | Yantai | Manufacturing | RMB 2,000,000 |
| Shanghai Huagongbao E-commerce Co., Ltd. (Huagongbao) | LLC | Shanghai | E-commerce | RMB 5,000 |
| Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube) | LLC | Karamay | Manufacturing | RMB 48,898 |
| Poly Pipe (Thailand) Co., Ltd. (Poly Pipe) ^(Note 1) | LLC | Thailand | Manufacturing | THB 2,800,000 |
| BGM Co., Ltd. (BGM) ^(Note 1) | LLC | Gyeonggi-do, South Korea | Manufacturing | KRW 10,000,000 |

Note 1: Poly Pipe and BGM are newly established companies in 2012.

Note 2: The equity interest in BGM is 50% at the balance sheet date. However, the Group has more than half of voting power in the board of directors of BGM. Therefore, the Group includes BGM in the scope of consolidation.

2. Subsidiaries not included in the consolidated scope due to sale of equity

| Name | Net assets on disposal date | Net income (loss) between the beginning of the year up to the date of disposal |
|--|-----------------------------|--|
| Shanghai Baosteel Special Metal Material Co., Ltd. (Special Metal) | 66,392,863.15 | 3,877,071.28 |
| Baoyin Special Tube Co., Ltd. (Baoyin Tube) | 165,580,938.61 | (13,214,859.67) |
| Shanghai No.5 Steel Gas Co., Ltd. (No.5 Steel Gas) | 116,488,239.62 | (1,015,005.69) |
| Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo Baoxin) | 2,957,031,620.53 | 26,684,251.57 |

Note: Detailed information of the above subsidiaries which are not included in consolidation scope in current year refer to Note (V).55(1) and Note (V).62(2).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

| Business scope | Actual capital contribution at the end of the period ('000) | Balance of other items, that in substance, constitutes net investment in the subsidiary | Proportion of equity 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 |
|---|---|---|-----------------------------------|--------------------------------|----------------------------------|-----------------------------|--|
| Production & sales of steel tubes | RMB 79,820 | - | 79.82% | 79.82% | Y | 147,657 | - |
| Production & sales of galvanized sheets | RMB 84,542 | - | 58.45% | More than half of voting power | Y | 138,079 | - |
| Steel trading | RMB 2,248,879 | - | 100% | 100% | Y | 1,199,853 | - |
| Steel processing & sales | RMB 5,455,836 | - | 77.04% | 77.04% | Y | 2,573,787 | - |
| Software development | RMB 145,545 | - | 55.5% | 55.5% | Y | 700,602 | - |
| Steel trading | USD 980 | - | 100% | 100% | Y | - | - |
| Steel trading | JPY 876,000 | - | 100% | 100% | Y | - | - |
| Steel trading | EUR 2,050 | - | 100% | 100% | Y | 63,221 | - |
| Steel trading | SGD 1,500 | - | 100% | 100% | Y | - | - |
| Steel trading | HKD 1,000 | - | 100% | 100% | Y | - | - |
| Steel trading | USD 980 | - | 100% | 100% | Y | - | - |
| Production and sales of chemical products | RMB 2,110,040 | - | 100% | 100% | Y | 239,172 | - |
| Financial & foreign exchange | RMB 310,500 | - | 62.1% | 62.1% | Y | 596,178 | - |
| Steel processing & sales | RMB 594,582 | - | 95.82% | 95.82% | Y | 26,413 | - |

| Business scope | Actual capital contribution at the end of the period ('000) | Balance of other items, that in substance, constitutes net investment in the subsidiary | Proportion of equity 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 |
|----------------------------------|---|---|-----------------------------------|--------------------------------|----------------------------------|-----------------------------|--|
| Steel tube production & sales | RMB 2,000,000 | - | 100% | 100% | Y | - | - |
| E-commerce | RMB 3,500 | - | 70% | 70% | Y | 1,214 | - |
| Steel tube production & sales | RMB 36,674 | - | 75% | 75% | Y | 11,378 | - |
| Steel tube processing | USD 37,577 | - | 51% | 51% | Y | 229,274 | - |
| Steel product processing & sales | KRW 5,000,000 | - | 50% | Over half ^(Note2) | Y | 27,661 | - |

3. Exchange rates for translating major financial statement items of oversea entities.

| Currency | Average exchange rate | | Exchange rate at end of period | |
|----------|-----------------------|----------|--------------------------------|----------|
| | | | | |
| | 2012 | 2011 | 2012 | 2011 |
| USD | 6.2932 | 6.4618 | 6.2855 | 6.3009 |
| EUR | 8.2401 | 8.4845 | 8.3176 | 8.1625 |
| JPY | 0.0771 | 0.0812 | 0.0730 | 0.0811 |
| BRL | 3.22436 | 3.59786 | 3.07059 | 3.37813 |
| THB | 0.2023 | 0.2092 | 0.2054 | 0.1991 |
| KRW | 0.005672 | 0.005679 | 0.005868 | 0.005476 |

RMB

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | | | 894,131.30 | | | 800,496.99 |
| Bank: | | | | | | |
| RMB | | | 5,074,366,586.22 | | | 11,012,184,461.38 |
| USD | 252,487,143.37 | 6.2855 | 1,587,007,939.68 | 187,613,144.03 | 6.3009 | 1,182,131,659.24 |
| JPY | 5,387,440,116.00 | 0.0730 | 393,547,113.06 | 3,064,159,430.48 | 0.0811 | 248,503,329.81 |
| EUR | 37,014,591.59 | 8.3176 | 307,872,567.02 | 41,699,729.16 | 8.1625 | 340,374,039.26 |
| HKD | 2,573,170.14 | 0.8109 | 2,086,455.01 | 1,175,844.16 | 0.8107 | 953,256.86 |
| THB | 406,286,396.84 | 0.2054 | 83,451,225.91 | - | 0.1991 | - |
| Other currencies | | | 78,908,329.11 | | | 38,742,403.32 |
| Other currency funds: | | | | | | |
| RMB | | | 93,317,392.48 | | | 75,753,028.43 |
| Deposit reserve in central bank by Finance Co. | | | 1,219,017,357.42 | | | 1,480,021,430.45 |
| Total | | | 8,840,469,097.21 | | | 14,379,464,105.74 |

Details of restricted bank balance are shown as follows:

RMB

| Item | Closing balance | Opening balance |
|--|------------------|------------------|
| Deposit reserve in central bank by Finance Co. | 1,219,017,357.42 | 1,480,021,430.45 |

At 31 December 2012, RMB1,714,803,262.36 (at 31 December 2011: RMB1,457,411,572.90) was deposited in overseas banks. At 31 December 2012, other currency funds of the Group mainly consist of cash for investment of RMB4,217,506.91 (at 31 December 2011: RMB11,446,244.82), bank acceptance bill's guarantee deposit of RMB85,282,497.06 (at 31 December 2011: RMB49,342,212.84), letter of credit's deposit of RMB1,605,092.40 (at 31 December 2011: RMB12,979,154.98) and credit card deposit of RMB148,573.77 (at 31 December 2011: RMB176,465.06), and etc.

2. Held-for-trading financial assets

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

RMB

| Item | Closing fair value | Opening fair value |
|----------------------------------|----------------------|-----------------------|
| Held-for-trading bond investment | 51,729,760.16 | 72,023,970.50 |
| Held-for-trading fund investment | 30,000,000.00 | 280,780,713.36 |
| Derivative financial assets | 7,848,049.15 | - |
| Total | 89,577,809.31 | 352,804,683.86 |

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

3. Notes receivable

(1) Categories of notes receivable

| RMB | | |
|-----------------------|-------------------|-------------------|
| Category | Closing balance | Opening balance |
| Bank acceptance | 11,852,905,308.99 | 12,141,494,879.81 |
| Commercial acceptance | 558,397,876.32 | 718,618,374.35 |
| Total | 12,411,303,185.31 | 12,860,113,254.16 |

As at 31 December 2012, a carrying amount of RMB746,165,373.27 (at 31 December 2011: RMB2,400,000.00) of the bank acceptance is being discounted for a short term loan of RMB746,165,373.27 (at 31 December 2011: RMB2,400,000.00). The carrying amount of Nil (at 31 December 2011: RMB38,000,000.00) is pledged against secured borrowings and under the Group's custody as Nil (at 31 December 2011: RMB67,000,000.00).

- (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 receivable due to any shareholders holding at least 5% of the Company's shares with voting power.
- (4) Notes receivable due from related parties refer to Note (VI). 6(1).
- (5) As at 31 December 2012, the details of top five largest balances of notes receivable discounted as short-term borrowings are as follows:

| RMB | | | |
|---|-------------------|------------------|----------------|
| Name of drawer | Date of issue | Maturity Date | Amount |
| Jinxi Jinlan Cold Rolled Sheets Co., Ltd. | 14 August 2012 | 14 February 2013 | 40,000,000.00 |
| Jinxi Jinlan Cold Rolled Sheets Co., Ltd. | 14 August 2012 | 14 February 2013 | 39,461,493.00 |
| Shanghai Gutai Metal Materials Co., Ltd. | 17 September 2012 | 17 March 2013 | 24,000,000.00 |
| Jiangsu Yulong Steel Pipe Co., Ltd. | 20 September 2012 | 20 March 2013 | 21,332,000.00 |
| China Railway Materials Company Limited | 6 August 2012 | 6 February 2013 | 20,586,011.00 |
| Total | | | 145,379,504.00 |

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

4. Accounts receivable

(1) Disclosure of accounts receivable by categories:

RMB

| Category | Closing balance | | | | Opening balance | | | |
|---|------------------|----------------|--------------------|----------------|------------------|----------------|--------------------|----------------|
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| Accounts receivable that are individually significant and for which bad debt provision has been assessed individually | 2,092,051,700.36 | 23 | 104,602,585.02 | 28 | 1,216,880,221.38 | 17 | 60,844,011.07 | 16 |
| Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually | 59,812,102.36 | 1 | 59,812,102.36 | 17 | 76,723,057.37 | 1 | 76,723,057.37 | 20 |
| Accounts receivables with provision accrued according to the credit risk characteristics | 6,757,553,797.64 | 76 | 202,809,785.36 | 55 | 6,077,801,741.06 | 82 | 249,944,831.90 | 64 |
| Total | 8,909,417,600.36 | 100 | 367,224,472.74 | 100 | 7,371,405,019.81 | 100 | 387,511,900.34 | 100 |

The aging analysis of accounts receivable is as follows:

RMB

| Aging | Closing balance | | | | Opening balance | | | |
|---|------------------|----------------|--------------------|------------------|------------------|----------------|--------------------|------------------|
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| Within 1 year | 8,435,466,570.96 | 94 | 267,537,990.34 | 8,167,928,580.62 | 7,048,095,546.41 | 96 | 287,785,053.14 | 6,760,310,493.27 |
| More than 1 year but not exceeding 2 years | 323,807,678.02 | 4 | 21,664,769.93 | 302,142,908.09 | 192,962,776.93 | 2 | 14,525,867.86 | 178,436,909.07 |
| More than 2 years but not exceeding 3 years | 71,624,990.42 | 1 | 18,209,610.11 | 53,415,380.31 | 40,118,318.19 | 1 | 8,477,921.97 | 31,640,396.22 |
| More than 3 years | 78,518,360.96 | 1 | 59,812,102.36 | 18,706,258.60 | 90,228,378.28 | 1 | 76,723,057.37 | 13,505,320.91 |
| Total | 8,909,417,600.36 | 100 | 367,224,472.74 | 8,542,193,127.62 | 7,371,405,019.81 | 100 | 387,511,900.34 | 6,983,893,119.47 |

(2) Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2012:

RMB

| Content of accounts receivable | Amount | Bad debt provision | Proportion of provision (%) | Reasons for provision |
|---|------------------|--------------------|-----------------------------|-----------------------|
| Accounts receivable that are individually significant | 2,092,051,700.36 | 104,602,585.02 | 5 | Note 1 |
| Accounts receivable with long aging | 59,812,102.36 | 59,812,102.36 | 100 | Note 2 |
| Total | 2,151,863,802.72 | 164,414,687.38 | | |

Accounts receivable that are individually significant or not individually significant but for which bad debts have been assessed individually as at 31 December 2011:

RMB

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

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

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

(3) Accounts receivable due from 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 2012

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

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

| RMB | | | | |
|------------------|-------------------------------|------------------|---------------|---|
| Name of customer | Relationship with the Company | Amount | Age | Proportion to the total accounts receivable (%) |
| Entity one | Related party | 866,803,662.44 | Within 1 year | 10 |
| Entity two | Related party | 372,390,295.70 | Within 1 year | 4 |
| Entity three | Related party | 322,124,412.18 | Within 1 year | 4 |
| Entity four | Third party | 277,731,380.07 | Within 1 year | 3 |
| Entity five | Related party | 253,001,949.97 | Within 1 year | 2 |
| Total | | 2,092,051,700.36 | | 23 |

- (5) As at 31 December 2012, a total carrying amount of RMB1,370,000,000.00 (31 December 2011: RMB50,000,000.00) of accounts receivable is mortgaged for a short-term borrowing of RMB1,370,000,000.00 by means of bank guarantee (31 December 2011: RMB50,000,000.00).

5. Prepayments

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

| RMB | | | | |
|---|------------------|----------------|------------------|----------------|
| Aging | Closing balance | | Opening balance | |
| | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | 3,612,030,958.89 | 97 | 5,146,739,253.10 | 97 |
| More than 1 year but not exceeding 2 years | 93,434,794.28 | 3 | 124,841,442.59 | 2 |
| More than 2 years but not exceeding 3 years | 10,385,058.49 | - | 17,479,240.15 | 1 |
| More than 3 years | 486,632.02 | - | 9,205,758.62 | - |
| Total | 3,716,337,443.68 | 100 | 5,298,265,694.46 | 100 |

As at 31 December 2012, prepayments with more than one year are mainly intended for purchase of large equipment used for projects under construction.

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

| RMB | | | |
|------------------|-------------------------------|------------------|---------------|
| Name of supplier | Relationship with the Company | Amount | Aging |
| Entity one | Related party | 613,053,963.15 | Within 1 year |
| Entity two | Third party | 245,463,958.57 | Within 1 year |
| Entity three | Related party | 253,745,650.28 | Within 1 year |
| Entity four | Related party | 212,168,062.95 | Within 1 year |
| Entity five | Third party | 167,358,058.45 | Within 1 year |
| Total | | 1,491,789,693.40 | |

- (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:

| RMB | | |
|--------------------------------------|------------------|------------------|
| Category | Closing balance | Opening balance |
| Individually significant prepayments | 1,491,789,693.40 | 1,898,220,209.40 |
| Other insignificant prepayments | 2,224,547,750.28 | 3,400,045,485.06 |
| Total | 3,716,337,443.68 | 5,298,265,694.46 |

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

6. Interest receivable

(1) Interest receivable

| RMB | | | | |
|---------------------|-----------------|-----------------------|-----------------------|-----------------|
| Item | Opening balance | Increase for the year | Decrease for the year | Closing balance |
| Interest receivable | 11,757,749.94 | 1,307,415,793.45 | 370,688,594.26 | 948,484,949.13 |

(2) Explanations for interest receivable:

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

(3) Interest receivable due to related parties refer to note (VI), 6(4).

7. Dividends receivable

| RMB | | | | | | |
|--|-----------------|--------------------------------|--------------------------------|-----------------|--|--------------------------------|
| Item | Opening balance | Increase in the current period | Decrease in the current period | Closing balance | Reasons for uncollected amounts | Whether the amount is impaired |
| Dividends receivable aged within 1 year | 227,449,857.31 | 5,649,323.48 | 227,449,857.31 | 5,649,323.48 | The Company has not yet collected dividends from CISDI Engineering Co., Ltd. | No |
| Dividends receivable aged More than 1 year | 19,199,112.85 | 8,791,450.49 | - | 27,990,563.34 | The Company has not yet collected dividends from CISDI Engineering Co., Ltd. | No |
| Total | 246,648,970.16 | 14,440,773.97 | 227,449,857.31 | 33,639,886.82 | | |

8. Other receivables

(1) Disclosure of other receivables by categories:

| RMB | | | | | | | | |
|---|------------------|----------------|--------------------|----------------|------------------|----------------|--------------------|----------------|
| Category | Closing balance | | | | Opening balance | | | |
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| Other receivables that are individually significant and for which bad debt provision has been assessed individually | 214,902,461.01 | 18 | 2,330,038.88 | 6 | 459,748,088.24 | 36 | 8,957,090.73 | 13 |
| Other receivables that are not individually significant but for which bad debt provision has been assessed individually | 24,220,931.54 | 2 | 24,220,931.54 | 67 | 46,786,649.42 | 4 | 46,786,649.42 | 70 |
| Other receivables with provision accrued according to the credit risk characteristics | 924,866,479.17 | 80 | 9,523,884.58 | 27 | 788,185,624.13 | 60 | 11,288,081.61 | 17 |
| Total | 1,163,989,871.72 | 100 | 36,074,855.00 | 100 | 1,294,720,361.79 | 100 | 67,031,821.76 | 100 |

Aging analysis of other receivables is as follows:

| RMB | | | | | | | | |
|---|------------------|----------------|--------------------|------------------|------------------|----------------|--------------------|------------------|
| Aging | Closing balance | | | | Opening balance | | | |
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| Within 1 year | 1,062,226,452.69 | 91 | 7,211,357.38 | 1,055,015,095.31 | 1,171,020,420.81 | 90 | 15,971,728.05 | 1,155,048,692.76 |
| More than 1 year but not exceeding 2 years | 24,536,713.09 | 2 | 2,614,178.68 | 21,922,534.41 | 24,939,771.36 | 2 | 1,647,765.68 | 23,292,005.68 |
| More than 2 years but not exceeding 3 years | 8,979,361.67 | 1 | 2,028,387.40 | 6,950,974.27 | 5,927,889.84 | 1 | 2,625,678.61 | 3,302,211.23 |
| More than 3 years | 68,247,344.27 | 6 | 24,220,931.54 | 44,026,412.73 | 92,832,279.78 | 7 | 46,786,649.42 | 46,045,630.36 |
| Total | 1,163,989,871.72 | 100 | 36,074,855.00 | 1,127,915,016.72 | 1,294,720,361.79 | 100 | 67,031,821.76 | 1,227,688,540.03 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 2012:

| RMB | | | | |
|---|----------------|--------------------|-----------------------------|---------|
| Content of other receivables | Amount | Bad debt provision | Proportion of provision (%) | Reasons |
| Other receivables with significant balances | 214,902,461.01 | 2,330,038.88 | 1 | Note 1 |
| Other receivables with long aging | 24,220,931.54 | 24,220,931.54 | 100 | Note 2 |
| Total | 239,123,392.55 | 26,550,970.42 | | |

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 | | |

Note 1: Other receivables with significant balances mainly consist of R&D expense receivable from Baosteel Group, custom's deposit, advances of project expense and government compensation for relocation. The Company did not make bad debt provision on custom's deposit, advances of project expense and government compensation for relocation in view of the low risk of collection, of which the book balance is RMB168,301,683.49 (RMB280,606,273.64 on 31 December 2011).

Note 2: The possibility of collecting the other receivables with long aging is very small. Therefore, the Company made full bad debt provision on the above other receivables.

- (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(5)

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

| RMB | | | | |
|----------------|-------------------------------|----------------|---------------|---|
| Name of Entity | Relationship with the Company | Amount | Age | Proportion to the total other receivables (%) |
| Entity one | Third party | 100,450,683.49 | Within 1 year | 9 |
| Entity two | Third party | 39,380,000.00 | Note | 3 |
| Entity three | Third party | 28,471,000.00 | Within 1 year | 2 |
| Entity four | Related party | 26,793,859.52 | Within 1 year | 2 |
| Entity five | Related party | 19,806,918.00 | Within 1 year | 2 |
| Total | | 214,902,461.01 | | 18 |

Note: The amount aged more than 2 year but not exceeding 3 years is RMB900,000.00, and the amount aged more than 3 years is RMB38,480,000.00.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

9. 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 | 7,257,520,093.30 | 2,853,074.04 | 7,254,667,019.26 | 11,026,768,705.39 | 345,036,625.44 | 10,681,732,079.95 |
| Work-in-progress | 7,771,738,033.33 | 180,588,026.30 | 7,591,150,007.03 | 11,858,155,097.69 | 589,940,930.26 | 11,268,214,167.43 |
| Finished goods | 10,534,004,003.87 | 348,474,943.23 | 10,185,529,060.64 | 11,374,743,688.57 | 602,126,053.86 | 10,772,617,634.71 |
| Spare parts and others | 3,821,761,452.62 | 62,224,606.76 | 3,759,536,845.86 | 4,774,385,414.94 | 107,235,910.12 | 4,667,149,504.82 |
| Total | 29,385,023,583.12 | 594,140,650.33 | 28,790,882,932.79 | 39,034,052,906.59 | 1,644,339,519.68 | 37,389,713,386.91 |

(2) Provision for decline in value of inventories

RMB

| Category of inventories | Opening carrying amount | Increase in the current period | Decrease in the current period | | Exchange differences arising on translation of financial statements denominated in foreign currencies | Closing carrying amount |
|-------------------------|-------------------------|--------------------------------|--------------------------------|----------------|---|-------------------------|
| | | | Reversals | Write-off | | |
| Raw materials | 345,036,625.44 | 112,643,547.86 | 377,025,376.53 | 77,801,722.73 | - | 2,853,074.04 |
| Work-in-progress | 589,940,930.26 | 69,248,784.22 | 137,952,685.44 | 340,649,002.74 | - | 180,588,026.30 |
| Finished goods | 602,126,053.86 | 151,263,775.15 | 372,006,242.76 | 32,870,556.68 | (38,086.34) | 348,474,943.23 |
| Spare parts and others | 107,235,910.12 | 4,806,983.62 | 3,543,875.88 | 46,274,411.10 | - | 62,224,606.76 |
| Total | 1,644,339,519.68 | 337,963,090.85 | 890,528,180.61 | 497,595,693.25 | (38,086.34) | 594,140,650.33 |

(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 carrying amount than net realizable value | Increase in price | 5% |
| Work-in-progress | Lower carrying amount than net realizable value | Increase in price | 2% |
| Merchandise | Lower carrying amount than net realizable value | Increase in price | 4% |
| Spare parts and others | Lower carrying amount than net realizable value | Increase in price | - |

No inventory was used for guarantee as at 31 December 2012. And no interest expense was capitalized in the closing balance of inventory as at 31 December 2012.

10. Non-current assets due within one year

RMB

| Item | Closing balance | Opening balance |
|---|------------------|-----------------|
| Available-for-sale bonds | - | 165,441,000.00 |
| Trust financial products | 380,000,000.00 | 318,466,475.02 |
| Accounts receivable from disposal of assets ^(note 1) | 4,500,000,000.00 | - |
| Total | 4,880,000,000.00 | 483,907,475.02 |

Note 1: Accounts receivable from disposal of assets due within one year is RMB4.5 billion, including RMB2.6 billion from Shanghai Baosteel Stainless Co., Ltd. and 1.9 billion from Baosteel Special Steel Co., Ltd. refer to Note (V).55(1).

Note 2: Accounts receivable from disposal of assets due from related parties in non-current assets due within one year refer to Note (VI).6(6).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

11. Loans and advances to customers

(1) Category of loans and advances to customers

| RMB | | |
|-------------------------------|------------------|------------------|
| Item | Closing balance | Opening balance |
| Loans | 2,237,151,741.38 | 3,330,900,000.00 |
| Discounts | 624,042,867.81 | 152,644,438.27 |
| Provision for loan impairment | (98,175,000.00) | (73,400,000.00) |
| Total | 2,763,019,609.19 | 3,410,144,438.27 |

(2) Provision for short-term, medium-term, and long-term loans

| RMB | | | | | |
|---|-------------------------|--------------------------------|--------------------------------|-----------|-------------------------|
| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | | Closing carrying amount |
| | | | Reversals | Write-off | |
| Provision for short-term, medium-term, and long-term loans losses | 73,400,000.00 | 24,775,000.00 | - | - | 98,175,000.00 |

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).

12. Available-for-sale financial assets

Available-for-sale financial assets

| RMB | | |
|--|--------------------|--------------------|
| Item | Closing fair value | Opening fair value |
| Available-for-sale bonds | 398,845,360.00 | 544,860,320.00 |
| Available-for-sale equity instruments | 1,068,986,941.93 | 1,116,763,674.37 |
| Others | - | 8,790,000.00 |
| Less: available-for-sale bonds due within one year ^(Note) | - | 165,441,000.00 |
| Total | 1,467,832,301.93 | 1,504,972,994.37 |

Note: Details of available-for-sale bonds due within one year refer to Note (V) 10.

13. Long-term receivables

| RMB | | |
|---|-------------------|-----------------|
| Item | Closing balance | Opening balance |
| Accounts receivable from disposal of assets ^(Note 1) | 22,500,000,000.00 | - |
| Finance leases receivables | 43,013,996.26 | 31,945,441.89 |
| including: Unrealized finance income | (2,993,996.26) | (3,115,441.89) |
| Bad debt provision | (4,081,000.00) | (1,441,500.00) |
| Less: Accounts receivable from disposal of assets due within one year ^(Note 1) | 4,500,000,000.00 | - |
| Total | 18,035,939,000.00 | 27,388,500.00 |

Note 1: Details for account receivable from disposal of assets refer to Note (V), 55(1).

Note 2: Long-term receivables due from shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI), 6(8).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

14. 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 Steel Processing Co., Ltd. (Shipping-Baosteel) | LLC | Shanghai | Zhang Yong | Manufacturing |
| Shandong Baohua wear-resistant steel Co. Ltd. (Shandong Baohua) | LLC | Linyi | Yao Linlong | Manufacturing |
| II. Associates | | | | |
| Shanghai STAL Precision Stainless Steel Co., Ltd. (STAL Precision) ^(Note 3) | 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 |
| 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) ^(Note 3) | LLC | Shanghai | Li Ruoping | Manufacturing |
| Rihong Stainless Steel (shanghai) Co., Ltd. (Rihong Stainless) ^(Note 3) | 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 3) | 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) | LLC | Binh Duong Vietnam | Not applicable | Package industry |
| Beijing Qingkechuangtong Information and Technology Co., Ltd. (Qingke Chuangtong) ^(Note 4) | LLC | Beijing | Fan Jianming | Manufacturing |
| Zhengzhou Hongzhongbao Metal Processing Co., Ltd. (Zhengzhou Hongzhongbao) | LLC | Zhengzhou | Qi Tengzi | Manufacturing |
| Guangzhou Guangqibaoshang Steel Processing Co., Ltd. (Guangqibaoshang) ^(Note 4) | LLC | Guangzhou | Liang Danqing | Manufacturing |
| Wuxi Baomeifeng Steel Processing Co., Ltd. (Wuxi Baomeifeng) | LLC | Wuxi | Sakata Chicheng | Manufacturing |

Note 1: The Company scoped out Niagara Machinery as the joint venture has entered the process of liquidation since 2010, but has not finalized the liquidation by the end of 2012.

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

Note 3: These investments were disposed of by the Group in 2012, hence, no financial information is disclosed.

Note 4: The share capital has not yet been fully contributed. Also, no operation is being launched in 2012.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

| Paid-in capital | | Proportion of equity 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 | 4,720,905,282.44 | 1,162,674,284.41 | 3,558,230,998.03 | 13,046,982,031.17 | 155,639,042.57 | |
| HKD | 3,300 | 50 | 50 | 1,588,169,856.00 | 402,705,699.50 | 1,177,902,700.00 | 773,862,217.60 | 2,649,437.20 | |
| USD | 37,500 | 50 | 50 | - | - | - | - | - | |
| RMB | 199,930 | 50 | 50 | 213,999,167.86 | - | 213,999,167.86 | - | 5,193,175.11 | |
| RMB | 200,000 | 50 | 50 | 203,809,590.82 | 4,814,036.63 | 198,995,554.19 | - | (1,004,445.81) | |
| USD | 96,560 | - | - | - | - | - | - | - | |
| RMB | 211,500 | 38 | 38 | 604,934,663.35 | 273,934,053.90 | 331,000,609.45 | 968,197,396.07 | 75,016,784.89 | |
| USD | 3,000 | 41.33 | 41.33 | 13,219,855.71 | 7,689,522.11 | 5,530,333.60 | 29,856,008.60 | 22,344.58 | |
| RMB | 800,000 | 40 | 40 | 1,808,890,463.25 | 1,022,141,007.21 | 786,749,456.04 | 837,877,321.02 | 188,059,248.08 | |
| RMB | 140,000 | 40 | 40 | 168,114,012.92 | 38,083,409.69 | 130,030,603.23 | 272,078,787.57 | 2,214,306.48 | |
| USD | 7,702 | 51 | Note 2 | 284,962,785.69 | 146,895,334.24 | 138,067,451.45 | 319,305,433.93 | 2,650,008.75 | |
| RMB | 5,000 | - | - | - | - | - | - | - | |
| RMB | 95,000 | - | - | - | - | - | - | - | |
| RMB | 50,000 | 45 | 45 | 81,823,110.32 | 25,747,197.21 | 56,075,913.11 | 123,185,095.35 | 3,907,645.04 | |
| RMB | 40,000 | - | - | - | - | - | - | - | |
| EUR | 1,500 | 35 | 35 | 397,024,657.89 | 356,708,246.76 | 40,316,411.13 | 474,599,378.11 | (25,126,097.20) | |
| USD | 35,600 | 30 | 30 | 296,490,000.00 | 87,280,000.00 | 209,210,000.00 | - | (16,894,130.74) | |
| RMB | 20,000 | 35 | 35 | - | - | - | - | - | |
| RMB | 55,000 | 49 | 49 | 51,616,967.52 | (707,092.33) | 52,324,059.85 | - | (2,675,940.15) | |
| RMB | 68,000 | 35 | 35 | - | - | - | - | - | |
| USD | 8,000 | 35 | 35 | 331,351,972.31 | 273,391,263.02 | 57,960,709.29 | 395,930,803.12 | (9,923,396.49) | |

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 and investment income repatriation from these associates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

15. Long-term equity investment

(1) Details of long-term equity investments are as follows:

| Name of investee | Accounting method | Initial investment cost | Opening balance | Increase/(decrease) | Closing balance |
|---|-------------------|-------------------------|------------------|---------------------|------------------|
| Joint ventures | | | | | |
| BNA | Equity method | 1,500,000,000.00 | 1,704,341,426.17 | 74,775,191.77 | 1,779,116,617.94 |
| Bao-Island Enterprise | Equity method | 143,084,132.00 | 589,379,885.10 | (428,535.10) | 588,951,350.00 |
| Niagara Machinery | Equity method | 123,721,439.29 | - | - | - |
| Shipping-Baosteel | Equity method | 99,965,000.00 | 103,180,195.89 | 3,819,388.06 | 106,999,583.95 |
| Shandong Baohua | Equity method | 100,000,000.00 | - | 99,497,777.09 | 99,497,777.09 |
| Subtotal of joint ventures | | 1,966,770,571.29 | 2,396,901,507.16 | 177,663,821.82 | 2,574,565,328.98 |
| Associates | | | | | |
| STAL Precision | Equity method | 251,457,421.93 | 535,656,956.86 | (535,656,956.86) | - |
| Welding Co. | Equity method | 74,102,784.20 | 121,973,853.29 | 3,806,378.27 | 125,780,231.56 |
| Renwei Software | Equity method | 5,131,591.00 | 2,276,451.87 | 9,235.01 | 2,285,686.88 |
| Henan Pingbao | Equity method | 320,000,000.00 | 224,092,166.59 | 90,607,615.81 | 314,699,782.40 |
| Tianjin BCM | Equity method | 56,000,000.00 | 51,306,661.98 | 705,579.31 | 52,012,241.29 |
| Wuxi Baomit | Equity method | 32,522,976.15 | 73,896,993.08 | (5,108,662.77) | 68,788,330.31 |
| Zhongyou Baoshun | Equity method | 1,750,000.00 | 1,887,085.90 | (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 | 2,747,619.72 | 25,234,160.90 |
| Ningbo Stainless | Equity method | 4,080,000.00 | 4,080,000.00 | (4,080,000.00) | - |
| NSM | Equity method | 74,784,021.08 | 65,301,632.50 | 1,240,831.02 | 66,542,463.52 |
| Vietnam Can Making | Equity method | 67,190,740.00 | 25,203,600.00 | 37,839,411.88 | 63,043,011.88 |
| Qingke Chuangtong | Equity method | 3,500,000.00 | - | 3,500,000.00 | 3,500,000.00 |
| Zhengzhou Hongzhong | Equity method | 26,950,000.00 | - | 25,638,789.33 | 25,638,789.33 |
| Guangqi Baoshang | Equity method | 23,800,000.00 | - | 23,800,000.00 | 23,800,000.00 |
| Wuxi Baomeifeng | Equity method | 35,173,600.00 | - | 29,118,497.35 | 29,118,497.35 |
| Subtotal of associates | | 1,008,416,575.34 | 1,137,679,833.87 | (337,236,638.45) | 800,443,195.42 |
| 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 Luoqing 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 Huiaren 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 | 3,000,000.00 |
| Globalore Pte Ltd. | Cost method | - | - | 15,713,750.00 | 15,713,750.00 |
| Steam (Beijing) Automotive Lightweight Technology Research Co., Ltd. | Cost method | - | - | 3,000,000.00 | 3,000,000.00 |
| Petro China northwest United Pipeline Co., Ltd. | Cost method | - | - | 4,800,000,000.00 | 4,800,000,000.00 |
| Others | Cost method | - | 980,000.00 | - | 980,000.00 |
| Subtotal of others | | - | 959,990,670.40 | 4,779,997,826.77 | 5,739,988,497.17 |
| Equity transferred from old system trade right due to non-tradable share reform | | - | 7,949,489.18 | - | 7,949,489.18 |
| Total | | - | 4,502,521,500.61 | 4,620,425,010.14 | 9,122,946,510.75 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

| | | | | | | RMB |
|---|--|---|--------------------------|---|-------------------------------|-----|
| Proportion of equity interest held by the Group (%) | Proportion of voting power in the investee held by the Group (%) | Explanation of the inconsistency between the proportion of equity interest and the proportion of voting power | Provision for impairment | Provision for impairment for the period | Cash dividends for the period | |
| 50 | 50 | | - | - | - | |
| 50 | 50 | | - | - | - | |
| 50 | 50 | | - | - | - | |
| 50 | 50 | | - | - | - | |
| 50 | 50 | | - | - | - | |
| - | - | | - | - | - | |
| - | - | | - | - | - | |
| 38 | 38 | | - | - | 24,700,000.00 | |
| 41.33 | 41.33 | | - | - | - | |
| 40 | 40 | | - | - | - | |
| 40 | 40 | | - | - | - | |
| 51 | Note 1 | Note 1 | - | - | 6,460,167.23 | |
| - | - | | - | - | - | |
| - | - | | - | - | - | |
| 45 | 45 | | - | - | - | |
| - | - | | - | - | - | |
| 35 | 35 | | - | - | - | |
| 30 | 30 | | - | - | - | |
| 35 | 35 | | - | - | - | |
| 49 | 49 | | - | - | - | |
| 35 | 35 | | - | - | - | |
| 35 | 35 | | - | - | - | |
| - | - | | - | - | 31,160,167.23 | |
| 50 | Note 2 | Note 2 | - | - | 35,668,836.00 | |
| 15 | 15 | | - | - | - | |
| 6.28 | 6.28 | | - | - | 5,649,323.48 | |
| 7.128 | 7.128 | | - | - | - | |
| 5 | 5 | | 666,024.47 | - | - | |
| 20 | 20 | | 3,311,720.00 | - | - | |
| 3.53 | 3.53 | | - | - | - | |
| 12.96 | 12.96 | | - | - | - | |
| 12 | 12 | | - | - | 13,395,251.27 | |
| 10 | 10 | | - | - | 113,370,525.00 | |
| 4.91 | 4.91 | | - | - | 83,398,933.80 | |
| - | - | | - | - | - | |
| 0.09 | 0.09 | | - | - | - | |
| - | - | | - | - | 1,010,000.00 | |
| 15 | 15 | | - | - | - | |
| 14.29 | 14.29 | | - | - | - | |
| 6.90 | 6.90 | | - | - | - | |
| 12.80 | 12.80 | | - | - | - | |
| Tiny | Tiny | | - | - | 24,500.00 | |
| - | - | | 3,977,744.47 | - | 252,517,369.55 | |
| - | - | | - | - | - | |
| - | - | | 3,977,744.47 | - | 283,677,536.78 | |

Note 1: Details refer to Note (V). 14 Note 2.

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 is only able to collect fixed payment from Baovale Mining Co., Ltd. in accordance with investment agreements. Therefore, the investment in Baovale is regarded as long-term equity investment and measured on basis of cost method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

16. Investment properties

Investment properties measured at cost

| | | | | RMB |
|--|-------------------------|--------------------------------|--------------------------------|-------------------------|
| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Total original carrying amount | 640,947,820.71 | 35,839,165.77 | 41,853,265.78 | 634,933,720.70 |
| 1. Buildings | 353,161,960.80 | - | 41,853,265.78 | 311,308,695.02 |
| 2. Land use rights | 287,785,859.91 | 35,839,165.77 | - | 323,625,025.68 |
| II. Total accumulated depreciation and amortization | 153,473,122.71 | 20,625,606.67 | 16,636,243.31 | 157,462,486.07 |
| 1. Buildings | 126,082,621.97 | 11,920,781.93 | 16,636,243.31 | 121,367,160.59 |
| 2. Land use rights | 27,390,500.74 | 8,704,824.74 | - | 36,095,325.48 |
| III. Total net book value of investment properties | 487,474,698.00 | | | 477,471,234.63 |
| 1. Buildings | 227,079,338.83 | | | 189,941,534.43 |
| 2. Land use rights | 260,395,359.17 | | | 287,529,700.20 |
| IV. Total accumulated provision for impairment losses of investment properties | - | - | - | - |
| 1. Buildings | - | - | - | - |
| 2. Land use rights | - | - | - | - |
| V. Total carrying amounts of investment properties | 487,474,698.00 | | | 477,471,234.63 |
| 1. Buildings | 227,079,338.83 | | | 189,941,534.43 |
| 2. Land use rights | 260,395,359.17 | | | 287,529,700.20 |

As at 31 December 2012, the property right of the buildings, amounting to RMB78,336,893.89 in carrying amount, is still in the process of registration. (at 31 December 2011: RMB 83,486,411.37).

Descriptions of investment properties:

- (1) The increase in the original carrying amount for the current period consists of RMB35,839,165.77 transferred from owner-occupied properties.
- (2) The decrease in the original carrying amount for the current period consists of RMB33,322,656.78 transferred to owner-occupied properties and RMB8,530,609.00 from disposal of subsidiaries.
- (3) The increase in accumulated depreciation and amortisation for the current period consists of RMB17,659,977.09 charged for the current period, RMB2,965,629.58 transferred from owner-occupied properties.
- (4) The decrease in accumulated depreciation and amortisation for the current period consists of RMB14,673,633.97 transferred to owner-occupied properties and RMB1,962,609.34 from disposal of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

17. Fixed assets

(1) Fixed assets

| RMB | | | | |
|---|-------------------------|--------------------------------|--------------------------------|-------------------------|
| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Total original carrying amount | 266,197,238,288.40 | 18,683,493,898.93 | 68,029,646,319.91 | 216,851,085,867.42 |
| Including: Buildings | 58,599,644,880.55 | 4,438,036,686.20 | 17,850,108,419.13 | 45,187,573,147.62 |
| Machinery and equipment | 169,259,414,269.25 | 10,961,545,528.12 | 42,996,120,871.96 | 137,224,838,925.41 |
| Transportation vehicles | 18,341,266,987.42 | 1,607,674,859.89 | 3,004,669,082.50 | 16,944,272,764.81 |
| Office and other equipment | 19,996,912,151.18 | 1,676,236,824.72 | 4,178,747,946.32 | 17,494,401,029.58 |
| II. Total accumulated depreciation | 150,777,283,776.80 | 11,222,312,283.31 | 24,590,958,450.21 | 137,408,637,609.90 |
| Including: Buildings | 24,244,322,906.02 | 2,118,197,044.96 | 4,319,304,273.71 | 22,043,215,677.27 |
| Machinery and equipment | 95,921,929,582.19 | 6,994,097,387.53 | 15,277,884,622.89 | 87,638,142,346.83 |
| Transportation vehicles | 15,323,753,480.59 | 1,021,527,931.10 | 2,005,954,760.00 | 14,339,326,651.69 |
| Office and other equipment | 15,287,277,808.00 | 1,088,489,919.72 | 2,987,814,793.61 | 13,387,952,934.11 |
| III. Total net book value of fixed assets | 115,419,954,511.60 | | | 79,442,448,257.52 |
| Including: Buildings | 34,355,321,974.53 | | | 23,144,357,470.35 |
| Machinery and equipment | 73,337,484,687.06 | | | 49,586,696,578.58 |
| Transportation vehicles | 3,017,513,506.83 | | | 2,604,946,113.12 |
| Office and other equipment | 4,709,634,343.18 | | | 4,106,448,095.47 |
| IV. Total provision for impairment losses | 48,592,934.14 | 84,425.11 | 46,244,118.17 | 2,433,241.08 |
| Including: Buildings | 14,661,224.12 | - | 14,365,552.78 | 295,671.34 |
| Machinery and equipment | 33,535,111.69 | 39,394.26 | 31,702,770.37 | 1,871,735.58 |
| Transportation vehicles | 174,724.48 | 45,030.85 | 2,151.10 | 217,604.23 |
| Office and other equipment | 221,873.85 | - | 173,643.92 | 48,229.93 |
| V. Total carrying amount of fixed assets | 115,371,361,577.46 | | | 79,440,015,016.44 |
| Including: Buildings | 34,340,660,750.41 | | | 23,144,061,799.01 |
| Machinery and equipment | 73,303,949,575.37 | | | 49,584,824,843.00 |
| Transportation vehicles | 3,017,338,782.35 | | | 2,604,728,508.89 |
| Office and other equipment | 4,709,412,469.33 | | | 4,106,399,865.54 |

(2) Temporarily idle fixed assets

As at 31 December 2012, the total carrying amount of temporarily idle fixed assets is Nil (at 31 December 2011: RMB2,518,883.52).

(3) Fixed assets leased out under operating leases

| RMB | | |
|----------------------------|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Buildings | 303,082,931.51 | 394,009,206.78 |
| Machinery and equipment | 205,439,151.28 | 252,338,402.64 |
| Transportation vehicles | 95,329,751.67 | 110,031,135.53 |
| Office and other equipment | 27,199,440.37 | 23,840,345.56 |
| Total | 631,051,274.83 | 780,219,090.51 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

As at 31 December 2012, the property right of the buildings, amounting to RMB2,261,373,549.89 (at 31 December 2011: RMB4,286,009,172.00), is still in the process of being transferred to the Group. The management anticipates no legal or other obstacles in obtaining the certificates as long as registration formalities are carried over and related fees are paid.

Descriptions of fixed assets:

- (1) The increase in the original carrying amount for the current period consists of RMB519,537,675.76 acquired, RMB17,889,330,486.57 transferred from construction in progress, RMB241,303,079.82 from acquisition of subsidiaries, and RMB33,322,656.78 transferred from investment properties.
- (2) The decrease in the original carrying amount for the current period consists of RMB5,414,347,619.55 on disposals, RMB16,265,989,309.88 transferee to investment properties, RMB46,338,875,212.65 on disposal of subsidiaries, and RMB10,434,177.83 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 RMB11,168,885,745.26 charged for the current period, RMB38,752,904.08 on acquisition of subsidiaries and RMB14,673,633.97 transferee from investment properties.
- (4) The decrease in accumulated depreciation for the current period consists of RMB2,333,411,588.90 on disposals, RMB4,584,270,469.37 transferee to investment properties, RMB17,670,581,910.28 on disposal of subsidiaries and RMB2,694,481.66 on exchange differences arising from translation of financial statements denominated in foreign currencies.
- (5) The increase in the impairment for the current period consists of RMB 84,425.11 from acquisition of subsidiaries.
- (6) The decrease in the impairment for the current period consists of RMB 46,244,118.17 on disposals.
- (7) As at 31 December 2012, the Group acquired a loan of RMB88,367,952.00, with the construction in progress of RMB 41,287,841.84, fixed assets of RMB 31,726,791.84 and land use rights of RMB 72,207,242.56 as collateral.

18. Construction in progress

(1) Details of construction in progress:

| Item | Closing balance | | | Opening balance | | |
|---|------------------|--------------------------|---------------------|-------------------|--------------------------|---------------------|
| | Carrying amount | Provision for impairment | Net carrying amount | Carrying amount | Provision for impairment | Net carrying amount |
| Technical upgrade and infrastructure construction | 9,966,930,139.34 | - | 9,966,930,139.34 | 16,282,590,033.75 | - | 16,282,590,033.75 |

Note: As at 31 December 2012, the Group acquired a loan of RMB 88,367,952.00, with the construction in progress amounting to RMB 41,287,841.84, fixed assets amounting to RMB 31,726,791.84 and land use rights amounting to RMB 72,207,242.56 as collateral.

(2) Changes in significant construction in progress:

| Item | Budget | Opening balance | Increase in the current period | Transfer to fixed assets | Transfer to intangible assets |
|---|-------------------|-------------------|--------------------------------|--------------------------|-------------------------------|
| Technical upgrade and infrastructure construction | 35,789,932,728.95 | 16,282,590,033.75 | 12,111,379,035.44 | 17,889,330,486.57 | 537,708,443.28 |

| 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 infrastructure construction | 79% | 385,875,169.78 | 248,933,818.43 | 4.667%-7.290% | Cash from operation and loans | 9,966,930,139.34 |

19. Materials for construction of fixed assets

| Item | Opening balance | Increase in the current period | Decrease in the current period | Closing balance |
|----------------------|-----------------|--------------------------------|--------------------------------|-----------------|
| Special materials | 2,611,901.44 | 18,872,235.01 | 17,503,995.64 | 3,980,140.81 |
| Special equipment | 799,616,431.52 | 3,458,681,445.13 | 4,156,989,310.80 | 101,308,565.85 |
| Equipment in transit | 3,583,927.78 | 346,002,795.08 | 343,685,062.58 | 5,901,660.28 |
| Total | 805,812,260.74 | 3,823,556,475.22 | 4,518,178,369.02 | 111,190,366.94 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

20. Intangible assets

| | | | | RMB |
|--|-------------------------|--------------------------------|--------------------------------|-------------------------|
| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Total original carrying amount | 9,262,986,353.77 | 725,786,628.68 | 2,984,240,682.07 | 7,004,532,300.38 |
| Land use rights | 9,049,856,270.88 | 681,581,156.93 | 2,915,838,415.27 | 6,815,599,012.54 |
| Software | 80,379,180.12 | 33,416,299.83 | 36,583,571.04 | 77,211,908.91 |
| Others | 132,750,902.77 | 10,789,171.92 | 31,818,695.76 | 111,721,378.93 |
| II. Total accumulated amortization | 1,136,812,527.02 | 206,133,401.76 | 490,942,643.60 | 852,003,285.18 |
| Land use rights | 991,574,817.17 | 168,415,324.07 | 427,009,348.73 | 732,980,792.51 |
| Software | 60,528,328.43 | 30,207,121.06 | 32,114,599.11 | 58,620,850.38 |
| Others | 84,709,381.42 | 7,510,956.63 | 31,818,695.76 | 60,401,642.29 |
| III. Total net book value of intangible assets | 8,126,173,826.75 | | | 6,152,529,015.20 |
| Land use rights | 8,058,281,453.71 | | | 6,082,618,220.03 |
| Software | 19,850,851.69 | | | 18,591,058.53 |
| Others | 48,041,521.35 | | | 51,319,736.64 |
| IV. Total provision for impairment | - | - | - | - |
| Total carrying amount of intangible assets | 8,126,173,826.75 | | | 6,152,529,015.20 |

Description of intangible assets:

- As at 31 December 2012, land use rights without certificates of the title show a net carrying amount of RMB124,035,761.53 (31 December 2011: RMB490,509,945.50). The management of the Company anticipates no legal or other obstacles in obtaining the certificates when registration formalities are carried over and related fees are paid.
- As at 31 December 2012, the Group acquired a loan of RMB88,367,952.00, with the construction in progress amounting to RMB41,287,841.84, fixed assets amounting to RMB31,726,791.84 and land use rights amounting to RMB72,207,242.56 as collateral.
- The increase in the original carrying amount consists of RMB152,785,734.40 purchased, RMB537,708,443.28 transferred from construction in progress and RMB35,292,451.00 on acquisition of subsidiaries.
- The decrease in the original carrying amount for the current period consists of RMB118,119,545.64 on disposals, RMB35,839,165.77 transferred to investment properties, RMB2,830,271,782.25 on disposal of subsidiaries and RMB10,188.41 on exchange differences arising from translation of financial statements denominated in foreign currencies.
- The increase in accumulated amortization consists of RMB199,604,168.91 charged for the current period and RMB6,529,232.85 on acquisition of subsidiaries.
- The decrease in accumulated amortization consists of RMB20,965,904.70 on disposals, RMB2,965,629.58 transferred to investment properties, RMB467,000,069.59 on disposal of subsidiaries and RMB11,039.73 on exchange differences arising from translation of financial statements denominated in foreign currencies.

21. Long-term prepaid expenses

| | | | | | | RMB |
|---|-----------------|--------------------------------|-----------------------------|----------------|---|-----------------|
| Item | Opening balance | Addition in the current period | Amortization for the period | Other decrease | Exchange differences arising on translation of financial statements denominated in foreign currencies | Closing balance |
| Fees for decoration | 15,341,004.52 | 4,815,687.53 | 4,889,918.85 | - | - | 15,266,773.20 |
| Leasing expenses | 9,618,278.71 | 1,774,202.53 | 1,327,934.78 | - | 1,013.78 | 10,065,560.24 |
| Relocation expense of Mei steel coke oven | - | 880,000,000.00 | 4,773,960.21 | - | - | 875,226,039.79 |
| Others | 17,058,645.29 | 7,293,813.22 | 6,737,523.17 | 12,013,310.18 | (465.17) | 5,601,159.99 |
| Total | 42,017,928.52 | 893,883,703.28 | 17,729,337.01 | 12,013,310.18 | 548.61 | 906,159,533.22 |

Note: According to the "Agreement on relocating residents in health protection area of Shanghai Meishan Iron & Steel Co., Ltd. in the 11th 5-year period" signed by Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel") Banqiao subdistrict office of Nanjing Yuhuatai District and Nanjing Yuhua Economic and Technological Development Zone Management Committee on 16 October 2012, residents within 1 kilometer from Meishan coke oven construction project are compensated by Meishan Steel at RMB880,000,000. In accordance with the agreement, Meishan Steel has paid RMB120,000,000 in 2012, and shall pay RMB510,000,000 in 2013 and RMB250,000,000 in 2014. The above compensation undertaken by Meishan Steel will be amortized in accordance with the remaining life of the major assets of the related construction project.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

22. Deferred tax assets/deferred tax liabilities

(1) Recognized deferred tax assets and deferred tax liabilities

| RMB | | |
|---|------------------|------------------|
| Items | Closing balance | Opening balance |
| Deferred tax assets: | | |
| Provision for impairment losses of assets | 235,343,502.38 | 531,306,722.59 |
| Provision for impairment losses of other non-current assets | 661,252,241.71 | - |
| Unrealized profit from inter-group transactions | 61,600,939.99 | 6,687,551.45 |
| Deductible losses | 892,566,277.20 | 417,251,036.97 |
| Difference in residuals of fixed assets | 18,998,741.47 | 45,728,172.61 |
| Termination benefits | 35,133,779.13 | 40,815,520.87 |
| Losses from changes in fair values | 7,818,532.68 | 5,030,830.60 |
| Others | 113,822,032.98 | 141,869,906.79 |
| Subtotal | 2,026,536,047.54 | 1,188,689,741.88 |
| Deferred tax liabilities: | | |
| Payment of tax unpaid for investment income | 298,006,027.57 | 282,207,189.74 |
| Gains from changes in fair values | 20,176,926.95 | 31,957,809.84 |
| Others | 2,449,569.80 | 2,615,622.27 |
| Subtotal | 320,632,524.32 | 316,780,621.85 |

(2) Details of deductible temporary differences of unrecognized deferred tax assets

| RMB | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Provision for impairment losses of assets | 127,685,394.19 | 72,827,702.53 |
| Deductible losses | 764,524,620.21 | 747,681,999.73 |
| Others | 11,771,343.15 | 1,821,595.79 |
| Total | 903,981,357.55 | 822,331,298.05 |

(3) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years

| RMB | | |
|-------|-----------------|-----------------|
| Year | Closing balance | Opening balance |
| 2013 | 27,375,538.32 | 246,399,184.49 |
| 2014 | 84,590,871.22 | 108,486,564.24 |
| 2015 | 192,084,081.95 | 225,088,210.18 |
| 2016 | 166,981,062.26 | 167,708,040.82 |
| 2017 | 293,493,066.46 | - |
| Total | 764,524,620.21 | 747,681,999.73 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

(4) Details of taxable temporary differences and deductible temporary differences

| | | RMB |
|---|------------------|-----|
| Item | Amount | |
| Closing balance: | | |
| Deductible temporary differences and deductible losses: | | |
| Provision for impairment losses of assets | 978,421,569.43 | |
| Provision for impairment losses of other non-current assets | 2,645,008,966.84 | |
| Unrealized profit from inter-group transactions | 246,403,759.96 | |
| Deductible losses | 3,577,801,402.97 | |
| Difference in residuals of fixed assets | 73,599,004.47 | |
| Termination benefits | 140,935,467.83 | |
| Losses from changes in fair values | 31,274,130.72 | |
| Others | 455,288,131.92 | |
| Subtotal | 8,148,732,434.14 | |
| Taxable temporary differences: | | |
| Payment of tax unpaid for investment income | 2,104,021,539.87 | |
| Gains from changes in fair values | 80,707,707.80 | |
| Others | 9,656,099.94 | |
| Subtotal | 2,194,385,347.61 | |
| Opening 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 benefits | 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 | 2,027,934,579.17 | |
| Gains from changes in fair values | 127,831,239.36 | |
| Others | 10,134,422.72 | |
| Subtotal | 2,165,900,241.25 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

23. Details of provision for impairment losses of assets

RMB

| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | | Exchange differences arising on translation of financial statements denominated in foreign currencies | Closing carrying amount |
|--|-------------------------|--------------------------------|--------------------------------|----------------|---|-------------------------|
| | | | Reversals | Write-off | | |
| I. Bad debts provision | 455,985,222.10 | 251,504,241.61 | 281,180,920.80 | 19,074,351.95 | 146,136.78 | 407,380,327.74 |
| II. Provision for decline in value of inventories | 1,644,339,519.68 | 337,963,090.85 | 890,528,180.61 | 497,595,693.25 | (38,086.34) | 594,140,650.33 |
| III. Provision for impairment losses of long-term equity investments | 4,034,187.64 | - | - | 56,443.17 | - | 3,977,744.47 |
| IV. Provision for impairment losses of fixed assets | 48,592,934.14 | 84,425.11 | - | 46,244,118.17 | - | 2,433,241.08 |
| V. Provision for impairment losses of loans | 73,400,000.00 | 24,775,000.00 | - | - | - | 98,175,000.00 |
| VI. Provision for impairment losses of other non-current assets | - | 2,645,008,966.84 | - | - | - | 2,645,008,966.84 |
| Total | 2,226,351,863.56 | 3,259,335,724.41 | 1,171,709,101.41 | 562,970,606.54 | 108,050.44 | 3,751,115,930.46 |

Description of provision for impairment losses of assets:

- (1) In 2012, the increase in provision for bad debts includes RMB1,820,161.89 on acquisition of subsidiaries.
- (2) In 2012, the increase in provision for decline in value of inventories includes RMB1,622,052.35 on acquisition of subsidiaries.
- (3) In 2012, the increase in provision for impairment losses of fixed assets includes RMB84,425.11 on acquisition of subsidiaries.

Note: Provision for other non-current assets refers to Note (V). 24 Note 2.

24. Other non-current assets

RMB

| Item | Closing balance | Opening balance |
|--|--------------------|-----------------|
| Loans due from Bao-Island Enterprise | 117,905,780.14 | 117,905,780.14 |
| Prepayment for investment in Zhanjiang Steel Project ^(Note 1) | 4,976,333,561.88 | - |
| Assets at Luojing area ^(Note 2) | 11,761,322,763.87 | - |
| Less: provision for impairment of the non-current assets ^(Note 2) | (2,645,008,966.84) | - |
| Prepayment for land use right | 26,722,979.37 | - |
| Prepayment for construction equipment | 219,183,880.36 | - |
| Financing product | 50,000,000.00 | - |
| Others | 3,446,522.16 | 2,469,757.28 |
| Total | 14,509,906,520.94 | 120,375,537.42 |

Note 1: According to the "Announcement on the acquisition of Baosteel Zhanjiang Iron & Steel Co., Ltd." issued by the Company on 30 October 2012, Baoshan Iron & Steel Group Co., Ltd., Guangzhou SASAC and the Company signed the Equity Transfer Agreement on 71.8032% equity of Baosteel Zhanjiang iron & Steel Co., Ltd. ("Zhanjiang Iron & Steel") on 28 October 2012 ("Equity Transfer Agreement"). The agreement mainly determined the equity delivery date, equity transfer pricing policy and equity transfer payment terms. The equity transfer price is based on the result of valuation performed by Chinese Assets Appraisal Co., Ltd. This equity transfer has been approved by the general meeting of shareholders of the Company, and the Company has fully paid RMB4,976,000,000 in the third working days, i.e. 30 October 2012, in accordance with the Equity Transfer Agreement. The equity transfer agreement has been recorded with Guangdong SASAC. However, by 31 December 2012, due to outstanding business registration procedures, the handover procedure of Zhanjiang Iron & Steel has not been finished. Therefore, the prepayment is presented as other non-current assets.

Note 2: According to the resolution of the third meeting of the fifth board of directors, the board of directors approved "the Principle of Utilization of Assets at Luojing area": 1. Stop production at Luojing area in view of industrial restructure in Baoshan Area and opportunity of Baosteel Zhanjiang project; 2. Approve the following plans of the asset disposal at Luojing area in accordance with the following principles: the Company shall (1) retain assets, such as oxygen-making, steelmaking equipments, and demonstrate the feasibility of the relocation to Zhanjiang; (2) make overall transfer of COREX assets at Luojing area and key production technology to Baosteel Group; (3) make overall transfer of the land use right, buildings and auxiliary assets to Baosteel Group.

According to the "Announcement on the disposal of COREX assets at Luojing area" published on 30 October 2012, and approved by the board of directors, the Company disposed of the COREX assets to the Baosteel Group at a consideration of RMB2,731,126,672.18. By 31 December 2012, the Company has received total payment from Baosteel Group. The book value of COREX assets is RMB 2,770,093,916.97 and the loss from the disposal is RMB38,967,244.79.

As of 31 December 2012, the Company presents remaining assets at Luojing area as other non-current assets except COREX assets at RMB11,761,322,763.87. The Company believes that there is no impairment on the assets which will be disposed of to Baosteel Group. The Company has made impairment of RMB 2,645,008,966.84 on the remaining assets, based on the difference between the carrying amount of the assets and the estimated recoverable amount.

Once the Company completes the feasibility study of Zhanjiang iron & steel project and determines the scope of Luojing relocation assets, the Company will account for the relocation assets and remaining assets as construction in progress.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

25. Short-term borrowings

| RMB | | |
|--|-------------------|-------------------|
| Item | Closing balance | Opening balance |
| Secured loans with securities under the custody of lenders ^(Note 1) | 2,116,165,373.27 | 90,400,000.00 |
| Guaranteed loans ^(Note 2) | - | 120,675,524.00 |
| Unsecured and non-guaranteed loans | 26,848,359,836.37 | 38,665,382,108.91 |
| Total | 28,964,525,209.64 | 38,876,457,632.91 |

At the balance sheet date, the annual interest rate of the Group's short-term borrowings ranges from 4.2% to 6.56% in RMB (2011: 4.374% to 7.216%); from 3 LIBOR+0.6% to 3 LIBOR+4% in USD (2011: 3 LIBOR+0.6% to 3 LIBOR+4%); from 1.6% to 2.011% in EURO (2011: 1.59% to 3.9%).

Note 1: As at 31 December 2012, loans of RMB746,165,373.27 is secured against unexpired discounted bank acceptance bills (at 31 December 2011: RMB2,400,000.00). Nil is secured under the custody of lender (at 31 December 2011: RMB38,000,000.00). Loans of RMB1,370,000,000.00 is secured against accounts receivable (31 December 2011: RMB50,000,000.00).

Note 2: As at 31 December 2011, the Group has a total of RMB58,000,000.00 loans guaranteed by Mitsui & Co., Ltd., a total of RMB62,675,524.00 loans guaranteed by Sumitomo Corporation Group and Sumitomo Corporation (China) Holding Ltd.. As at 31 December 2012, the guaranteed loans have been fully repaid.

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

| RMB | | |
|------------------|------------------|------------------|
| Item | Closing balance | Opening balance |
| Current deposits | 409,262,806.92 | 172,181,714.17 |
| Fixed deposits | 7,662,200,000.00 | 8,261,403,318.04 |
| Total | 8,071,462,806.92 | 8,433,585,032.21 |

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(9).

27. Taking from banks and other financial institutions

| RMB | | |
|----------------------------|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Taking from domestic banks | 600,000,000.00 | 300,000,000.00 |

28. Held-for-trading financial liabilities

| RMB | | |
|----------------------------------|--------------------|--------------------|
| Item | Closing fair value | Opening fair value |
| Derivative financial liabilities | 20,789,685.96 | - |

29. Notes payable

| RMB | | |
|------------------------|------------------|------------------|
| Category | Closing balance | Opening balance |
| Commercial acceptances | 2,427,919,652.79 | 1,095,040,330.24 |
| Bank acceptances | 827,620,856.39 | 1,582,545,288.37 |
| Total | 3,255,540,509.18 | 2,677,585,618.61 |

The above notes payable will be due in year 2013. As at 31 December 2012, notes payable due from any shareholders holding at least 5% of the Company's shares with voting power refer to Note (VI). 6(10).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

30. Accounts payable

(1) Details of accounts payable are as follows:

| RMB | | |
|--|-------------------|-------------------|
| Item | Closing balance | Opening balance |
| Accounts payable for equipment | 4,055,271,189.66 | 4,357,210,808.54 |
| Accounts payable for raw materials | 14,090,132,040.51 | 14,913,488,300.16 |
| Accounts payable for relocation expense of Mei steel coke oven ^(Note) | 510,000,000.00 | - |
| Total | 18,655,403,230.17 | 19,270,699,108.70 |

Note: The payments for relocation expense of Mei Steel coke oven refer to Note (V) 21.

As at 31 December 2012, accounts payable aged over one year, RMB794,184,949.38 in total (2011: RMB683,922,530.89), are construction fees for technical revamping and infrastructure 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(11).

31. Receipts in advance

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

| RMB | | |
|---------------------|-------------------|-------------------|
| Item | Closing balance | Opening balance |
| Receipts in advance | 11,194,900,927.62 | 10,789,724,318.08 |

(2) Receipts in advance from shareholders holding at least 5% of the Company's shares with voting power or from related parties in the reporting period refer to Note (VI). 6(12).

The receipts in advance with significant balances in the Group are all aged within one year as at 31 December 2012.

32. Employee benefits payable

| RMB | | | | |
|---|-------------------------|--------------------------------|--------------------------------|-------------------------|
| Item | Opening carrying amount | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Wages or salaries, bonuses, allowances and subsidies | 1,144,202,343.98 | 5,761,306,384.58 | 5,748,358,005.03 | 1,157,150,723.53 |
| II. Staff welfare | - | 326,986,831.43 | 326,986,831.43 | - |
| III. Social security contributions | 2,805,793.00 | 1,694,302,153.65 | 1,694,221,814.56 | 2,886,132.09 |
| Including: Basic pension insurance | 1,218,085.20 | 875,020,273.30 | 875,095,276.66 | 1,143,081.84 |
| Medical insurance | 1,161,660.47 | 469,162,270.73 | 469,154,586.16 | 1,169,345.04 |
| Unemployment insurance | 99,473.62 | 66,001,188.18 | 66,005,175.52 | 95,486.28 |
| Work injury insurance | 42,842.18 | 23,010,165.78 | 23,011,306.36 | 41,701.60 |
| Maternity insurance | 52,920.59 | 32,325,383.28 | 32,335,698.63 | 42,605.24 |
| Employment fee for the injured | 5,590.18 | 41,292,906.65 | 41,260,871.09 | 37,625.74 |
| Annuity fund | 224,406.76 | 185,552,246.61 | 185,420,367.02 | 356,286.35 |
| Others | 814.00 | 1,937,719.12 | 1,938,533.12 | - |
| IV. Housing funds | 50,990.58 | 514,557,926.51 | 514,608,917.09 | - |
| V. Termination benefits | 167,828,478.80 | 117,803,845.93 | 132,148,311.95 | 153,484,012.78 |
| VI. Labor union and education fund | 167,772,991.36 | 192,246,740.70 | 168,885,463.70 | 191,134,268.36 |
| VII. Others | 70,630,618.83 | 202,922,854.17 | 213,184,224.24 | 60,369,248.76 |
| Total | 1,553,291,216.55 | 8,810,126,736.97 | 8,798,393,568.00 | 1,565,024,385.52 |

The increase in the current period includes RMB6,908,626.37 on acquisition of subsidiaries, while the decrease in the current period includes RMB17,916,014.71 on disposal of subsidiaries.

As at 31 December 2012, the employee benefits payable, amounting to RMB982,397,188.61 (2011: RMB982,397,188.61), is in line with pay-to-performance.

There are no overdue employee benefits payable or non-monetary benefits as at 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

33. Taxes payable

| | | | RMB |
|---------------------------------------|--------------------|--------------------|-----|
| Item | Closing balance | Opening balance | |
| Value-added tax | (1,347,786,408.59) | (1,047,080,706.22) | |
| Business tax | 29,147,790.39 | 26,012,769.92 | |
| Enterprise income tax | 2,303,234,483.44 | (221,702,170.62) | |
| Individual income tax | 113,423,656.09 | 86,311,277.55 | |
| City construction and maintenance tax | 12,417,471.69 | 24,775,059.87 | |
| Property tax | 20,503,634.81 | 26,261,010.65 | |
| Others | 107,273,207.24 | 117,833,696.64 | |
| Total | 1,238,213,835.07 | (987,589,062.21) | |

34. 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 | 17,033,333.36 | 146,081,967.21 | |
| Interest payable on short-term borrowings | 118,672,471.85 | 127,746,755.25 | |
| Total | 177,928,027.43 | 316,050,944.68 | |

Interest payable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(13).

35. Dividends payable

| | | | RMB |
|--|-----------------|-----------------|-----|
| Name of entity | Closing balance | Opening balance | |
| China Oriental Asset Management Corp. | 9,475,888.34 | 9,475,888.34 | |
| Mitsui & Co., Ltd. | 6,985,188.21 | 3,564,645.30 | |
| Corning (Hong Kong) Ltd. | 2,082,443.05 | 2,082,443.05 | |
| Toyota Tsusho Corporation | 2,079,496.03 | 1,183,893.19 | |
| Nanjing New Line Logistics Co., Ltd. | 900,000.00 | 900,000.00 | |
| Guizhou Aluminium Plant | 603,743.23 | 853,743.23 | |
| Shengsi State Capital Investment and Operation Co., Ltd. | 6,532.76 | - | |
| Others | 22,022.21 | 22,022.21 | |
| Total | 22,155,313.83 | 18,082,635.32 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

36. Other payables

(1) Details of other payables are as follows:

| Name of entity | Closing balance | RMB Opening balance |
|------------------------------|-----------------|------------------------|
| | | |
| Guarantee and deposit fees | 436,526,616.80 | 467,873,965.67 |
| Advanced fund | 123,799,500.89 | 120,990,107.30 |
| Transportation and port fees | 14,110,300.05 | 9,369,011.78 |
| Construction fees payable | 47,658,826.68 | 1,671,771.14 |
| Land clearing fees payable | 30,791,771.26 | 31,094,071.26 |
| Relief fund | - | 15,016,932.34 |
| Commission fees | 1,214,115.67 | 2,197,331.27 |
| Others | 27,424,290.27 | 132,396,990.95 |
| Total | 681,525,421.62 | 780,610,181.71 |

(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 RMB145,530,580.57, which are deposits payable in nature under long-term service contracts.

(4) Other payable due to related parties refer to Note (VI). 6(14).

37. Non-current liabilities due within one year

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

| Item | Closing balance | RMB Opening balance |
|--|------------------|------------------------|
| | | |
| Long-term borrowings due within one year | 4,402,850,000.00 | 4,065,340,680.00 |
| Long-term payables due within one year | - | 2,758,493,923.17 |
| Bonds payable due within one year | - | 9,985,833,845.12 |
| Total | 4,402,850,000.00 | 16,809,668,448.29 |

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

| Item | Closing balance | RMB Opening balance |
|------------------------------------|------------------|------------------------|
| | | |
| Unsecured and non-guaranteed loans | 4,402,850,000.00 | 4,065,340,680.00 |

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

| Lender | Inception date of borrowing | Maturity date | Original Currency | Interest rate (%) | RMB Opening balance | |
|---|-----------------------------|---------------|-------------------|-------------------|------------------------|------------------|
| | | | | | Amount in USD | Amount in RMB |
| The Export-import Bank of China("EIBC") | 15 Sep 2010 | 15 Jul 2013 | USD | 6 LIBOR+2.8% | 200,000,000.00 | 1,257,100,000.00 |
| EIBC | 19 Jul 2010 | 19 Jul 2013 | USD | 6 LIBOR+2.1% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 29 Dec 2010 | 16 Dec 2013 | USD | 6 LIBOR+0.5% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 16 Dec 2010 | 16 Dec 2013 | USD | 6 LIBOR+0.5% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 11 Jan 2011 | 16 Dec 2013 | USD | 6 LIBOR+1% | 100,000,000.00 | 628,550,000.00 |
| Total | | | | | | 3,771,300,000.00 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

| Lender | Inception date of borrowing | Maturity date | Original Currency | Interest rate(%) | Opening 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 |
| The Hongkong and Shanghai Banking Corporation Limited | 09 April 2010 | 09 April 2012 | USD | LIBOR+1.6% | 50,000,000.00 | 315,045,000.00 |
| Total | | | | | | 2,835,405,000.00 |

(3) Long-term payables due within one year

| Item | Closing balance | Opening balance |
|---|-----------------|------------------|
| Payables for the acquisition of Luoqing assets (Note) | - | 2,758,493,923.17 |

Note: Details of the payables for the acquisition of Luoqing assets refer to Note (V), 41(I).

38. Other current liabilities

(1) Other current liabilities:

| Item | Closing balance | Opening balance |
|-----------------------------------|------------------|-----------------|
| Taking from related parties | 1,921,647,447.24 | - |
| Bonds payable due within one year | 1,017,012,500.06 | - |
| Total | 2,938,659,947.30 | - |

(2) Bonds payable due within one year

| 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 |
|---|------------------|------------|------------------|------------------|--------------------------|---------------------------------|---------------------------------|--------------------------|------------------|
| Bonds payable due within 1 year (PY1) | 500,000,000.00 | 1 May 2012 | 1 Year | 500,000,000.00 | - | 15,633,333.36 | - | 15,633,333.36 | 514,891,666.72 |
| Bonds payable due within 1 year (PY2) ^(Note) | 500,000,000.00 | 1 Nov 2012 | 1 Year | 500,000,000.00 | - | 4,025,000.00 | - | 4,025,000.00 | 502,120,833.34 |
| Total | 1,000,000,000.00 | | | 1,000,000,000.00 | - | 19,658,333.36 | - | 19,658,333.36 | 1,017,012,500.06 |

Note: In December 2011, Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel"), a subsidiary of the Company was approved by the National Association of Financial Market Institutional Investors (NAFMII) to issue short-term bonds in China with the amount of RMB1 billion, and the bonds can be issued within 2 years from approval. On May 1, 2012, Meishan Steel issued the first phase of short-term bonds with amount of RMB500,000,000(12MeiSteel CP001), with issuing price RMB100 par value and fixed interest rate 4.69% per annum. Interest will be paid together with principal at maturity; On November 1, 2012, Meishan Steel issued the second phase of short-term bonds with amount of RMB500,000,000(12MeiSteel CP002), with issuing price RMB100 par value and fixed interest rate 4.83% per annum. Interest will be paid together with principal at maturity.

(3) Taking from related parties due to any shareholder holding at least 5% of the Company's shares with voting power or related parties refer to Note (VI). 6(15).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 |
| Unsecured and non-guaranteed loans | 2,643,322,040.42 | 7,325,679,720.00 |
| Secured loans with securities under the custody of the Group (note) | 88,367,952.00 | - |
| Total | 2,731,689,992.42 | 7,325,679,720.00 |

Note: As at 31 December 2012, the Group obtained a loan of RMB88,367,952.00, with the construction in progress of RMB41,287,841.84, fixed assets of RMB31,726,791.84 and land use rights of RMB72,207,242.56 in carrying amount as collateral.

(2) Top five balance of 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 |
| Sumitomo Mitsui Banking | 24 August 2012 | 14 February 2014 | USD | LIBOR+2.2% | 50,000,000.00 | 314,275,000.00 |
| J.P. Morgan Chase | 24 August 2012 | 14 February 2014 | USD | 3 LIBOR+2.5% | 50,000,000.00 | 314,275,000.00 |
| Baoshan branch of China Construction Bank | 20 May 2011 | 18 April 2014 | RMB | 5.985% | | 340,000,000.00 |
| Baoshan branch of China Construction Bank | 26 April 2011 | 25 March 2014 | RMB | 5.985% | | 300,000,000.00 |
| Baoshan branch of China Construction Bank | 20 June 2011 | 19 May 2014 | RMB | 5.76% | | 110,000,000.00 |
| Total | | | | | | 1,378,550,000.00 |

| RMB | | | | | | |
|--------|-----------------------------|------------------|----------|--------------------------|----------------------------|-----------------------------|
| Lender | Inception date of borrowing | Maturity date | Currency | Annual interest rate (%) | Opening balance | |
| | | | | | Amount in foreign currency | Amount in domestic currency |
| EIBC | 15 September 2010 | 15 July 2013 | USD | 6 LIBOR+2.8% | 200,000,000.00 | 1,260,180,000.00 |
| EIBC | 19 July 2010 | 19 July 2013 | USD | 6 LIBOR+2.1% | 100,000,000.00 | 630,090,000.00 |
| EIBC | 29 December 2010 | 16 December 2013 | USD | 6 LIBOR+0.54% | 100,000,000.00 | 630,090,000.00 |
| EIBC | 16 December 2010 | 16 December 2013 | USD | 6 LIBOR+0.54% | 100,000,000.00 | 630,090,000.00 |
| EIBC | 11 January 2011 | 16 December 2013 | USD | 6 LIBOR+1% | 100,000,000.00 | 630,090,000.00 |
| Total | | | | | | 3,780,540,000.00 |

Bank facilities

As at 31 December 2012, the unutilized bank facilities of the Group approximate RMB110.36 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 within one year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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 1) | 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 | 9,339,778,162.83 |
| Medium Term Bonds (1282134) ^(Note 2) | 500,000,000.00 | 4 May 2012 | 3 years | 500,000,000.00 | - | 17,033,333.36 | - | 17,033,333.36 | 495,960,837.24 |
| Total | 10,500,000,000.00 | | | 10,500,000,000.00 | 42,222,222.22 | 97,033,333.36 | 80,000,000.00 | 59,255,555.58 | 9,835,739,000.07 |

Note1: 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 2009. The exercise price was adjusted to RMB11.80 per share on 24 May 2010 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.

Note2: In December 2011, Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel"), a subsidiary of the Company was approved by the National Association of Financial Market Institutional Investors (NAFMII) to issue medium-term bonds in China with the amount of RMB4 billion, and the bonds can be issued within 2 years from approval. Meishan Steel issued the first phase of medium-term bond with amount of RMB500,000,000 (12MeiSteel MTN1) on May 4, 2012, with issuing price RMB100 par value and fixed interest rate 5.11% per annum. Interest will be paid annually on May 4.

41. Long-term payables

| | | | RMB |
|---|-----------------|------------------|-----|
| Item | Closing balance | Opening balance | |
| Payable relating to Luojing assets ^(Note1) | - | 2,758,493,923.17 | |
| Accounts payable for relocation expense of Mei steel coke oven ^(Note2) | 250,000,000.00 | - | |
| Less: Long-term payables due within one year | - | 2,758,493,923.17 | |
| Total | 250,000,000.00 | - | |

Note1: The consideration of Luojing 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 from 2009. The account is settled on 31 December 2012.

Note2: Relocation expense of Meishan steel coke oven refers to Note (V). Note (21).

42. Special payables

| | | | | RMB |
|----------------------|-----------------|--------------------------------|--------------------------------|-----------------|
| Item | Opening balance | Increase in the current period | Decrease in the current period | Closing balance |
| Government subsidies | 911,415,731.15 | 39,520,000.00 | 261,942,029.61 | 688,993,701.54 |

43. Other non-current liabilities

| | | | RMB |
|-----------------------------------|-------------------------|-------------------------|-----|
| Item | Closing carrying amount | Opening carrying amount | |
| Deferred income ^(Note) | 961,802,609.24 | 1,319,044,230.80 | |

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

44. Share capital

As at 31 December 2012, the registered and paid-in capital of the Company totals at RMB17,122,048,088.00 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 | |
| 2012: | | | | | | | |
| I.Tradable shares | | | | | | | |
| I.Ordinary shares denominated in RMB | 17,512,048,088.00 | - | - | - | (390,000,000.00) | (390,000,000.00) | 17,122,048,088.00 |
| II.Total shares | 17,512,048,088.00 | - | - | - | (390,000,000.00) | (390,000,000.00) | 17,122,048,088.00 |
| 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 |

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. After the implementation of the program, the total share capital of the Company is still RMB17,512,000,000.

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 been 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 been 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, and previously held 1,052,600,000 unconditional shares tradable, 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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 2009. On 24 May 2010 the exercise price was adjusted to RMB11.80 per share due to dividend payment. The exercising period is from 28 June 2010 to 3 July 2010. A total of 113,785 shares were successfully exercised before the stock market closed on 2 July 2010, the last effective exercise date for "Baosteel CWB1", thus shares of the Company rose by 48,088 shares. Deloitte Touche Tohmatsu CPA Ltd. has verified the increase in share capital and issued the capital verification report (10), 0052.

According to "The Board's Resolution on the motion of repurchase shares of the Company by centralized bidding", "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd.", "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised articles of association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price no more than RMB5 per share and amount no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company had repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised articles of association, the Company applied for reduction of share capital RMB0.39 billion, and finished all procedures in China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 20 December 2012. The Company renewed all commercial registration in December 2012, and the updated registered share capital is RMB17,122,048,088.00 as at 31 December 2012. Deloitte Touche Tohmatsu CPA Ltd. has verified the change in share capital and issued the capital verification report.

As a result of a total 17,570,037 unconditional ordinary shares of the Company purchased by Baosteel Group during the year of 2012, the total equity interest held by Baosteel Group reached 76.68%.

45. Capital reserve

| RMB | | | | |
|---|--------------------------|------------------------|-------------------------|--------------------------|
| Item | Opening balance | Increase in the period | Decrease in the period | Closing balance |
| 2012: | | | | |
| Capital premium | | | | |
| Including: Reserve from conversion of state-owned shares | 5,726,556,609.73 | - | - | 5,726,556,609.73 |
| Share premium ^(Note 1) | 29,703,329,723.00 | - | 1,410,740,702.20 | 28,292,589,020.80 |
| Other comprehensive income | | | | |
| Including: Provision for equity investment ^(Note 2) | (42,263,025.08) | 15,291,736.29 | - | (26,971,288.79) |
| Changes in fair value of available-for-sale financial assets | 112,104,726.42 | - | 42,329,624.87 | 69,775,101.55 |
| Income tax impact of changes in fair value of available-for-sale financial assets | (36,033,407.09) | 10,582,406.22 | - | (25,451,000.87) |
| Other capital reserve | | | | |
| Including: Equity component split from convertible loan notes | - | - | - | - |
| Other capital reserves ^(Note 3) | 1,866,944,402.56 | 110,952,749.32 | 122,174,463.11 | 1,855,722,688.77 |
| Total | 37,330,639,029.54 | 136,826,891.83 | 1,575,244,790.18 | 35,892,221,131.19 |
| 2011: | | | | |
| Capital premium | | | | |
| Including: Reserve from conversion of state-owned shares | 5,726,556,609.73 | - | - | 5,726,556,609.73 |
| Share premium | 29,703,329,723.00 | - | - | 29,703,329,723.00 |
| Other comprehensive income | | | | |
| Including: Provision for equity investment | (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 | 1,599,163,102.82 | 267,781,299.74 | - | 1,866,944,402.56 |
| Total | 37,565,832,959.01 | 416,031,751.19 | 651,225,680.66 | 37,330,639,029.54 |

Note 1: Decrease in share premium due to the cancellation of treasury shares refer to Note (V), 46.

Note 2: Increase in provision for equity investment is due to the movement of capital reserve of joint ventures and associates the Group accounts for by using equity method.

Note 3: Increase in other capital reserves is mainly attributable 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. Decrease is due to the disposal of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

46. Treasury shares

| Item | RMB Amount |
|---|------------------|
| 2012: | |
| Opening balance | - |
| Increase in the period: | |
| Acquisition of shares from other shareholders | 1,916,525,868.00 |
| Decrease in the period: | |
| Cancellation | 1,800,740,702.20 |
| Closing Balance | 115,785,165.80 |

The 2012 second interim shareholders' meeting of Baoshan Iron & Steel Co., Ltd. passed the "The Board's Resolution on the Motion of Repurchase Shares of the Company by Centralized Bidding" on 17 September 2012. The Company disclosed "Report on Baoshan Steel & Iron Co., Ltd. Repurchase shares" on 21 September 2012 as follows: the Company will repurchase A-shares on Shanghai Stock Exchange by centralized bidding with price no more than RMB5 per share and amount no more than RMB5 billion in total. The repurchased shares will be written off. The valid period of repurchase is 12 months since the motion is passed at the shareholders' meeting.

From 21 September 2012 to 31 December 2012, the Company repurchased 414,055,508 shares, which is 2.3% of total shares before the write-off, with the highest price of RMB4.87 per share and lowest price of RMB4.51 per share at total consideration of RMB1,916,525,868.00.

The Company finished all procedures of writing off 390,000,000 shares in China Securities Depository and Clearing Co., Ltd. Shanghai Branch on 20 December 2012 and renewed all administrative registration in December 2012. After the write-off, the total share capital decreased by RMB390,000,000.00 and capital reserve decreased by RMB1,410,740,702.20.

After the write-off of 390,000,000 shares, the Company had 24,055,508 treasury shares as at 31 December 2012, or 0.14% of total issued ordinary shares of the Company after the write-off.

47. Special reserve

| Item | Opening balance | Increase in the period | Decrease in the period | RMB Closing balance |
|------------------------|-----------------|------------------------|------------------------|------------------------|
| 2012: | | | | |
| Operation security fee | 11,788,986.69 | 166,742,174.93 | 160,636,244.76 | 17,894,916.86 |
| 2011: | | | | |
| Operation security fee | 15,291,362.80 | 29,222,813.83 | 32,725,189.94 | 11,788,986.69 |

Extracted the special reserve based on the "The Management Methods of the Extract and Use of the Enterprise Security Costs of Production" ([2012] No. 16) for the safe production expenditures.

48. Surplus reserve

| Item | Opening balance | Increase in the period | Decrease in the period | RMB Closing balance |
|-------------------------------|-------------------|------------------------|------------------------|------------------------|
| 2012: | | | | |
| Statutory surplus reserve | 8,930,401,416.20 | 1,048,729,717.93 | - | 9,979,131,134.13 |
| Discretionary surplus reserve | 12,201,853,755.98 | 1,048,729,717.93 | - | 13,250,583,473.91 |
| Total | 21,132,255,172.18 | 2,097,459,435.86 | - | 23,229,714,608.04 |
| 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 |

According to China Company Laws and the Article of Association 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

49. Retained earnings

| RMB | | |
|--|-------------------|----------------------------------|
| Item | Amount | Proportion of appropriation |
| 2012: | | |
| Retained earnings at beginning of year | 30,754,305,445.21 | |
| Add: Net profit attributable to owners of the Company for the period | 10,386,372,522.05 | |
| Less: Appropriation to statutory surplus reserve | 1,048,729,717.93 | 10% of net profit of the Company |
| Appropriation to discretionary surplus reserve | 1,048,729,717.93 | 10% of net profit of the Company |
| Declaration of dividends on ordinary shares | 3,502,409,617.60 | |
| Retained earnings at the end of the period | 35,540,808,913.80 | |
| 2011: | | |
| Retained earnings 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 earnings at the end of the period | 30,754,305,445.21 | |

50. 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 | 189,890,930,367.43 | 220,932,311,946.53 |
| Other operating income | 1,244,606,460.67 | 1,572,372,747.20 |
| Operating income | 191,135,536,828.10 | 222,504,684,693.73 |
| Operating costs | 176,879,358,812.58 | 203,040,720,884.79 |

(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 |
| Iron & steel manufacturing | 147,124,988 | 138,369,217 | 189,281,420 | 176,682,544 |
| Sales of iron & steel products | 180,846,296 | 177,002,391 | 194,694,626 | 190,632,307 |
| Others | 14,931,392 | 13,229,079 | 14,110,443 | 12,363,060 |
| Elimination between industries | (153,011,746) | (152,733,052) | (177,154,177) | (177,891,360) |
| Total | 189,890,930 | 175,867,635 | 220,932,312 | 201,786,551 |

(3) Principal operating activities (classified by products)

| RMB'000 | | | | |
|-----------------|---|-----------------|---------------------------------------|-----------------|
| Name of product | Amount recognised in the current period | | Amount recognised in the prior period | |
| | Operating income | Operating costs | Operating income | Operating costs |
| Iron & steel | 182,177,266 | 169,440,267 | 213,701,635 | 196,266,971 |
| Others | 7,713,664 | 6,427,368 | 7,230,677 | 5,519,580 |
| Total | 189,890,930 | 175,867,635 | 220,932,312 | 201,786,551 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

RMB'000

| Name of geographical area | Amount recognised in the current period | | Amount recognised in the prior period | |
|---------------------------|---|-----------------|---------------------------------------|-----------------|
| | Operating income | Operating costs | Operating income | Operating costs |
| Domestic | 170,540,996 | 157,375,191 | 197,070,683 | 179,544,190 |
| Overseas | 19,349,934 | 18,492,444 | 23,861,629 | 22,242,361 |
| Total | 189,890,930 | 175,867,635 | 220,932,312 | 201,786,551 |

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

RMB

| Name of customer | Operating income | Proportion to total operating income of the Company (%) |
|------------------|-------------------|---|
| Entity One | 11,168,088,984.95 | 6 |
| Entity Two | 5,276,847,131.06 | 3 |
| Entity Three | 2,545,801,307.72 | 1 |
| Entity Four | 2,450,629,086.72 | 1 |
| Entity Five | 2,425,525,674.53 | 1 |
| Total | 23,866,892,184.98 | 12 |

51. Business taxes and levies

RMB

| Item | Amount recognized in the current period | Amount recognized in the prior period | Basis of calculation |
|---------------------------------------|---|---------------------------------------|----------------------|
| Business tax | 80,855,952.85 | 73,962,758.47 | Note |
| City construction and maintenance tax | 106,126,544.47 | 179,602,083.70 | Note |
| Education surcharges | 97,562,802.18 | 161,119,204.54 | Note |
| Others | 23,442,049.54 | 26,520,419.44 | Note |
| Total | 307,987,349.04 | 441,204,466.15 | |

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

52. Financial expenses

RMB

| Item | Amount recognized in the current period | Amount recognized in the prior period |
|--|---|---------------------------------------|
| Interest expenses | 2,078,902,223.69 | 2,106,995,340.39 |
| Less: Capitalized interest expenses | 248,933,818.43 | 301,847,155.28 |
| Less: Interest income | 1,351,913,598.84 | 179,485,470.05 |
| Exchange differences | (107,536,479.34) | (1,612,183,741.87) |
| Less: Capitalized exchange differences | - | - |
| Others | 45,161,418.83 | 58,841,551.22 |
| Total | 415,679,745.91 | 72,320,524.41 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

53. Impairment losses of assets

| Item | RMB | |
|---|---------------------------------------|-------------------------------------|
| | Amount incurred in the current period | Amount incurred in the prior period |
| I. Bad debt losses | (31,496,841.08) | (118,156,257.37) |
| II. Inventory provision (reversal) | (554,187,142.11) | 439,110,198.04 |
| III. Impairment for loans | 24,775,000.00 | 29,348,650.00 |
| IV. Impairment for other non-current assets | 2,645,008,966.84 | - |
| Total | 2,084,099,983.65 | 350,302,590.67 |

54. Gains from changes in fair values

| Items resulting in gains from changes in fair values | RMB | |
|--|---|---------------------------------------|
| | Amount recognized in the current period | Amount recognized in the prior period |
| Held-for-trading financial assets | 7,814,089.85 | (10,786,427.47) |
| Held-for-trading financial liabilities | (20,789,685.96) | 3,480,773.10 |
| Total | (12,975,596.11) | (7,305,654.37) |

55. 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 | 252,517,369.55 | 241,758,561.65 |
| Income from long-term equity investments under equity method | 207,026,633.19 | 260,237,983.08 |
| Stock investment income | 17,231,662.25 | 22,979,687.46 |
| Bond investment income | 36,110,389.88 | 22,143,391.44 |
| Fund investment income | 22,876,381.81 | 6,150,267.98 |
| Investment (losses) income from disposal of derivative financial instruments | (9,684,429.21) | 14,595,716.93 |
| Investment income from disposal of equity investment ^(Note) | 665,609,496.33 | 38,395,507.64 |
| Others | 23,003,324.70 | 24,209,613.94 |
| Total | 1,214,690,828.50 | 630,470,730.12 |

Note: According to "Announcement on related party transaction" published on 29 February 2012 and "Supplement Announcement on the sale of assets of stainless steel and special steel business units", the Company transferred related assets based on the basis of valuation with the cut-off date on 31 December 2011, conducted by Chinese Assets Appraisal Co., Ltd.

The Company sold all assets and certain liabilities of the Stainless Business Unit to Shanghai Baosteel Stainless Steel Co., Ltd. at a consideration of RMB24,748,814,254.28; sold all assets and certain liabilities of the Special Steel Business Unit and 100% equity interest of Shanghai Baosteel Special Material Co., Ltd., 58.5% equity interest of Baoyin Special Tube Co., Ltd., 94.5% equity interest of Shanghai No.5 Steel Gas Co., Ltd. and 9.71% equity interest of Zhonghang Special Material Co., Ltd. to Baosteel Special Steel Co., Ltd. at a consideration of RMB16,566,103,608.18; sold 54% equity interest of Ningbo Baoxin Stainless Steel Co., Ltd., 40% equity interest of Shida Precision Co., Ltd. and 20% equity interest of Rihong Stainless Steel Co., Ltd. to Baosteel Group Corporation at a consideration of RMB2,657,371,680.15. The above total consideration is RMB43,972,289,542.61, which consists of RMB41,004,887,476.26 relating to assets disposal and RMB2,967,402,066.35 relating to equity interest disposal, with carrying amount of RMB31,912,912,406.29 and RMB2,301,840,298.11, respectively. By 31 December 2012, all transfer procedures of above related assets and equity interest have been completed. The Company received RMB21.472 billion in cash and transferring debt; and remaining RMB22.5 billion will be received by installment, including RMB13 billion due from Shanghai Baosteel Stainless Steel Co., Ltd. and RMB9.5 billion due from Baosteel Special Steel Co., Ltd.. The installment receivable will be collected on 1 April of each year from 2013 to 2017 with interest rate at 90% of one-year loan borrowing rate. The Company presented the installment receivable as long-term receivables. The accrued interest income in 2012 is RMB938,024,383.57.

Among the long-term receivables mentioned above, the amount due within one year is RMB4.5 billion including RMB2.6 billion due from Shanghai Baosteel Stainless Steel Co., Ltd. and RMB1.9 billion due from Baosteel Special Steel Co., Ltd..

Upon disposal of the above mentioned assets, the Company recognized non-operating income of RMB9,626,751,751.25, including RMB1,889,493,583.64 from disposal of fixed assets and RMB7,737,258,167.61 from disposal of intangible assets, and non-operating expense of RMB534,776,681.28, which represents disposal loss on fixed assets from above mentioned disposal.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

(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:

| RMB | | | |
|--|---|---------------------------------------|--|
| Investee | Amount recognized in the current period | Amount recognized in the prior period | Reasons for movement in the current period |
| Yongzhou Coal Group Limited | 113,370,525.00 | - | Cash dividend |
| Henan Zhenglong Coal Co., Ltd. | 83,398,933.80 | 217,032,336.89 | Cash dividend |
| Baovale Mining Co., Ltd. | 35,668,836.00 | 6,780,832.45 | Cash dividend |
| Shanghai Luojing Mining Port Co., Ltd. | 13,395,251.27 | 8,830,841.82 | Cash dividend |
| CISDI Engineering Co., Ltd. | 5,649,323.48 | 8,791,450.49 | Dividend distribution |
| Total | 251,482,869.55 | 241,435,461.65 | |

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

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

| RMB | | | |
|----------------|---|---------------------------------------|--|
| Investee | Amount recognized in the current period | Amount recognized in the prior period | Reasons for movement in the current period |
| Henan Pingbao | 75,223,699.23 | (67,764,795.14) | Profit of the associate |
| BNA | 73,074,198.01 | 165,253,670.30 | Profit of the joint venture |
| STAL Precision | 35,397,743.47 | 50,579,295.04 | Profit of the associate |
| Welding Co. | 28,506,378.27 | 25,516,392.24 | Profit of the associate |
| CSSC-Baosteel | 3,819,388.06 | 738,548.06 | Profit of the joint venture |
| Total | 216,021,407.04 | 174,323,110.50 | |

As at 31 December 2012, no significant limitation exists regarding investment income repatriation.

56. 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 | 9,690,798,794.24 | 18,919,204.88 |
| Including: Gains on disposal of fixed assets ^(Note) | 1,927,304,625.37 | 18,919,204.88 |
| Gains on disposal of intangible assets ^(Note) | 7,763,494,168.87 | - |
| Government grants | 698,766,382.87 | 485,817,570.33 |
| Compensation income | 21,961,918.24 | 13,152,197.32 |
| Others | 90,961,917.92 | 128,524,155.99 |
| Total | 10,502,489,013.27 | 646,413,128.52 |

Note: Details of the gains on disposal of fixed assets RMB1,889,493,583.64 and gains on disposal of intangible assets RMB7,737,258,167.61 refer to Note (V), 55(1).

57. 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 | 779,567,721.43 | 178,886,100.76 |
| Including: Losses on disposal of fixed assets ^(Note) | 718,361,101.82 | 148,293,984.62 |
| Donations to third parties | 34,658,179.49 | 14,740,800.00 |
| Others | 145,129,375.05 | 31,558,304.21 |
| Total | 959,355,275.97 | 225,185,204.97 |

Note: Details of the losses on disposal of fixed assets RMB534,776,681.28 refer to Note (V), 55(1).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

58. Income tax expenses

| Item | RMB | |
|--|---------------------------------------|-------------------------------------|
| | Amount incurred in the current period | Amount incurred in the prior period |
| Current tax expense calculated according to tax laws and relevant requirements | 3,651,523,699.97 | 1,651,419,228.97 |
| Adjustment to prior period's income tax | (92,676,929.59) | (166,723,721.22) |
| Adjustment to deferred income tax | (852,149,636.36) | 39,629,681.44 |
| Total | 2,706,697,134.02 | 1,524,325,189.19 |

Reconciliation of income tax expenses to the accounting profit is as follows:

| | RMB | |
|--|-------------------------------|-----------------------------|
| | Amount for the current period | Amount for the prior period |
| Accounting profit | 13,139,652,802.85 | 9,260,125,356.23 |
| Income tax expenses calculated at 25% (prior period: 25%) | 3,284,913,200.71 | 2,315,031,339.06 |
| Adjustment to prior period's income tax | (92,676,929.59) | (166,723,721.22) |
| Effect of expenses that are not deductible for tax purposes | 38,732,452.98 | 26,373,882.28 |
| Effect of tax-free income | (125,695,664.28) | (34,780,442.78) |
| Effect of unrecognized deductible losses and deductible temporary differences | 87,202,249.03 | 64,191,445.06 |
| Effect of using previously unrecognized deductible losses and deductible temporary differences | (48,694,854.52) | (65,960,361.96) |
| Changes in opening balances of deferred tax assets/liabilities due to the change in tax rate | (202,337.62) | (9,015,706.69) |
| Additional tax incentives | (402,281,433.43) | (556,407,004.04) |
| Others | (34,599,549.26) | (48,384,240.52) |
| Total | 2,706,697,134.02 | 1,524,325,189.19 |

59. 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 |
| Net profit for the current period attributable to ordinary shareholders | 10,386,372,522.05 | 7,361,961,636.41 |
| Including: Net profit from continuing operations | 10,386,372,522.05 | 7,361,961,636.41 |
| 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 the year | 17,512,048,088.00 | 17,512,048,088.00 |
| Add: Weighted average number of ordinary shares issued in current year | - | - |
| Less: Weighted average number of ordinary shares repurchased in current year | 61,529,573.00 | - |
| Number of ordinary shares outstanding at the end of the year | 17,450,518,515.00 | 17,512,048,088.00 |

Earnings per share

| | RMB | |
|---|-------------------------------|-----------------------------|
| | Amount for the current period | Amount for the prior period |
| Calculated based on net profit attributable to shareholders of the Company: Basic earnings per share | 0.60 | 0.42 |
| Calculated based on net profit from continuing operations attributable to shareholders of the Company: Basic earnings per share | 0.60 | 0.42 |
| 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

60. 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 | (31,186,267.85) | (620,268,928.62) |
| Less: Tax effects arising from available-for-sale financial assets | (9,362,673.65) | (147,787,648.50) |
| Net amount included in other comprehensive income in the prior periods that is transferred to profit or loss for the period | 6,264,426.75 | 2,268,848.38 |
| Subtotal | (28,088,020.95) | (474,750,128.50) |
| 2. Share of other comprehensive income of the investee accounted for using the equity method | 15,332,645.99 | (26,911,250.99) |
| Less: Net amount included in other comprehensive income in the prior periods that is transferred to profit or loss for the period | 40,909.70 | - |
| Subtotal | 15,291,736.29 | (26,911,250.99) |
| 3. Translation differences of financial statements denominated in foreign currencies | (54,087,936.68) | (100,403,037.69) |
| Subtotal | (54,087,936.68) | (100,403,037.69) |
| Total | (66,884,221.34) | (602,064,417.18) |

61. 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. | 1,733,758,724.11 | 2,765,023,762.90 |

(2) Other cash payments relating to operating activities

| RMB | | |
|-------------------------|-------------------------------|-----------------------------|
| Item | Amount for the current period | Amount for the prior period |
| Selling expenses | 1,674,517,376.24 | 1,247,099,370.45 |
| Administrative expenses | 1,971,903,275.27 | 1,468,577,972.42 |
| Others | 223,574,027.55 | 166,507,098.08 |
| Total | 3,869,994,679.06 | 2,882,184,440.95 |

(3) Other cash receipts relating to investing activities

| RMB | | |
|-----------------|-------------------------------|-----------------------------|
| Item | Amount for the current period | Amount for the prior period |
| Interest income | 413,889,215.27 | 179,485,470.05 |

(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 | 16,864,017.29 | 2,977,331.19 |

(5) Other cash payments relating to financing activities

| RMB | | |
|-----------------------------|-------------------------------|-----------------------------|
| Item | Amount for the current period | Amount for the prior period |
| Taking from related parties | 1,921,647,447.24 | - |

Taking from related parties refer to Note (VI). 6(15).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

62. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

| Supplementary information | RMB | |
|---|--------------------|--------------------|
| | Current period | Prior period |
| 1. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 10,432,955,668.83 | 7,735,800,167.04 |
| Add: Provision for impairment losses of assets | 2,084,099,983.65 | 350,302,590.67 |
| Depreciation of fixed assets and investment properties | 11,186,545,722.35 | 12,906,321,794.69 |
| Amortization of intangible assets | 199,604,168.91 | 208,224,717.38 |
| Amortization of long-term prepaid expenses | 17,729,337.01 | 9,532,660.28 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "-") | (8,911,231,072.81) | 159,966,895.88 |
| Losses on changes in fair values (gains are indicated by "-") | 12,975,596.11 | 7,305,654.37 |
| Financial expenses (income is indicated by "-") | 370,518,327.08 | 13,478,973.19 |
| Losses arising from investments (gains are indicated by "-") | (1,214,690,828.50) | (630,470,730.12) |
| Decrease in deferred tax assets (increase is indicated by "-") | (837,846,305.66) | (53,561,399.73) |
| Increase in deferred tax liabilities (decrease is indicated by "-") | 11,893,153.28 | 68,341,855.89 |
| Decrease in inventories (increase is indicated by "-") | 2,459,971,298.38 | 244,515,920.26 |
| Decrease in receivables from operating activities (increase is indicated by "-") | (1,078,774,524.19) | (5,080,365,872.74) |
| Increase in payables from operating activities (decrease is indicated by "-") | 7,468,423,344.44 | (3,797,163,479.08) |
| Net cash flow from operating activities | 22,202,173,868.88 | 12,142,229,747.98 |
| 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 | 7,621,451,739.79 | 12,899,442,675.29 |
| Less: Opening balance of cash | 12,899,442,675.29 | 7,887,919,424.23 |
| Add: Closing balance of cash equivalents | - | 280,780,713.36 |
| Less: Opening balance of cash equivalents | 280,780,713.36 | 50,000,000.00 |
| Net increase in cash and cash equivalents | (5,558,771,648.86) | 5,242,303,964.42 |

(2) Disposal of subsidiaries during the period

| Item | RMB | |
|---|-------------------------------|--|
| | Amount for the current period | |
| Information of disposal of subsidiaries: | | |
| 1. Consideration of disposal of subsidiaries | 2,286,529,828.21 | |
| 2. Cash and cash equivalence received from disposal of subsidiaries | 2,286,529,828.21 | |
| Less: cash and cash equivalent held by subsidiaries | 313,486,177.83 | |
| 3. Net cash inflow on disposal of subsidiaries | 1,973,043,650.38 | |
| 4. Net assets of the disposed subsidiaries | 3,305,493,661.91 | |
| Current assets | 2,852,381,530.44 | |
| Non-current assets | 4,038,797,961.87 | |
| Current liabilities | 3,490,144,965.40 | |
| Non-current liabilities | 95,540,865.00 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

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

(3) Composition of cash and cash equivalents

| | | RMB | |
|---|------------------|-------------------|--|
| Item | Closing balance | Opening balance | |
| I. Cash | 7,621,451,739.79 | 12,899,442,675.29 | |
| Including: Cash on hand | 894,131.30 | 800,496.99 | |
| Bank deposits | 7,527,240,216.01 | 12,822,889,149.87 | |
| Other monetary funds | 93,317,392.48 | 75,753,028.43 | |
| II. Cash equivalents | - | 280,780,713.36 | |
| Including: Funds from monetary market | - | 280,780,713.36 | |
| III. Closing balance of cash and cash equivalents | 7,621,451,739.79 | 13,180,223,388.65 | |

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

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent of the Company

| | | RMB | |
|---|--|-----|--|
| Name of 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 | 52,791,100,998.89 | | |
| Proportion of the Company's ownership interest held by the parent (%) | 76.68 | | |
| Proportion of the Company's voting power held by the parent (%) | 76.68 | | |
| 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). I for details of subsidiaries of the Group.

3. Associates and joint ventures of the Group

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 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 Baosteel Real Estate Co., Ltd. (Guangdong Real Estate) | Fellow subsidiary | 67706963-2 |
| Guangdong Shaoguan Iron & Steel Group Co., Ltd. and its subsidiaries ("Shaoguan Steel and its subsidiaries") | Fellow subsidiary | 19152191-6 |
| Shanghai Baosteel Stainless Steel Co., Ltd. ("Shanghai Stainless") | Fellow subsidiary | 59041990-0 |
| Baosteel Stainless Steel Co., Ltd. ("Baosteel Stainless") | Fellow subsidiary | 59167293-2 |
| Baosteel Special Material Co., Ltd. and its subsidiaries ("Baosteel Special Material and its subsidiaries") | Fellow subsidiary | 59313809-8 |
| Baosteel Special Steel Co., Ltd. ("Baosteel Special Steel") | Fellow subsidiary | 59041866-8 |
| 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 |
| Ningbo Baoxin Stainless Steel Co., Ltd. and its subsidiaries (Ningbo Baoxin and its subsidiaries) | Fellow subsidiary | 61027433-2 |
| Baosteel Australia Mining Co., Ltd. (Bao-Aus Mining) | Fellow subsidiary | N/A |
| Shanghai Baoland Co., Ltd. (Baoland) | Fellow subsidiary | 13346404-4 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

5. Related party transactions

Sales and purchases of goods, provision of services and receiving 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 spare parts | Market price | 9,205 | - | 7,079 | - |
| No. 1 Steel and its subsidiaries | Sales | Steel and iron products and spare parts | Market price | 3,234 | - | 40,325 | 0.02 |
| No. 5 Steel and its subsidiaries | Sales | Energy | Market price | 2,833 | - | 10,473 | - |
| Pudong Steel and its subsidiaries | Sales | Spare parts | Market price | 22,179 | 0.01 | 174 | - |
| Baosteel Development and its subsidiaries | Sales | Steel and iron products and spare parts | Market price | 2,404,724 | 1.26 | 3,055,605 | 1.38 |
| Engineering & Technology Co. and its subsidiaries | Sales | Steel and iron products, energy, and spare parts | Market price | 475,722 | 0.25 | 451,738 | 0.20 |
| Baosteel Metal and its subsidiaries | Sales | Steel and iron products and energy | Market price | 2,531,445 | 1.32 | 2,976,176 | 1.34 |
| BNA | Sales | Steel and iron products, energy, and spare parts | Market price | 11,087,003 | 5.80 | 11,955,895 | 5.38 |
| Meishan Steel and its subsidiaries | Sales | Steel and iron products, energy, and spare parts | Market price | 1,872,177 | 0.98 | 1,808,676 | 0.81 |
| Baori Wires (Note 1) | Sales | Steel and iron products | Market price | - | - | 853 | - |
| Baosteel Resource and its subsidiaries | Sales | Raw materials | Market price | 1,184,004 | 0.62 | 11,536,297 | 5.19 |
| Welding Co. | Sales | Steel and iron products | Market price | 524,989 | 0.27 | 574,773 | 0.26 |
| Tianjin BCM | Sales | Steel and iron products | Market price | 181,904 | 0.10 | 71,072 | 0.03 |
| Zhanjiang Longteng | Sales | Raw materials | Market price | 14,691 | 0.01 | 2,051,587 | 0.92 |
| Ningbo Steel and its subsidiaries | Sales | Steel and iron products | Market price | 88,619 | 0.05 | 40,472 | 0.02 |
| Xinjiang Bayi and its subsidiaries | Sales | Steel and iron products | Market price | 44,020 | 0.02 | 36,734 | 0.02 |
| Zhanjiang Iron & Steel and its subsidiaries | Sales | Steel and iron products | Market price | 30,913 | 0.02 | 117,284 | 0.05 |
| Wuxi Baomit | Sales | Steel and iron products | Market price | 25,799 | 0.01 | 29,417 | 0.01 |
| Baosteel Desheng | Sales | Energy and spare parts | Market price | 1,272 | - | 43,907 | 0.02 |
| Baosteel Resources (International) | Sales | Raw materials | Market price | 2,135,130 | 1.12 | 898,343 | 0.40 |
| Baosteel Stainless | Sales | Raw materials and spare parts and energy | Market price or contract price | 5,210,851 | 2.73 | - | - |
| Baosteel Special Material and its subsidiaries | Sales | Steel and iron products, raw materials, spare parts and energy | Market price or contract price | 1,919,899 | 1.00 | - | - |
| Ningbo Baoxin and its subsidiaries | Sales | Steel and iron products and raw materials | Market price | 56,824 | 0.03 | - | - |
| NSM | Sales | Steel and iron products | Market price | 95,934 | 0.05 | - | - |
| Others | Sales | Spare parts | Market price | 13,205 | 0.01 | 5,432 | - |
| Total | | | | 29,936,576 | 15.66 | 35,712,312 | 16.05 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | Spare parts | Market price | 47,203 | 0.03 | 241,201 | 0.12 |
| No. 5 Steel and its subsidiaries | Purchase | Spare parts and energy | Market price | 22 | - | 152 | - |
| Engineering & Technology Co. and its subsidiaries | Purchase | Equipments | Market price | 1,572,309 | 0.89 | 1,770,884 | 0.87 |
| Baosteel Development and its subsidiaries | Purchase | Steel and iron products and spare parts | Market price | 1,732,852 | 0.98 | 2,467,487 | 1.22 |
| Baosteel Metal and its subsidiaries | Purchase | Spare parts | Fair value | 99,540 | 0.06 | 50,616 | 0.02 |
| BNA | Purchase | Steel and iron products | Market price | 12,090,192 | 6.84 | 12,857,935 | 6.33 |
| Meishan Steel and its subsidiaries | Purchase | Raw materials and spare parts | Market price | 1,195,523 | 0.68 | 1,476,813 | 0.73 |
| Baosteel Resource and its subsidiaries | Purchase | Raw materials | Market price | 6,460,459 | 3.65 | 9,941,000 | 4.90 |
| Baosteel Resources (International) | Purchase | Raw materials | Market price | 493,427 | 0.28 | 730,082 | 0.36 |
| Xinjiang Bayi and its subsidiaries | Purchase | Steel and iron products | Market price | 1,556,442 | 0.88 | 1,605,722 | 0.79 |
| Ningbo Steel and its subsidiaries | Purchase | Steel and iron products | Market price | 1,943,396 | 1.10 | 2,353,612 | 1.16 |
| Zhanjiang Longteng | Purchase | Steel and iron products | Market price | - | - | 2,045,727 | 1.01 |
| Baosteel Desheng | Purchase | Steel and iron products | Market price | 17,037 | 0.01 | 89,658 | 0.04 |
| Baosteel Stainless | Purchase | Steel and iron products | Market price or contract price | 11,983,486 | 6.77 | - | - |
| Baosteel Special Material and its subsidiaries | Purchase | Steel and iron products | Market price or contract price | 3,933,627 | 2.22 | - | - |
| Ningbo Baoxin and its subsidiaries | Purchase | Steel and iron products | Market price | 2,096,746 | 1.19 | - | - |
| Zhanjiang Iron & Steel and its subsidiaries | Purchase | Raw materials | Market price | 328,267 | 0.19 | - | - |
| Others | Purchase | Spare parts and energy | Market price | 13,705 | 0.01 | 9,493 | - |
| Total | | | | 45,564,233 | 25.78 | 35,640,382 | 17.55 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 |
|---|-----------------------|--|---------------------------------------|-------------------------------|-----------------------------|
| | | | | Amount | Amount |
| Baosteel Group | Provision of services | Technical supports | Contract price | 51,768 | 36,185 |
| No. 1 Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 22 | 140 |
| No. 5 Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 327 | 493 |
| Welding Co. | Provision of services | Technical supports | Contract price | 966 | 1,437 |
| Hwabao Trust | Provision of services | Technical supports | Contract price | 12,969 | 10,513 |
| Xinjiang Bayi and its subsidiaries | Provision of services | Technical supports | Contract price | 25,930 | 6,700 |
| Pudong Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 456 | 491 |
| Baosteel Development and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 20,791 | 14,927 |
| Engineering & Technology Co. and its subsidiaries | Provision of services | Technical supports | Contract price | 92,841 | 31,837 |
| Baosteel Metal and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 7,585 | 9,598 |
| Meishan Steel and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 36,326 | 44,187 |
| Baosteel Resource and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 104,434 | 109,460 |
| BNA | Provision of services | Transportation services and technical supports | Contract price | 81,086 | 93,227 |
| Ningbo Steel | Provision of services | Technical supports | Contract price | 21,555 | 13,708 |
| Baohua Tendering | Provision of services | Technical supports | Contract price | 3,482 | 12,514 |
| Baosteel Stainless | Provision of services | Technical supports | Contract price | 65,996 | - |
| Baosteel Special Material and its subsidiaries | Provision of services | Technical supports | Contract price | 49,686 | - |
| Ningbo Baoxin and its subsidiaries | Provision of services | Technical supports | Contract price | 9,151 | - |
| Others | Provision of services | Transportation services and technical supports | Contract price | 9,911 | 2,071 |
| Total | | | | 595,282 | 387,488 |

(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 |
|---|--------------------|---|---------------------------------------|-------------------------------|-----------------------------|
| | | | | Amount | Amount |
| Baosteel Group | Receiving services | Training fees | Contract price | 44,370 | 42,029 |
| BNA | Receiving services | Processing fees | Contract price | 140,638 | 175,595 |
| Engineering & Technology Co. and its subsidiaries | Receiving services | Project, examination, and maintenance fees | Contract price | 1,374,417 | 2,232,641 |
| Meishan Steel and its subsidiaries | Receiving services | Logistics, project, transportation, examination, and maintenance fees | Contract price | 798,222 | 820,081 |
| No. 1 Steel and its subsidiaries | Receiving services | Logistics fees | Contract price | 1,047 | 114,105 |
| Bao-Island Enterprise | Receiving services | Transportation fees | Contract price | 359,039 | 591,526 |
| Baosteel Development and its subsidiaries | Receiving services | Logistics, project, transportation, examination, and maintenance fees | Contract price | 2,062,950 | 1,921,708 |
| No. 5 Steel and its subsidiaries | Receiving services | Logistics and transportation fees | Contract price | 931 | 72,303 |
| Baosteel Resource and its subsidiaries | Receiving services | Transportation fees | Contract price | 448,081 | 280,435 |
| Baosteel Resources (International) | Receiving services | Transportation fees | Contract price | - | 38,314 |
| Baosteel Stainless | Receiving services | Technical service fees | Contract price | 5,585 | - |
| Baosteel Special Material and its subsidiaries | Receiving services | Processing fees | Contract price | 1,678 | - |
| Ningbo Baoxin and its subsidiaries | Receiving services | Logistics fees | Contract price | 230 | - |
| Others | Receiving services | Transportation fees | Contract price | 6,749 | 8,023 |
| Total | | | | 5,243,937 | 6,296,760 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Other related party transactions

| RMB'000 | | | |
|---|------|-------------------------------|-----------------------------|
| Items | Note | Amount for the current period | Amount for the prior period |
| Rental expenses | 2 | 361,177 | 272,699 |
| Rental income | 2 | 35,148 | 83,811 |
| Financial service and interest income | 3 | 209,861 | 219,727 |
| Financial service and interest expenses | 4 | 232,920 | 183,229 |
| Joint research and development expenses | 5 | 299,750 | 659,081 |
| Proceeds on disposal of a long-term investment | 6 | - | 79,556 |
| Proceeds on disposal of assets and investments in Wusong area | 7 | 43,972,290 | - |
| Interest income from disposal of assets | 7 | 938,024 | - |
| Transfer of Corex property | 8 | 2,731,127 | - |

Note 1: On 1 January 2012, Baosteel Group transferred all its 51.4% equity interest of Nanjing Baori Wires Co., Ltd. (Baori Wires) to its another subsidiary, Baosteel Metal Co., Ltd. As a result, the related party transactions with Baori Wires in 2012 are combined into related party transactions with Baosteel Metal Co., Ltd. and its subsidiaries.

Note 2: When the Company was established, 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 entered 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 2012, land use right lease expense of the Company amounted to RMB234,186,471 (2011: RMB234,186,471).

The Group leased properties from such related parties as Baosteel Group, BNA, Baosteel Metal, lease equipments from Baosteel Stainless, leased vehicles from Baosteel Development and its subsidiaries and Baosteel Metal and its subsidiaries; in the meantime, the Group leased properties to BNA and Baosteel Resources and its subsidiaries, leased land to BNA. These leases are priced at negotiated price.

Note 3: The Group provided, via Finance Co., one of its subsidiaries, with loans, discounting and entrusted financing services to Baosteel Group and its subsidiaries, and hereby obtained interest income, discounting 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 stipulated 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 shared the technology achievement of joint research and development, such as patent, proprietary technology, and equally assumed the research and development expenses as well. "Baosteel COREX-3000 Key Production Technology Platform Construction and Joint Research and Development Agreement" terminated at the end of 2011. Due to the transfer of stainless steel and special steel business unit to subsidiaries of Baosteel Group, "Baosteel Special Steel Research Center (Platform) Technology and Product Research under Joint Research and Development Agreement" terminated on 31 March 2012.

Note 6: The Group disposed of 100% of equity interest in Shanghai Baoyang International Shipping Agency Co., Ltd., Zhejiang Shengsi Baojie International Shipping Agency Co., Ltd. and 40% of equity interest in Shanghai Baojiang Shipping Co., Ltd. to Baosteel Resource and its subsidiaries at a consideration of RMB79,556,297.64.

Note 7: Details of disposal of assets and investments at Wusong area refers to Note (V). 55(1).

Note 8: Transfer of Corex assets refers to Note (V).24 Note (2).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | 147,178 | 721,860 |
| Engineering & Technology Co. and its subsidiaries | 155,014 | 9,176 |
| Meishan Steel and its subsidiaries | 181,943 | 412,149 |
| Xinjiang Bayi and its subsidiaries | 9,800 | 7,150 |
| Baosteel Resource and its subsidiaries | 3,000 | - |
| Ningbo Iron & Steel and its subsidiaries | 11,119 | - |
| Zhanjiang Iron & Steel and its subsidiaries | 13,605 | - |
| Baosteel Special Material and its subsidiaries | 160,613 | - |
| Ningbo Baoxin and its subsidiaries | 5,761 | - |
| Welding Co. | 60,000 | - |
| Tianjin BCM | 11,457 | 14,316 |
| Baosteel Metal and its subsidiaries | 179,537 | 388,986 |
| Others | - | 1,764 |
| Total | 939,027 | 1,555,401 |

(2) Accounts receivable

| RMB'000 | | |
|---|------------------|------------------|
| Item | Closing balance | Opening balance |
| Baosteel Group | 13,284 | 898 |
| Baosteel Development and its subsidiaries | 69,718 | 115,668 |
| Meishan Steel and its subsidiaries | 322,124 | 99,658 |
| Pudong Steel and its subsidiaries | 145 | 2,301 |
| No. 5 Steel and its subsidiaries | - | 1,408 |
| Xinjiang Bayi and its subsidiaries | 4,886 | 12,628 |
| Baosteel Stainless | 866,804 | - |
| Baosteel Special Material and its subsidiaries | 372,390 | - |
| Ningbo Baoxin and its subsidiaries | 20,982 | - |
| Baosteel Resource and its subsidiaries | 145,104 | 34,294 |
| Hwabao Trust | 1,679 | 1,736 |
| Baosteel Metal and its subsidiaries | 85,034 | 18,795 |
| Engineering & Technology Co. and its subsidiaries | 156,701 | 182,618 |
| Zhanjiang Longteng | 2,622 | 454,463 |
| BNA | 253,002 | 146,473 |
| Welding Co. | 876 | 2,509 |
| Ningbo Steel and its subsidiaries | 88,695 | 28,054 |
| Baosteel Resources (International) | 47,993 | 3,083 |
| NSM | 34,129 | - |
| Others | 1,408 | 7,641 |
| Total | 2,487,576 | 1,112,227 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Prepayments

| RMB'000 | | |
|---|------------------|------------------|
| Item | Closing balance | Opening balance |
| Baosteel Development and its subsidiaries | 303 | 7,395 |
| Meishan Steel and its subsidiaries | 1,723 | 7,569 |
| Xinjiang Bayi and its subsidiaries | 147,291 | 252,012 |
| Baosteel Resource and its subsidiaries | 115,336 | 276,994 |
| Engineering & Technology Co. and its subsidiaries | 80,794 | 345,549 |
| BNA | 613,054 | 340,312 |
| Guangdong Shaogang | 16,664 | - |
| Baosteel Stainless | 212,168 | - |
| Baosteel Special Material and its subsidiaries | 5,270 | - |
| Ningbo Baoxin and its subsidiaries | 1,078 | - |
| Ningbo Steel and its subsidiaries | 253,746 | 298,845 |
| Baosteel Metal and its subsidiaries | 850 | 557,840 |
| Others | 2,466 | 458 |
| Total | 1,450,743 | 2,086,974 |

(4) Interest receivables

| RMB'000 | | |
|--|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Stainless ^(Note) | 541,970 | - |
| Baosteel Special Steel ^(Note) | 396,055 | - |
| Total | 938,025 | - |

Note: Interest receivables from Baosteel Stainless and Baosteel Special Material refer to Note (V). 55(I).

(5) Other receivables

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Group | 19,807 | 167,028 |
| Meishan Steel and its subsidiaries | 7,585 | 26,648 |
| Zhanjiang Longteng | 7,880 | - |
| Baosteel Stainless | 26,794 | - |
| Engineering & Technology Co. and its subsidiaries | 1,157 | 1,014 |
| Welding Co. | 1,027 | 1,970 |
| Zhanjiang Iron & Steel and its subsidiaries | 2,308 | 12,514 |
| Ningbo Steel and its subsidiaries | 8,580 | 15,780 |
| Others | 773 | 6,623 |
| Total | 75,911 | 231,577 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Non-current assets due within one year

| RMB'000 | | |
|--|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Stainless ^(Note) | 2,600,000 | - |
| Baosteel Special Steel ^(Note) | 1,900,000 | - |
| Total | 4,500,000 | - |

Note: Details of non-current assets due within one year from Baosteel Stainless and Baosteel Special Steel receivable refer to Note (V). 55(1).

(7) Loans and advances to customers

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Development and its subsidiaries | 16,000 | 260,000 |
| Xinjiang Bayi and its subsidiaries | 700,000 | 700,000 |
| Baosteel Resource and its subsidiaries | 603,137 | 667,600 |
| Baosteel Metal and its subsidiaries | 31,428 | 65,735 |
| Engineering & Technology Co. and its subsidiaries | 207,500 | 225,000 |
| Ningbo Steel and its subsidiaries | 811,616 | 652,787 |
| Henan Pingbao | - | 140,000 |
| Others | 178,266 | 622,500 |
| Total | 2,547,947 | 3,333,622 |

(8) Long-term receivables

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Engineering & Technology Co. and its subsidiaries | 40,020 | 28,830 |
| Baosteel Stainless ^(Note) | 10,400,000 | - |
| Baosteel Special Steel ^(Note) | 7,600,000 | - |
| Total | 18,040,020 | 28,830 |

Note: Details of non-current assets due within one year receivables from Baosteel Stainless and Baosteel Special Material refer to Note (V). 55(1).

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

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Group | 7,154,123 | 7,838,751 |
| No. 5 Steel and its subsidiaries | 10,898 | 27,383 |
| Hwabao Investment | 1,997 | 1,988 |
| Hwabao Trust | 393,367 | 270,337 |
| Engineering & Technology Co. and its subsidiaries | 37,526 | 33,608 |
| Institute of Steel and Iron | 35,022 | 31,015 |
| Baosteel Resource and its subsidiaries | 84,531 | 86,830 |
| BNA | 294,950 | 78,531 |
| Others | 19,737 | 48,343 |
| Total | 8,032,151 | 8,416,786 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(10) Notes payable

| RMB'000 | | |
|---|------------------|------------------|
| Item | Closing balance | Opening balance |
| Baosteel Development and its subsidiaries | 133 | 9,500 |
| Meishan Steel and its subsidiaries | 109,386 | 44,164 |
| Xinjiang Bayi and its subsidiaries | 81,329 | 76,816 |
| Engineering & Technology Co. and its subsidiaries | 77,127 | 195,505 |
| BNA | 691,792 | 701,327 |
| Baosteel Stainless | 324,846 | - |
| Baosteel Special Material and its subsidiaries | 162,387 | - |
| Ningbo Baoxin and its subsidiaries | 946,957 | - |
| Others | 234 | 123 |
| Total | 2,394,191 | 1,027,435 |

(11) Accounts payable

| RMB'000 | | |
|---|------------------|------------------|
| Item | Closing balance | Opening balance |
| Baosteel Group | 10,302 | 242,615 |
| Baosteel Development and its subsidiaries | 471,702 | 580,921 |
| No. 1 Steel and its subsidiaries | 7 | 12,997 |
| Meishan Steel and its subsidiaries | 355,848 | 317,481 |
| Pudong Steel and its subsidiaries | - | 30 |
| No. 5 Steel and its subsidiaries | 34 | 6,277 |
| Baosteel Resource and its subsidiaries | 327,915 | 586,323 |
| Engineering & Technology Co. and its subsidiaries | 631,515 | 645,402 |
| Bao-Island Enterprise | 15,518 | 42,163 |
| BNA | 125,315 | 193,910 |
| Shanghai Stainless | 59,190 | - |
| Baosteel Stainless | 803,703 | - |
| Baosteel Special Material and its subsidiaries | 263,941 | - |
| Ningbo Baoxin and its subsidiaries | 323,036 | - |
| Ningbo Steel and its subsidiaries | 30,739 | - |
| Zhanjiang Longteng | 22 | 185,070 |
| Others | 61,156 | 88,895 |
| Total | 3,479,943 | 2,902,084 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(12) Receipts in advance

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Development and its subsidiaries | 139,203 | 191,520 |
| No. 2 Steel and its subsidiaries | 200 | 200 |
| Meishan Steel and its subsidiaries | 13,535 | 73,608 |
| Pudong Steel and its subsidiaries | 153 | 13,490 |
| No. 5 Steel and its subsidiaries | - | 143 |
| Baosteel Resource and its subsidiaries | - | 6 |
| Baosteel Metal and its subsidiaries | 338,506 | 203,513 |
| Engineering & Technology Co. and its subsidiaries | 70,952 | 103,430 |
| Baosteel Stainless | 65,702 | - |
| Baosteel Special Material and its subsidiaries | 16,996 | - |
| Ningbo Baoxin and its subsidiaries | 8,966 | - |
| Welding Co. | 43,393 | - |
| Tianjin BCM | 28,427 | 25,990 |
| Others | 5,322 | 45,522 |
| Total | 731,355 | 657,422 |

(13) Interest payable

| RMB'000 | | |
|----------------------------------|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Group | 70,190 | 40,786 |
| No. 5 Steel and its subsidiaries | 299 | 118 |
| Others | 3,290 | 2,453 |
| Total | 73,779 | 43,357 |

(14) Other payables

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Baosteel Development and its subsidiaries | 2,271 | 3,953 |
| Meishan Steel and its subsidiaries | 3,316 | 2,307 |
| Baosteel Metal and its subsidiaries | 920 | 1,150 |
| Engineering & Technology Co. and its subsidiaries | 57,191 | 10,093 |
| Baosteel Resource and its subsidiaries | 4,003 | 6,003 |
| Others | 110 | 270 |
| Total | 67,811 | 23,776 |

(15) Other current liabilities

| RMB'000 | | |
|---|-----------------|-----------------|
| Item | Closing balance | Opening balance |
| Zhanjiang Iron & Steel and its subsidiaries | 1,921,647 | - |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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

| | Closing balance | Opening balance |
|---|-----------------|-----------------|
| Capital commitments that have been entered into but have not been recognized in the financial statements: | | |
| Contracted but not provided | 9,723,992 | 10,219,316 |
| Approved by the Board but not contracted | 722,300 | 4,826,128 |
| Total | 10,446,292 | 15,045,444 |

(2) Operating lease commitments

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

| | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Minimum lease payments under non-cancellable operating leases: | | |
| 1st year subsequent to the balance sheet date | 393,141 | 294,254 |
| 2nd year subsequent to the balance sheet date | 371,607 | 280,023 |
| 3rd year subsequent to the balance sheet date | 359,662 | 279,423 |
| Subsequent periods over 3 years | 1,622,840 | 1,716,647 |
| Total | 2,747,250 | 2,570,347 |

(IX) EVENTS AFTER THE BALANCE SHEET DATE

1. Explanations of significant events after the balance sheet date

According to the "Announcement on the acquisition of Zhanjiang Iron & Steel Co., Ltd." published by the Company on 30 October 2012, Baosteel Group Corporation, Guangzhou SASAC and the Company signed the Equity Transfer Agreement on 71.8032% equity transfer of Zhanjiang iron & Steel Co., Ltd. ("Zhanjiang Iron & Steel") on 28 October 2012. The Company completed the administrative procedures of equity transfer and the transfer of control in January 2013. Therefore, the Company will consolidate Zhanjiang Iron & Steel's financial statements since 2013.

2. Profit appropriation after the balance sheet date

As approved by the sixth meeting of the fifth Board of Directors held on 29 March 2013, on the basis of 17,122,048,088 outstanding shares (Note (V) 44), the Board of Directors proposed a cash dividend, with a total amount of RMB2,278,400,000.00 (pre-tax). 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 2012

(X) OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

| RMB | | | | | |
|--|------------------|--|--|---|------------------|
| Item | Opening balance | Profit or loss arising from changes in fair value for the period | Changes in fair value recognized in equity (post income tax) | Provision for impairment losses in the current period | Closing balance |
| Financial assets | | | | | |
| 1. Financial assets at fair value through profit or loss | 352,804,683.86 | 7,814,089.85 | - | - | 89,577,809.31 |
| 2. Available-for-sale financial assets | 1,670,413,994.37 | - | (28,088,020.95) | - | 1,467,832,301.93 |
| Sub-total of financial assets | 2,023,218,678.23 | 7,814,089.85 | (28,088,020.95) | - | 1,557,410,111.24 |
| Financial liabilities | - | (20,789,685.96) | - | - | (20,789,685.96) |

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) | 16,483,441,598.17 | - | - | - | 13,444,136,544.37 |
| 2. Derivative financial assets | - | 7,848,049.15 | - | - | 7,848,049.15 |
| Sub-total of financial assets | 16,483,441,598.17 | 7,848,049.15 | - | - | 13,451,984,593.52 |
| Financial liabilities | 41,323,132,812.91 | - | - | - | 25,367,837,560.03 |

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 Company is 4% of the base amount of the individual salary, 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 has been managed by Baosteel Group's subsidiary, Hwabao Trust Co., Ltd. since 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | 248,933,818.43 | 4.67%-7.29% |
| Including: Portion transferred to fixed assets in current year | 201,449,061.01 | |
| Sub-total of borrowing costs capitalized during the year | 248,933,818.43 | - |
| Borrowing costs recognized in profit or loss during the year | 1,829,963,964.01 | - |
| Total borrowing costs during the year | 2,078,897,782.44 | - |

4(2). Segment reporting

The Group defined report segments and disclosed segment information according to the "Accounting Standards for Business Enterprise Interpretation No. 3" since the beginning of 2009.

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. Iron and steel include steel manufacturing unit, trade includes the trading unit, others, including financial, chemical, information, e-commerce and other units. The main products and services that each report segment provides are as follows:

- (1) Iron & steel manufacturing: the Company, Meishan Steel, Yantai Lubao, Huangshi Coating & Galvanizing, Yantai Baosteel, Nantong Steel, Baoma Tube, Poly Pipe, BGM and other steel and iron producing units;
- (2) Iron & steel trade: Baosteel International and its subsidiaries, 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, Huagongbao and others.

The sales to individual customer of the Group has not accounted for more than 10% of the total 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 2012

(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 | 33,239,305 | 41,523,629 | 150,856,221 | 175,135,430 | 7,497,095 | 6,230,703 | - | - |
| Inter-segment revenue | 114,721,692 | 149,217,501 | 30,177,627 | 19,646,474 | 8,267,006 | 8,439,051 | - | - |
| Total segment operating income | 147,960,997 | 190,741,130 | 181,033,848 | 194,781,904 | 15,764,101 | 14,669,754 | - | - |
| Operating expenses | 145,862,799 | 186,294,598 | 179,004,095 | 192,427,890 | 14,505,752 | 13,399,424 | - | - |
| Operating profit | 2,098,198 | 4,446,532 | 2,029,753 | 2,354,014 | 1,258,349 | 1,270,330 | - | - |

| | 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 | 185,592,098 | 209,026,576 | 59,931,154 | 55,153,189 | 20,057,747 | 18,887,215 | - | - |
| Total segment liabilities | 40,119,653 | 44,096,227 | 33,428,310 | 28,509,191 | 12,867,616 | 11,953,970 | - | - |
| Supplementary information: | | | | | | | | |
| Depreciation and amortization | 10,627,409 | 12,481,193 | 428,198 | 366,190 | 348,272 | 276,696 | - | - |
| Impairment loss recognized in the current period | 2,061,233 | 275,162 | (99,891) | (106,139) | 53,060 | 60,936 | - | - |
| Capital expenditures | 10,309,806 | 16,342,085 | 1,839,645 | 1,151,755 | 778,836 | 716,425 | - | - |

(2) External revenue by geographical area of source and non-current assets by geographical location

| Item | RMB'000 | |
|--|---|---------------------------------------|
| | Amount recognized in the current period | Amount recognized in the prior period |
| External revenue from domestic customers | 172,148,125 | 199,018,178 |
| External revenue from foreign customers | 19,444,497 | 23,871,584 |
| Sub-total | 191,592,622 | 222,889,762 |

| Item | RMB'000 | |
|---|-----------------------------|-----------------------------------|
| | Amount at the end of period | Amount at the beginning of period |
| Non-current assets located in domestic country | 110,323,018 | 141,023,490 |
| Non-current assets located in foreign countries | 1,191,183 | 212,316 |
| Sub-total | 111,514,201 | 141,235,806 |

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

External revenue includes:

| Item | RMB'000 | |
|----------------------------------|---|---------------------------------------|
| | Amount recognized in the current period | Amount recognized in the prior period |
| Investment income of Finance Co. | 80,484 | 33,211 |

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

The segment profit does not include:

| Item | RMB'000 | |
|---|---|---------------------------------------|
| | Amount recognized in the current period | Amount recognized in the prior period |
| Financial expenses | 415,680 | 72,321 |
| Impairment losses of assets | 2,084,100 | 350,303 |
| Losses from changes in fair values | 12,976 | 7,306 |
| Investment income (excluding Finance Co.) | (1,134,207) | (597,260) |
| Total | 1,378,549 | (167,330) |

Segment assets do not include:

| Item | RMB'000 | |
|---------------------|-----------------------------|-----------------------------------|
| | Amount at the end of period | Amount at the beginning of period |
| Deferred tax assets | 2,026,536 | 1,188,690 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(X) OTHER SIGNIFICANT EVENTS (Continued)

| RMB'000 | | | | |
|---------|----------------------------|---------------|----------------|--------------|
| | Inter-segment eliminations | | Total | |
| | Current period | Prior period | Current period | Prior period |
| | | | | |
| | - | - | 191,592,621 | 222,889,762 |
| | (153,166,325) | (177,303,026) | - | - |
| | (153,166,325) | (177,303,026) | 191,592,621 | 222,889,762 |
| | (152,755,092) | (177,903,716) | 186,617,554 | 214,218,196 |
| | (411,233) | 600,690 | 4,975,067 | 8,671,566 |
| RMB'000 | | | | |
| | Inter-segment eliminations | | Total | |
| | Current period | Prior period | Current period | Prior period |
| | (53,250,234) | (53,155,924) | 212,330,765 | 229,911,056 |
| | (38,844,133) | (39,176,888) | 47,571,446 | 45,382,500 |
| | | | | |
| | - | - | 11,403,879 | 13,124,079 |
| | 69,698 | 120,344 | 2,084,100 | 350,303 |
| | (66,135) | (132,758) | 12,862,152 | 18,077,507 |

Segment liabilities do not include:

| RMB'000 | | |
|---|-----------------------------|-----------------------------------|
| Item | Amount at the end of period | Amount at the beginning of period |
| Short-term borrowings | 28,964,525 | 38,876,458 |
| Non-current liabilities due within one year | 4,402,850 | 16,809,668 |
| Other current liabilities | 2,938,660 | - |
| Long-term borrowings | 2,731,690 | 7,325,680 |
| Long-term payables | 250,000 | - |
| Bonds payable | 9,835,739 | 8,918,663 |
| Deferred tax liabilities | 320,633 | 316,781 |
| Total | 49,444,097 | 72,247,250 |

4(3) Financial instruments and risk management

The Group's major financial instruments include cash and bank balances, held-for-trading financial assets, loans and advances to customers, long-term receivables, 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 various kinds of other financial assets and liabilities such as accounts receivable, notes receivable, accounts payable and notes payable and etc., which arise directly from its operation.

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 that 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 2012

(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 | Amount at the beginning of period |
| | Available-for-sale financial assets | Available-for-sale financial assets |
| Within 1 year | - | 165,441,000.00 |
| More than 1 year | 398,845,360.00 | 379,419,320.00 |
| Total | 398,845,360.00 | 544,860,320.00 |
| Effective interest rate (Annual interest rate) | 4.48%-7.13% | 4.55%-6.02% |

| Other financial assets | Amount at the end of period | | | |
|--|--|--|------------------|--|
| | Placements with banks and other financial institutions | Financial assets purchased under resale agreements | Loans granted | Long-term receivables (including amount due within one year) |
| Within 1 year | - | - | - | 4,500,000,000.00 |
| More than 1 year | - | - | 2,861,194,609.19 | 18,040,020,000.00 |
| Total | - | - | 2,861,194,609.19 | 22,540,020,000.00 |
| Effective interest rate (Annual interest rate) | - | - | 1.15%-7.00% | 5.904%-6.65% |

| Financial liabilities | Amount at the end of period | | | | | |
|--|-----------------------------|--|-------------------|-------------------|--------------------------------------|-------------------|
| | Borrowings | Taking from banks and other financial institutions | Customer deposits | Bonds payable | Financial assets sold for repurchase | Accounts payables |
| Within 1 year | 33,367,375,209.64 | 600,000,000.00 | 8,071,462,806.92 | 1,017,012,500.06 | 437,705,880.63 | 510,000,000.00 |
| More than 1 year | 2,731,689,992.42 | - | - | 9,835,739,000.07 | - | - |
| Total | 36,099,065,202.06 | 600,000,000.00 | 8,071,462,806.92 | 10,852,751,500.13 | 437,705,880.63 | 510,000,000.00 |
| Effective interest rate (Annual interest rate) | 0.957%-7.31% | 3.95%-4.02% | 0.385%-6.00% | 2.99%-5.62% | 2.26%-2.27% | 5.04% |

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 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 2012, the Group was exposed to equity price risks from individual equity investments which belong to held-for-trading equity investment (Note (V) 2) and available-for sale equity investment (Note (V) 12). 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 2012 | Highest/Lowest 2012 | 31 December 2011 | Highest/Lowest 2011 |
|---|------------------|---------------------|------------------|---------------------|
| Shanghai—A share indexes of Shanghai Stock Exchange | 2,269 | 2,478/1,949 | 2,199 | 3,067/2,134 |
| Shenzhen—A share indexes of Shenzhen Stock Exchange | 881 | 1,020/725 | 867 | 1,316/829 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(X) OTHER SIGNIFICANT EVENTS (Continued)

| RMB | | | | | |
|---|--|--|-------------------|-----------------------|--------------------|
| | Amount at the beginning of period | | | | |
| | Placements with banks and other financial institutions | Financial assets purchased under resale agreements | Loans granted | Long-term receivables | |
| | - | - | - | - | |
| | - | - | 3,483,544,438.27 | 28,830,000.00 | |
| | - | - | 3,483,544,438.27 | 28,830,000.00 | |
| | - | - | 1.40%-8.80% | 6.65% | |
| RMB | | | | | |
| | Amount at the beginning of period | | | | |
| Long-term payables (including amount due within one year) | Borrowings | Taking from banks and other financial institutions | Customer deposits | Bonds payable | Long-term payables |
| - | 42,941,798,312.91 | 300,000,000.00 | 8,433,585,032.21 | 9,985,833,845.12 | 2,758,493,923.17 |
| 250,000,000.00 | 7,325,679,720.00 | - | - | 8,918,663,150.96 | - |
| 250,000,000.00 | 50,267,478,032.91 | 300,000,000.00 | 8,433,585,032.21 | 18,904,496,996.08 | 2,758,493,923.17 |
| 5.04% | 0.835%-7.21% | 1.745%-6.15% | 0.36%-6.4% | 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 | | | |
|---|---------------------------------|-------------------------------------|--------------------------------------|
| 2012 | 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 | 475,610 | - | 23,781 |
| Shenzhen—Available-for-sale investment | 593,377 | - | 29,669 |
| 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 |
| Shenzhen—Available-for-sale investment | 631,601 | - | 31,580 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 2012, 23% 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 security for cash outflows at any time. Bonds issuance, medium-term notes and bank borrowings are the Group's main sources of fund. The Group's current liabilities exceed current assets at RMB12.846 billion. As at 31 December 2012, the Group has achieved unutilised bank loan facilities of approximately RMB110.361 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 2012

(X) OTHER SIGNIFICANT EVENTS (Continued)

2.2 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

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).

| | Closing Balance | | | RMB |
|---|-------------------------|----------------------|----------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Held-for-trading financial assets | | | | |
| – Held-for-trading bond investment | - | 51,729,760.16 | - | 51,729,760.16 |
| – Held-for-trading fund investment | 30,000,000.00 | - | - | 30,000,000.00 |
| – Derivative financial assets | - | 7,848,049.15 | - | 7,848,049.15 |
| Available-for-sale financial assets | | | | |
| – Equity instruments | 1,068,986,941.93 | - | - | 1,068,986,941.93 |
| – Debt instruments | 398,845,360.00 | - | - | 398,845,360.00 |
| – Others | - | - | - | - |
| Total | 1,497,832,301.93 | 59,577,809.31 | - | 1,557,410,111.24 |
| Held-for-trading financial liabilities | | | | |
| – Derivative financial liabilities | - | 20,789,685.96 | - | 20,789,685.96 |
| Total | - | 20,789,685.96 | - | 20,789,685.96 |
| | Opening balance | | | RMB |
| | 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 | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 and for which bad debt provision has been assessed individually | 8,138,600,417.27 | 86 | 406,930,020.86 | 75 | 5,857,028,197.09 | 80 | 302,654,712.06 | 74 |
| Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually | 21,970,409.08 | - | 21,970,409.08 | 4 | 44,084,405.25 | 1 | 44,084,405.25 | 11 |
| Accounts receivables with provision accrued according to the Group | 1,366,662,029.67 | 14 | 111,160,196.01 | 21 | 1,405,773,800.19 | 19 | 63,369,102.56 | 15 |
| Total | 9,527,232,856.02 | 100 | 540,060,625.95 | 100 | 7,306,886,402.53 | 100 | 410,108,219.87 | 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 | 9,061,064,669.41 | 95 | 395,117,024.89 | 8,665,947,644.52 | 7,166,137,181.94 | 98 | 346,255,399.94 | 6,819,881,782.00 |
| More than 1 year but not exceeding 2 years | 441,324,475.47 | 5 | 121,249,210.74 | 320,075,264.73 | 82,113,060.58 | 1 | 15,318,287.47 | 66,794,773.11 |
| More than 2 years but not exceeding 3 years | 2,873,302.06 | - | 1,723,981.24 | 1,149,320.82 | 14,551,754.76 | - | 4,450,127.21 | 10,101,627.55 |
| More than 3 years | 21,970,409.08 | - | 21,970,409.08 | - | 44,084,405.25 | 1 | 44,084,405.25 | - |
| Total | 9,527,232,856.02 | 100 | 540,060,625.95 | 8,987,172,230.07 | 7,306,886,402.53 | 100 | 410,108,219.87 | 6,896,778,182.66 |

(2) Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2012:

RMB

| Content of accounts receivable | Carrying amount | Bad debt provision | Proportion of provision (%) | Reasons for provision |
|---------------------------------------|-------------------------|-----------------------|-----------------------------|-----------------------|
| Receivables with significant balances | 8,138,600,417.27 | 406,930,020.86 | 5 | Note 1 |
| Receivables with long age | 21,970,409.08 | 21,970,409.08 | 100 | Note 2 |
| Total | 8,160,570,826.35 | 428,900,429.94 | | |

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 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 reporting period are set out below:

RMB

| Name of entity | Closing balance | | Opening balance | |
|----------------|-----------------|--------------------|-----------------|--------------------|
| | Carrying amount | Bad debt provision | Carrying amount | Bad debt provision |
| Baosteel Group | 12,985,175.49 | 649,258.77 | 300,258.95 | 15,012.95 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

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

| Name of entity | Relationship with the Company | Amount | Age | Proportion to the total accounts receivable (%) |
|----------------|-------------------------------|------------------|---------------|---|
| Entity one | Related party | 5,914,869,751.52 | Note | 62 |
| Entity two | Related party | 847,434,213.26 | Within 1 year | 9 |
| Entity three | Related party | 540,381,781.95 | Within 1 year | 6 |
| Entity four | Related party | 473,786,083.63 | Within 1 year | 5 |
| Entity five | Related party | 362,128,586.91 | Within 1 year | 4 |
| Total | | 8,138,600,417.27 | | 86 |

Note: Including amount of accounts receivable within one year is RMB5,525,287,939.46 and amount of accounts receivable over one year and within two years is RMB389,581,812.06.

2. Other receivables

(1) Disclosure of other receivables by categories:

| 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 and for which bad debt provision has been assessed individually | 214,902,461.01 | 67 | 2,330,038.88 | 46 | 459,462,938.83 | 89 | 8,985,891.64 | 68 |
| Other receivables that are not individually significant but for which bad debt provision has been assessed individually | - | - | - | - | 939,405.00 | - | 939,405.00 | 7 |
| Accounts receivables with provision accrued according to the Group | 105,938,869.45 | 33 | 2,743,703.10 | 54 | 56,459,110.10 | 11 | 3,327,109.31 | 25 |
| Total | 320,841,330.46 | 100 | 5,073,741.98 | 100 | 516,861,453.93 | 100 | 13,252,405.95 | 100 |

Aging analysis of other receivables is as follows:

| Aging | Closing balance | | | | Opening balance | | | |
|---|-----------------|----------------|--------------------|-----------------|-----------------|----------------|--------------------|-----------------|
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| Within 1 year | 278,549,609.21 | 87 | 4,254,225.60 | 274,295,383.61 | 470,564,953.31 | 92 | 11,699,107.25 | 458,865,846.06 |
| More than 1 year but not exceeding 2 years | 3,811,721.25 | 1 | 819,516.38 | 2,992,204.87 | 2,427,878.92 | - | 404,363.68 | 2,023,515.24 |
| More than 2 years but not exceeding 3 years | - | - | - | - | 349,216.70 | - | 209,530.02 | 139,686.68 |
| More than 3 years | 38,480,000.00 | 12 | - | 38,480,000.00 | 43,519,405.00 | 8 | 939,405.00 | 42,580,000.00 |
| Total | 320,841,330.46 | 100 | 5,073,741.98 | 315,767,588.48 | 516,861,453.93 | 100 | 13,252,405.95 | 503,609,047.98 |

(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 2012:

| Content of other receivables | Carrying amount | Amount of bad debt | Proportion of provision (%) | Reasons |
|---|-----------------|--------------------|-----------------------------|---------|
| Other receivables with significant balances | 214,902,461.01 | 2,330,038.88 | 1 | Note 1 |
| Other receivables with long age | - | - | - | Note 2 |
| Total | 214,902,461.01 | 2,330,038.88 | | |

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 on the receivables amounting to RMB168,301,683.49 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

- (3) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period are set out below:

| Name of Entity | Closing balance | | Opening balance | |
|----------------|-----------------|--------------------|-----------------|--------------------|
| | Carrying amount | Bad debt provision | Carrying amount | Bad debt provision |
| Baosteel Group | 19,806,918.00 | 990,345.90 | 166,627,610.84 | 8,354,438.92 |

RMB

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

| Name of Entity | Relationship with the Company | Amount | Age | Proportion to the total other receivables (%) |
|----------------|-------------------------------|----------------|---------------|---|
| Entity one | Third party | 100,450,683.49 | Within 1 year | 31 |
| Entity two | Third party | 39,380,000.00 | Note | 12 |
| Entity three | Third party | 28,471,000.00 | Within 1 year | 9 |
| Entity four | Related party | 26,793,859.52 | Within 1 year | 9 |
| Entity five | Related party | 19,806,918.00 | Within 1 year | 6 |
| Total | | 214,902,461.01 | | 67 |

RMB

Note: The other receivables aged more than 1 year but not exceeding 2 years reached RMB900,000.00, and the other receivables aged more than 3 years amounted to RMB38,480,000.00.

3. Investments in joint ventures and associates

| Name of investee | Type | Place of incorporation | Legal representative | Nature of business | Paid-in capital | | Paid-in capital |
|-----------------------|------|------------------------|----------------------|--------------------|-----------------|-----------|-----------------|
| | | | | | 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 | - |
| Rihong Stainless | LLC | Shanghai | Hiraoka Yoshifumi | Manufacturing | RMB | 95,000 | - |

Note: Refer to Note(V)14. Note 3

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

| | | | | | | RMB |
|--|---|--|--|---|---|---------------------------------------|
| | Proportion of equity interest held by the Company (%) | Proportion of voting power in the investee held by the Company (%) | Investee's total assets at the end of the period | Investee's total liabilities at the end of the period | Total net assets at the end of the period | Total operating income for the period |
| | 50 | 4,720,905,282.44 | 1,162,674,284.41 | 3,558,230,998.03 | 13,046,982,031.17 | 155,639,042.57 |
| | 50 | 1,588,169,856.00 | 402,705,699.50 | 1,177,902,700.00 | 773,862,217.60 | 2,649,437.20 |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | 175,658,477.39 | - | 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 ^(Note2) | 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 ^(Note2) | Cost method | 117,190,067.55 | 120,755,597.59 | (120,755,597.59) | - |
| Special Metal ^(Note2) | 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 ^(Note2) | 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 | 24,585,249,450.27 | (1,684,310,775.16) | 22,900,938,675.11 |
| Joint ventures | | | | | |
| BNA | Equity method | 1,500,000,000.00 | 1,704,341,426.17 | 74,775,191.77 | 1,779,116,617.94 |
| Bao-Island Enterprise | Equity method | 143,084,132.00 | 589,379,885.10 | (428,535.10) | 588,951,350.00 |
| Subtotal of joint ventures | | 1,643,084,132.00 | 2,293,721,311.27 | 74,346,656.67 | 2,368,067,967.94 |
| Associates | | | | | |
| STAL Precision ^(Note3) | Equity method | 251,457,421.93 | 535,656,956.86 | (535,656,956.86) | - |
| Rihong Stainless ^(Note3) | Equity method | 9,473,440.98 | 9,517,890.62 | (9,517,890.62) | - |
| Subtotal of associates | | 260,930,862.91 | 545,174,847.48 | (545,174,847.48) | - |
| Others | | | | | |
| Baovale Mining Co., Ltd. | Cost method | - | 103,282,213.00 | - | 103,282,213.00 |
| Shanghai Luoqing 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 |
| Automotive Lightweight Technology Research Co Ltd | Cost method | - | - | 3,000,000.00 | 3,000,000.00 |
| PetroChina northwest United Pipeline Co. Ltd. | Cost method | - | - | 4,800,000,000.00 | 4,800,000,000.00 |
| Others | Cost method | - | 980,000.00 | - | 980,000.00 |
| Subtotal | | - | 249,304,839.65 | 4,763,000,000.00 | 5,012,304,839.65 |
| Total | | | 27,673,450,448.67 | 2,607,861,034.03 | 30,281,311,482.70 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

| RMB | | | | | |
|---|--|---|---------------------------------|--|-------------------------------|
| Proportion of equity interest held by the Company (%) | Proportion of voting power in the investee held by the Company (%) | Explanation of the inconsistency between the proportion of equity 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 | | - | - | 22,789,687.30 |
| 58.45 | More than half | | - | - | 4,676,000.00 |
| 100 | 100 | | - | - | 400,000,000.00 |
| 77.04 | 77.04 | | - | - | - |
| - | - | | - | - | - |
| 55.5 | 55.5 | | - | - | 28,383,433.65 |
| 100 | 100 | | - | - | - |
| 100 | 100 | | - | - | - |
| 100 | 100 | | - | - | - |
| 100 | 100 | | - | - | - |
| 100 | 100 | | - | - | - |
| 100 | 100 | | - | - | - |
| - | - | | - | - | - |
| - | - | | - | - | - |
| 100 | 100 | | - | - | 512,741,873.12 |
| 62.1 | 62.1 | | - | - | 59,826,510.70 |
| - | - | | - | - | - |
| 80 | 80 | | - | - | - |
| 95.82 | 95.82 | | - | - | - |
| 75 | 75 | | - | - | - |
| | | | - | - | 1,028,417,504.77 |
| 50 | 50 | | - | - | - |
| 50 | 50 | | - | - | - |
| | | | - | - | - |
| - | - | | - | - | - |
| - | - | | - | - | - |
| - | - | | - | - | - |
| 50 | Note1 | Note1 | - | - | 35,668,836.00 |
| 12 | 12 | | - | - | 13,395,251.27 |
| - | - | | - | - | 1,010,000.00 |
| 17 | 17 | | - | - | 1,570,133.12 |
| 6.90 | 6.90 | | - | - | - |
| 12.80 | 12.80 | | - | - | - |
| Tiny | Tiny | | - | - | 24,500.00 |
| | | | - | - | 51,668,720.39 |
| | | | - | - | 1,080,086,225.16 |

Note1: 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., and the Company is only entitled to a fixed payment in accordance with investment agreements. Therefore, the investment in Baovale was regarded as a long-term equity investment by using cost method.

Note2: Refer to Note (IV).2

Note3: Refer to Note (V).14 Note 3

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 | 129,427,031,108.43 | 174,042,618,542.78 |
| Other operating income | 305,118,247.05 | 629,060,956.08 |
| Total | 129,732,149,355.48 | 174,671,679,498.86 |
| Operating costs | 120,018,114,042.54 | 162,298,753,998.30 |

(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 |
| Iron & steel manufacturing | 129,427,031 | 119,794,810 | 174,042,619 | 161,829,893 |

(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 |
| Iron & steel | 129,427,031 | 119,794,810 | 174,042,619 | 161,829,893 |

(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 |
| Domestic | 117,114,771 | 107,004,054 | 157,150,538 | 145,205,835 |
| Overseas | 12,312,260 | 12,790,756 | 16,892,081 | 16,624,058 |
| Total | 129,427,031 | 119,794,810 | 174,042,619 | 161,829,893 |

(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 | 66,187,390,814.51 | 51 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

6. Investment income

(1) Details of investment income

| RMB | | |
|--|---|---------------------------------------|
| Item | Amount recognized in the current period | Amount recognized in the prior period |
| Income from long-term equity investments under cost method | 1,080,086,225.16 | 679,959,467.06 |
| Income from long-term equity investments under equity method | 107,617,111.14 | 292,647,580.58 |
| Income from disposal of long-term equity investments | 664,738,169.53 | - |
| Investment income from disposal of held-to-maturity investments | 1,526,130.14 | 16,733,434.24 |
| Investment gains (losses) from disposal of derivative financial instrument | (9,684,429.21) | 17,573,048.12 |
| Total | 1,844,283,206.76 | 1,006,913,530.00 |

(2) Income accounting for 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:

| RMB | | | |
|--------------------------|---|---------------------------------------|--|
| Investee | Amount recognized in the current period | Amount recognized in the prior period | Reasons for movement in the current period |
| Baosteel Chemical | 512,741,873.12 | 447,818,132.75 | Cash dividend |
| Baosteel International | 400,000,000.00 | - | Cash dividend |
| Finance Co. | 59,826,510.70 | 145,508,938.76 | Cash dividend |
| Baovale Mining Co., Ltd. | 35,668,836.00 | 6,780,832.45 | Cash dividend |
| Baosight Software | 28,383,433.65 | 43,666,821.00 | Cash dividend |
| Total | 1,036,620,653.47 | 643,774,724.96 | |

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

| RMB | | | |
|-----------------------|---|---------------------------------------|--|
| Investee | Amount recognized in the current period | Amount recognized in the prior period | Reasons for movement in the current period |
| BNA | 73,074,198.01 | 165,253,670.30 | Profit of the joint venture |
| Bao-Island Enterprise | 1,323,729.25 | 76,770,165.60 | Profit of the joint venture |
| STAL Precision | 35,397,743.47 | 50,579,295.04 | Profit of the associate |
| Rihong Stainless | (2,178,559.59) | 44,449.64 | Profit of the associate |
| Total | 107,617,111.14 | 292,647,580.58 | |

As at 31 December 2012, no significant limitation exists regarding investment income repatriation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

7. Bank facilities

As at 31 December 2012, the unutilized bank facilities of the Company reached RMB99,474 billion. The management of the Company believes that the above mentioned facilities and the net cash flow from operating activities would be sufficient to repay the current liabilities due in the coming period.

8. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

| | | RMB |
|---|--------------------|--------------------|
| Supplementary information | Current period | Prior period |
| I. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 10,487,297,179.33 | 5,059,503,387.83 |
| Add: Provision for impairment losses of assets | 2,338,457,245.04 | 361,858,893.17 |
| Depreciation of fixed assets and investment properties | 8,173,838,537.15 | 10,339,028,259.01 |
| Amortization of intangible assets | 51,175,150.37 | 95,643,023.63 |
| Amortization of long-term prepaid expenses | 756,904.05 | 1,643,331.08 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | (8,951,851,098.01) | 129,580,523.10 |
| Losses on changes in fair values (gains are indicated by "-") | 20,789,685.96 | 11,021,542.86 |
| Financial expenses (income is indicated by "-") | (480,175,845.49) | (160,251,537.18) |
| Losses arising from investments (gains are indicated by "-") | (1,844,283,206.76) | (1,006,913,530.00) |
| Decrease in deferred tax assets (increase is indicated by "-") | (466,961,981.03) | (78,015,026.19) |
| Increase in deferred tax liabilities (decrease is indicated by "-") | 15,798,837.83 | 67,076,319.56 |
| Decrease in inventories (increase is indicated by "-") | 3,394,154,762.99 | 1,517,539,451.30 |
| Decrease in receivables from operating activities (increase is indicated by "-") | (747,289,696.54) | (1,201,098,385.24) |
| Increase in payables from operating activities | (1,964,703,529.62) | 10,553,119,583.50 |
| Net cash flow from operating activities | 10,027,002,945.27 | 25,689,735,836.43 |
| 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 | 2,036,143,946.73 | 8,826,002,497.24 |
| Less: Opening balance of cash | 8,826,002,497.24 | 4,076,704,419.19 |
| Add: Closing balance of cash equivalents | - | - |
| Less: Opening balance of cash equivalents | - | - |
| Net increase in cash and cash equivalents | (6,789,858,550.51) | 4,749,298,078.05 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2012

(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 29 March 2013.

SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

| Items | RMB | |
|--|--------------------|--|
| | Amount | |
| Profit or (loss) on disposal of non-current assets | 9,576,840,569.14 | |
| 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) | 698,766,382.87 | |
| The excess of attributable fair value of identifiable net assets over the consideration paid for the acquisition of subsidiaries, associates and joint ventures | 18,738,075.24 | |
| Impairment loss on other non-current assets | (2,645,008,966.84) | |
| Other non-operating income or expenses other than the above | (66,863,718.38) | |
| Tax effects | (1,891,606,500.31) | |
| Effects attributable to minority interests (after tax) | (24,354,071.16) | |
| Total | 5,666,511,770.56 | |

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 (RMB) |
|--|---|--------------------|
| Net profit attributable to ordinary shareholders of the Company | 9.52 | 0.60 |
| Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company | 4.33 | 0.27 |

SUPPLEMENTARY INFORMATION (Continued)

3. Abnormal financial statements items ("F/S items") and description of reasons

RMB

| | F/S Items | 31 December 2012/ for the year ended | 31 December 2011/ for the year ended | Change by % | Cause for the changes |
|----|---|---|---|-------------|--|
| 1 | Cash and bank balances | 8,840,469,097.21 | 14,379,464,105.74 | -39% | Due to the expiration of medium-term notes, cash and bank balances drop by RMB5.539 billion. |
| 2 | Non-current assets due within 1 year | 4,880,000,000.00 | 483,907,475.02 | 908% | Due to the long term receivable from disposing of stainless and special steel business units, non-current assets due within 1 year rose by RMB4.396 billion. |
| 3 | Long-term receivables | 18,035,939,000.00 | 27,388,500.00 | 65752% | Due to disposal of stainless and special steel business units, the long term receivable rose by RMB18.009 billion. |
| 4 | Long-term equity investments | 9,118,968,766.28 | 4,498,487,312.97 | 103% | Due to investment in PetroChina's West Line III, the long-term equity investments rose by RMB4.62 billion. |
| 5 | Construction in progress | 9,966,930,139.34 | 16,282,590,033.75 | -39% | Construction in progress dropped by RMB6.316 billion, mainly due to the completion of construction(Phase II) and transfer to fixed assets in Meishan steel. |
| 6 | Long-term prepaid expenses | 906,159,533.22 | 42,017,928.52 | 2057% | Due to compensation for relocation of coke oven in Meishan steel, long-term prepaid expenses soared by RMB 864 million. |
| 7 | Other non-current assets | 14,509,906,520.94 | 120,375,537.42 | 11954% | Other non-current assets rose by RMB14.39 billion mainly because of prepaid investment RMB4.976 billion in Zhanjiang Steel and assets of RMB9.116 billion at Luojing Area. |
| 8 | Tax payable | 1,238,213,835.07 | (987,589,062.21) | -225% | Tax payable grew by RMB2.226 billion mainly because of gain on disposal of stainless and special steel units. |
| 9 | Non-current liabilities due within one year | 4,402,850,000.00 | 16,809,668,448.29 | -74% | Non-current liabilities due within one year decreased by RMB12.407 billion, mainly due to repayment of RMB10 billion medium-term bonds and RMB2.86 billion of payable relating to Luojing assets. |
| 10 | Long-term borrowings | 2,731,689,992.42 | 7,325,679,720.00 | -63% | Due to the decrease in long-term USD borrowings, long-term borrowings fell by RMB4.594 billion. |
| 11 | Finance Expense | 415,679,745.91 | 72,320,524.41 | 475% | In 2012, installment interest income advanced by RMB0.938 billion and exchange gains dropped by RMB1.505 billion with volatility of exchange rate. Consequently, finance expense rose by RMB0.343 billion. |
| 12 | Impairment loss of assets | 2,084,099,983.65 | 350,302,590.67 | 495% | Impairment loss rose by RMB1.734 billion due to impairment on assets at Luojing area which caused RMB2.645 billion and inventory impairment reversal at RMB0.993 billion. |
| 13 | Income from investment | 1,214,690,828.50 | 630,470,730.12 | 93% | Income from investment grew RMB0.584 billion because of disposal of investment in Ningbo Baoxin, STAL Precision and Rihong Stainless. |
| 14 | Non-operating income | 10,502,489,013.27 | 646,413,128.52 | 1525% | Non-operating income rose by RMB9.856 billion mainly due to income from disposal of stainless and special steel business units. |
| 15 | Non-operating expense | 959,355,275.97 | 225,185,204.97 | 326% | Non-operating expense rose by RMB0.734 billion mainly due to loss on disposal of fixed assets of stainless and special steel units. |
| 16 | Income tax expenses | 2,706,697,134.02 | 1,524,325,189.19 | 78% | In 2012, tax incentives remained the same basically but profit was much higher than that of 2011. Consequently, the income tax expenses registered a y-o-y increase. |

Part X. 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.

29 March 2013

