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**Annual Report**



**MAANSHAN IRON & STEEL COMPANY LIMITED**

H Share Code: 00323  
A Share Code: 600808



# I. General Information

## (1) COMPANY PROFILE

Statutory Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Statutory Chinese short name of the Company	馬鋼股份
Statutory English name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
Statutory English short name of the Company	MAS C.L.
Legal representative of the Company	Su Jiangang

## (2) CONTACT PERSONS

	<b>Secretary to the Board</b>	<b>Representative for Securities Affairs</b>
Name	Ren Tianbao	Hu Shunliang
Correspondence address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Telephone	86-555-2888158/2875251	86-555-2888158/2875251
Fax	86-555-2887284	86-555-2887284
Email address	mggfdms@magang.com.cn	mggfdms@magang.com.cn

## (3) BASIC INFORMATION

Registered address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the registered address	243003
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the office address	243003
Company's website	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a> (A Shares); <a href="http://www.magang.com.hk">http://www.magang.com.hk</a> (H Shares)
Email address	mggfdms@magang.com.cn

## (4) INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for annual report publication	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Location for inspection of annual report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

## (5) BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Type of shares	Stock Exchange for listing of shares	Short name of stock	Stock code
A Shares	Shanghai Stock Exchange	馬鋼股份	600808
H Shares	The Stock Exchange of Hong Kong Limited	MAANSHAN IRON	00323

## (6) OTHER RELEVANT INFORMATION

Date of First Registration		1 September 1993
Place of First Registration		Anhui Provincial Administration for Industry and Commerce
First Change	Date of Change in Registration of the Company	1 September 1993
	Place of Change in Registration of the Company	Anhui Provincial Administration for Industry and Commerce
	Corporate Business License	340000400002545
	Tax Registration Number	340504610400837
	Organisation Code	61040083-7
Name of the Accounting Firm Appointed by the Company		Ernst & Young Hua Ming
Office Address of the Accounting Firm Appointed by the Company		Level 16, Ernst & Young Tower, Oriental Plaza, 1 East Changan Ave, Dongcheng District, Beijing

## OTHER BASIC INFORMATION OF THE COMPANY

- *ISSUE AND LISTING*

The Company was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies. The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Hong Kong Stock Exchange on 3 November 1993. The Company issued RMB denominated ordinary shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the SSE in three batches on 6 January, 4 April and 6 September in the following year.

On 13 November 2006, the Company issued Bonds with Warrants on the SSE. On 29 November 2006, the Company's bonds and warrants were listed on the SSE. On 3 December 2008, the Company's warrants matured and were delisted from the SSE.



## I. General Information (continued)

- *PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS*

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacture and sale of iron and steel products. The manufacturing process primarily involves iron-making, steel-making and steel rolling projects. The Company's principal product is steel products which come in four major categories, namely, steel plates, section steel, wire rods and train wheels.

**Steel Plates** Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used in plates of automobile, home electrical appliances, high-grade construction plates, and plates used in businesses such as packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, the national standard of China, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six countries including the PRC, the United Kingdom, Germany, the United States, France and Norway.

**Section Steel** Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified



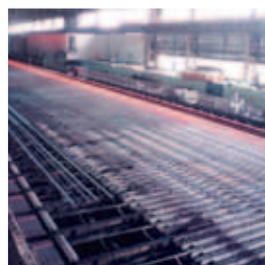
under the Japanese JIS standards and accredited by European Union CE mark certification. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the “Golden Cup Prize of Quality Metal Products”. The stable corten steel has passed the on-site review of China Railways Product Certification Center (“CRCC”).

#### Wire Rods

Major products include high-speed wire rod materials and hot-rolled reinforcing steel used in armoured concrete. High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed “The First Lot of Quality Products Exempted from Inspection” by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a “Reliable and Reputable Construction Material Brand Name Product” by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong. Hot-rolled reinforcing steel and hot-rolled wire rods have been endorsed by the quality control system certification and product certification of the UK Certification Authority for Reinforcing Steels (CARES).

#### Train Wheels

Major products include train wheels and wheel rims, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honour of “Famous Brand of China”. The Company owns the core technology and patent of train wheels used for high-speed railroads. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9000: 2000 quality system, the AAR issued by the North American Railway Committee, the DB of Deutsche Bahn AG and RISAS (former GM/RT2470 and GM/RT2005) issued by British Rail.



## II. Extracts of Accounting and Business Data

### (1) MAJOR ACCOUNTING DATA

Unit: RMB'000

Item	Amount
Operating profit	158,298
Profit before tax	301,099
Net profit attributable to shareholders of the Company	69,578
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	-30,976
Net cash flows from operating activities	982,680

### (2) ITEMS AND AMOUNTS OF NON-RECURRING GAINS OR LOSSES

Unit: RMB'000

Items of non-recurring gains or losses	2011	2010	2009
Losses from disposal of non-current assets	-18,754	-6,514	0
Government subsidies recognized in current gains and losses	84,456	78,449	95,218
Gains/losses from fair value changes of financial assets held-for-trading	-219	-210	224
Except for the above items, other non-operating income and expenses	-5,010	-5,800	13,939
Amortisation of deferred income	82,109	79,527	79,503
Other investment income	466	403	197
Effects of minority interests	-7,699	-9,531	-9,206
Effects of income tax	-34,795	-34,163	-29,494
Total	<b>100,554</b>	102,161	150,381

(3) THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS AT THE END OF THE REPORTING PERIOD FOR THE LAST THREE YEARS

Unit: RMB'000

Major accounting data	2011	2010	Increase/ (decrease) compared to the previous year (%)	2009
Total operating revenue	<b>86,842,202</b>	64,981,112	33.64	51,859,970
Operating profit	<b>158,298</b>	1,565,448	-89.89	374,216
Profit before tax	<b>301,099</b>	1,711,112	-82.40	562,876
Net profit attributable to shareholders of the Company	<b>69,578</b>	1,101,839	-93.69	392,475
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	<b>-30,976</b>	999,677	-103.10	242,094
Net cash flows from operating activities	<b>982,680</b>	400,007	145.67	6,668,700
	<b>As at the end of 2011</b>	As at the end of 2010	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2009
Total assets	<b>81,113,029</b>	70,104,925	15.70	67,984,107
Total liabilities	<b>52,180,279</b>	42,106,162	23.93	40,799,244
Shareholders' equity attributable to shareholders of the Company	<b>26,954,411</b>	27,294,087	-1.24	26,464,653
Total share capital (RMB)	<b>7,700,681,186</b>	7,700,681,186	0	7,700,681,186

## II. Extracts of Accounting and Business Data (continued)

Major financial indicators	2011	2010	Increase/ (decrease) compared to the previous year (%)	2009
Basic earnings per share (RMB/share)	<b>0.009</b>	0.143	-93.71	0.051
Diluted earnings per share (RMB/share)	<b>Not applicable</b>	Not applicable	Not applicable	Not applicable
Earnings per share calculated based on the latest share capital (RMB/share)	<b>0.009</b>	0.143	-93.71	0.051
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	<b>-0.004</b>	0.130	-103.10	0.031
Return on net assets (weighted average) (%)	<b>0.26</b>	4.08	decreased by 3.82 percentage points	1.50
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	<b>-0.11</b>	3.70	decreased by 3.81 percentage points	0.92
Net cash flow per share from operating activities (RMB/share)	<b>0.128</b>	0.052	145.67	0.866



	<b>As at the end of 2011</b>	As at the end of 2010	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2009
Net assets per share attributable to shareholders of the Company (RMB/share)	<b>3.50</b>	3.54	-1.13	3.44
Gearing ratio (%)	<b>64.33</b>	60.06	increased by 4.27 percentage points	60.01

#### (4) ITEMS ACCOUNTED UNDER THE FAIR VALUE METHOD

Unit: RMB'000

<b>Item</b>	<b>Balance at the beginning of the reporting period</b>	<b>Balance at the end of the reporting period</b>	<b>Changes during the reporting period</b>	<b>Effects on the profit for the reporting period</b>
Financial assets held-for-trading	827	608	-219	-219
Total	<u>827</u>	<u>608</u>	<u>-219</u>	<u>-219</u>

### III. Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2011.

First of all, on behalf of the Board, I would like to express my heartfelt thanks to all our shareholders and various sectors of society for their concern for and support to the Company.

Progress of the world's economic recovery in 2011 was slow and difficult. The economies of the world's advanced countries such as Western countries showed no signs of recovery with a persistent slump in the steel products market. While economic growth of the emerging economies all declined, economic growth in these countries was nonetheless relatively faster than in the advanced countries, with growing demand for steel products. Global crude steel output increased by 6.8% to 1.527 billion tonnes, hitting a historic high. Although China's national economy developed steadily and rapidly despite the influence of policies such as control measures on the property market and tightened credit policy, growth in the principal steel-consuming sectors nevertheless slackened. As a result of a weakening demand for steel and an increase in steel production, there has been an oversupply of steel. For the whole year, production costs of iron and steel enterprises exceeded the price increase in steel products in the domestic market. In the fourth quarter, in particular, there was a sudden decrease in prices of steel products, and decline in the price decrease imported iron ores could not cover the decline in the price of steel, leading iron and steel enterprises into the predicament of yet higher production costs for iron ores, and persistent low prices of steel products. The profit margin of the iron and steel sector continued to decline. According to statistics from the China Iron and Steel Association, the sales margin of the iron and steel enterprises in 2011 was 2.42%.



Faced with a complex and changing market environment, the Company implemented the business approach of "strengthening management innovation, enhancing cost reductions and improving efficiency". It strengthened market research and analysis on economic activity and adjusted its production and operating mode on a timely basis in order to ensure the smooth operation of the Company. Through improving quality and speeding up the adjustment of its product mix, and the development of its key products, progress was made in the development of new products, including high-power locomotive wheels and electric multiple unit wheels. Output of pipeline steels, automobile plates, home electrical appliances plates and vehicle wheels amounted to approximately 550,000 tonnes, 820,000 tonnes, 1,210,000 tonnes and 200,000 tonnes respectively, representing increases of approximately 90%, 11%, 20% and 20% respectively over 2010. The Company carried out benchmarking management and potential unleashing, and strived to improve the technical economic indicators with an aim to further reduce all costs. In 2011, costs were slashed by more than RMB1 billion year-on-year. The Company also tailored its marketing strategies, proactively seized



product orders and improved product technical services. A 100% production to sales ratio and a 100% payment collection ratio for steel products were achieved. In 2011, the Group produced 16,050,000 tonnes of pig iron, 16,680,000 tonnes of crude steel and 15,910,000 tonnes of steel products, up 10.23%, 8.36% and 8.27% year-on-year respectively. Of which, the Company produced 13,510,000 tonnes of pig iron, up 1.93% year-on-year; 13,920,000 tonnes of crude steel, down 0.80% year-on-year and 13,200,000 tonnes of steel products, down 1.09% year-on-year.

Under the PRC Accounting Standards, the Group's operating revenue for 2011 amounted to RMB86,842 million, representing an increase of 33.64% over the previous year; net profit attributable to shareholders of the Company in 2011 amounted to RMB69.6 million, representing a decrease of 93.69% over the previous year; and basic earnings per share amounted to RMB0.009, representing a decrease of 93.71% over the previous year. As at the end of the reporting period, the Group's total assets amounted to RMB81,113 million, representing an increase of 15.7% year-on-year; and net assets attributable to shareholders of the Company amounted to RMB26,954 million, representing a decrease of 1.24% year-on-year.

Taking into account the Company's profit level, future development needs and shareholders' interests, the Board recommended not to pay any cash dividend for 2011 and no capital reserve fund will be transferred to share capital. Undistributed profits will be transferred to 2012. This distribution scheme is subject to the consideration at the annual general meeting.

Pursuant to the approval by the shareholders' general meeting, the Company issued corporate bonds of RMB5.5 billion on 25 August 2011. Of which, bonds with a term of three years amounted to RMB3.16 billion at coupon rate of 5.63%; bonds with a term of five years amounted to RMB2.34 billion at coupon rate of 5.74%. The Company has used the proceeds raised to repay the corporate bonds expired on 13 November 2011 according to the Use of Proceeds Raised stated in the prospectus on the public issuance.

For a long time, the Company has been committed to promoting comprehensive and cohesive development between its business, society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". In 2011, the Company was among the first enterprises to receive the title of "Environmentally Friendly Enterprise in Anhui Province" and "Water-saving Enterprise in Anhui Province". It



### III. Chairman's Statement (continued)

received the title of “Energy-Saving Advanced Enterprise in Anhui Province” after passing the accountability assessment on annual energy savings targets conducted by the provincial government; and it retained the title of “Metallurgical Greening Advanced Enterprise in China” for six consecutive years as a result of its vigorous efforts to promote the construction of environmentally-friendly plants. Moreover, the Company received special subsidies totaling RMB5.48 million granted by the State for a number of projects such as the motor system energy savings project and the blast furnace dehumidification project which passed the audit on the quantity of energy savings conducted by a third party which was commissioned by the National Development and Reform Commission. The Company also carried out the development of the Clean Development Mechanism (“CDM”) project. It generated earnings of €2,820,000 from CO<sub>2</sub> emissions trading under the CDM project in 2011. It continued to deepen the comprehensive utilization of its energy and resources. During the reporting period, the Company's consumption of new water per tonne of steel was 4.41m<sup>3</sup>; the compliance rate of waste water discharge was 100%; the comprehensive utilization rate of solid waste was 99.5%; and the ratio of self-generated power was 72.77%. Moreover, the Company is devoted to community services as demonstrated by its active involvement in launching various poverty alleviation and charitable activities. The Company received the title of “Advanced Collective in the Development of Poverty Alleviation in China” for its involvement in a designated poverty alleviation project in Jing County, Anhui Province.

Looking forward to 2012, the world economy will remain extremely uncertain and unstable as the financial crisis persists. The European debt crisis is not expected to be end in the near future and there is a lack of development momentum for the major economies. China will continue to apply and adjust its proactive fiscal policy and prudent monetary policy in line with changes in the economy in order to further improve the relevance, flexibility and perceptiveness of the policies. This will assist China in achieving sustainable growth in the national economy as well as general stability in the overall price levels. Demand has slowed after the Chinese government adjusted downwards the indicators for the pace of development. Under such circumstances, demand from the iron and steel market is expected to continue to increase but the rate of increase will decline. Meanwhile the increase in production capacity, which is higher than the increase in demand, will further intensify the tension in the manufacturing processes. Given a larger proportion of iron ore imports, a high concentration of suppliers and high prices of iron ores, the squeeze at both ends will continue to shrink the profit margins of iron and steel enterprises, bringing more difficulties to the operation of these enterprises.

In 2012, the Group plans to produce 17,610,000 tonnes of pig iron, 18,380,000 tonnes of crude steel and 17,880,000 tonnes of steel products (of which the Company plans to produce 13,660,000 tonnes of pig iron, 14,280,000 tonnes of crude steel and 14,000,000 tonnes of steel products). By “closely monitoring the market and efficiency, speeding up the Company's transformation and development and fully enhancing the Group's competitiveness” as its core business strategy, the Company will carry out the following tasks:

- Formulate decisions on production and operations based on the products' contribution to profit margin, strengthen the procedures from the iron-making to rolling process, thereby realizing optimized allocation of resources throughout the entire production process and improving the economic operation of the Company's systems;



- Adjust the product mix and increase the proportion of higher value added products; strengthen the development of new products by establishing a monthly appraisal system for new products and solve problems arising from the research and development process;
- Establish dynamic optimization of the mode of cost reduction and efficiency enhancement and carry out benchmarking management and potential unleashing in order to reduce production costs;
- Establish linkage mechanism of sales, production and procurement systems, and a mode of integration of technology, business and service so as to enforce technical services and fulfill the clients' needs, thereby further expanding the market;
- Control market risks and strive to reduce inventory so as to enhance the Company's adaptability to the market;
- Exert effort to intensify cost-quality management, improve quality improvement mechanism, implement quality responsibility system and enhance the effectiveness of running the quality management mechanism;
- Speed up the development of non-steel businesses and search for new areas of profit earning with an aim to enhance the Group's overall competitiveness against market risks.

The Board believes that in the new year, the Company will manage to make a great progress on various tasks with the support from our shareholders and various sectors as well as the endeavours of the Board, the Supervisory Committee, the management and all the staff. We will strive to deliver good operating results and sustainable development so as to create returns for our shareholders, to work for the benefits of our staff and to serve the community.

**Su Jiangan**

*Chairman*

28 March 2012

Maanshan City, Anhui Province, the PRC

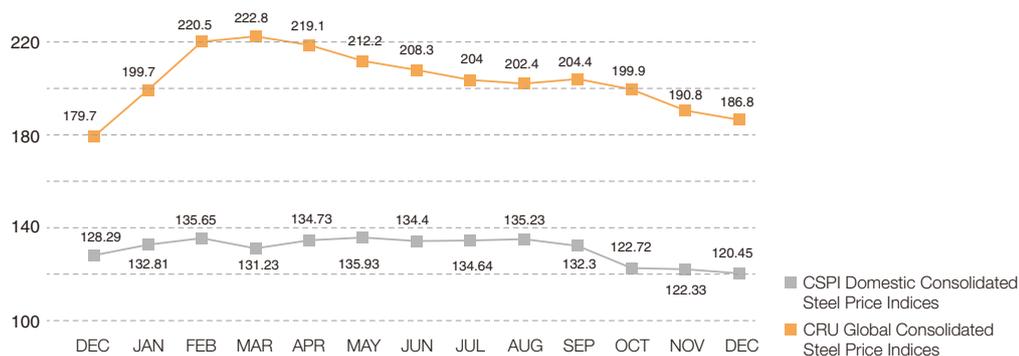


# IV. Management Discussion and Analysis

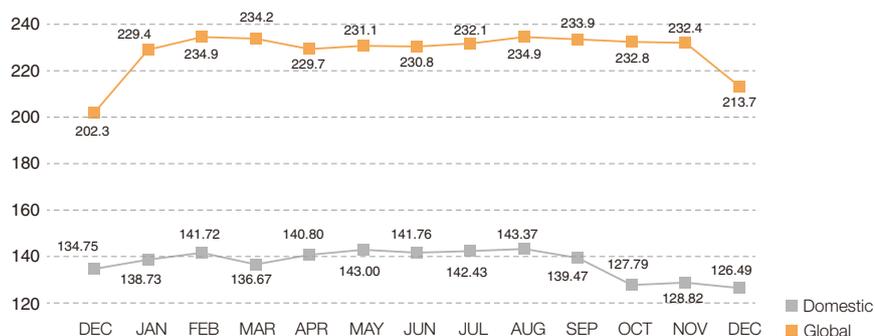
- **Business Environment**

**(1) The Steel Product Market**

In 2011, since reaching a year high in the first quarter, the prices of steel products in the global market continued to decline. The average consolidated price index for global steel products was 205.9, up 26.1 year-on-year, representing an increase of 14.5%. In particular, the average price index for long products was 230.8, up 36.2 year-on-year, representing an increase of 18.6%; the average price index for steel plates was 193.6, up 21.2 year-on-year, representing an increase of 12.3%. The biggest difference in consolidated price index for steel products was 36, a decrease of 30.37% over the previous year.



1. 2011 Consolidated Price Indices for Global and Domestic Steel Products



2. 2011 Price Indices for Global and Domestic Long Products



### 3. 2011 Price Indices for Global and Domestic Steel Plates

The prices of steel products in the domestic market did not show significant change in the first three quarters but dropped suddenly in late September and slightly decreased in the fourth quarter. In 2011, the average consolidated price index for domestic steel products was 131.04, up 12.05 year-on-year, representing an increase of 10.13%. In particular, the average price index for long products was 137.59, up 15.35 year-on-year, representing an increase of 12.56%; the average price index for steel plates was 127.13, up 9.06 year-on-year, representing an increase of 7.67%. The biggest difference in consolidated price index for steel products was 15.20, a decrease of 20.54% over the previous year.



### 4. 2011 Price Indices for Domestic Long Products and Steel Plates

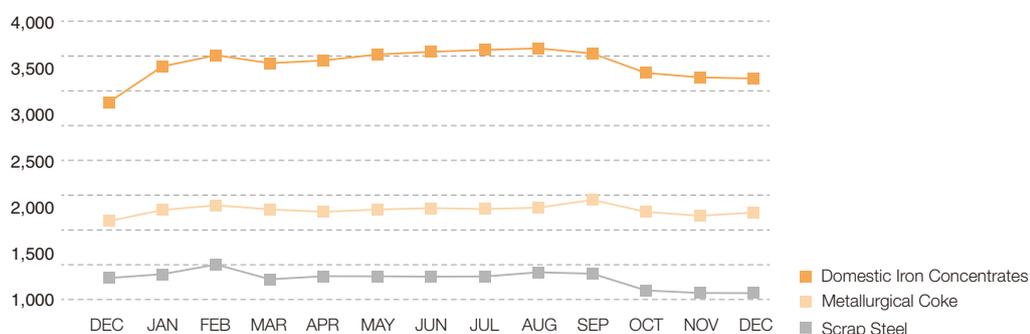
Net exports of steel products in the PRC picked up significantly in 2011. According to customs statistics, exported steel products in aggregate during the year amounted to 48,880,000 tonnes, a year-on-year increase of 14.9%, while imported steel products in aggregate amounted to 15,580,000 tonnes, a year-on-year decrease of 5.2%. Net exports of steel products for the year amounted to 33,300,000 tonnes, a year-on-year increase of 27.5%. Monthly exports in March first reached a year high of 4,905,000 tonnes and decreased gradually. Exports in December amounted to 3,721,000 tonnes, a month-on-month decrease of 11.4%.

## IV. Management Discussion and Analysis (continued)

Generally speaking, in 2011 the prices of steel products in the international and domestic markets were all higher than those in the previous year, while the price trends of long products remained identical to those of steel plates, and the price trends of long products looked stronger than those of steel plates.

### (2) The Markets of Raw Materials and Fuels

The global iron ore and coking coal prices fluctuated within a broad range and stayed high generally in 2011. During the first quarter, the global iron ore and coking coal prices rose substantially on various factors such as the flood damage in Australia. Iron ore prices ran volatile at a high level in the second and third quarters, and fell substantially in the fourth quarter, while coking coal prices ran volatile and declined in the second half of the year. Driven by the international market prices for bulk raw materials, the prices of domestic raw materials remained high, adding pressure to the production costs of iron and steel enterprises. According to the statistics of the China Iron and Steel Association, the average CIF price of imported iron ores in China increased by 27% in 2011 over the same period of the previous year. The average price of domestic iron concentrates, coking coal and scrap steel rose 15.1%, 17.2% and 22.7% respectively, while the average price of steel products rose only 11.8% year-on-year, lower than the increase in the prices of various major raw materials and fuels, so that the profit margins of iron and steel enterprises were heavily squeezed.



### 5. Price of Externally Purchased Raw Materials and Fuels for Nationwide Large and Medium-sized Iron and Steel Enterprises since 2011



- **Major Work**

In 2011, the Company implemented the business theme of “strengthening management innovation, further cost reduction and efficiency enhancement” to cope with the stern challenges and ensure the smooth operation of the Company. During the year, the Company produced 7,168,000 tonnes of steel plates, 2,707,000 tonnes of section steel, 5,837,000 tonnes of wire rods and 198,000 tonnes of train wheels and rims, of which the outputs of pipeline steels, automobile plates, home electrical appliances plates and train wheels and rims increased by approximately 90%, 11%, 20% and 20% over the previous year respectively.

During the reporting period, the Company reaped good results from its aggressive efforts to launch activities for management innovation. During the year, it established an accountability system for the middle and senior management staff; conducted quarterly and annual performance evaluations on a trial basis; implemented 12 accountability rules as a supportive move; put forth efforts to push forward the optimization of the human resources system for revitalizing the existing human resources; made progress in special management programmes such as the special rectification programme for scrap steel and supplementary materials for steel-making, and the special rectification programme for project construction and internal control setup; and received an innovation achievement award for corporate management modernization from the China Iron and Steel Association under the “Design and Practice of Zero-fault Management of the Equipment in Large-scale Iron and Steel Enterprises” project.

The Company aimed to become a leading player in the principal iron and steel operations while making aggressive efforts to expand the non-steel industry. Encountered by the complex and volatile market conditions, the Company strengthened the analysis of market research and judgment as well as economic activities; modified the methods for organizing production and management promptly; accelerated the adjustment of product mix and the construction of engineering projects; adopted a flexible marketing strategy; reinforced product technologies and services; unleashed potential according to the benchmark standards and carried out energy conservation and emissions reduction in a deep-going way; and completed the reorganization of Anhui Chang Jiang Steel. Moreover, the Company set up a logistics company, while the Magang Jinxi rail transportation equipment project and the heavy-duty numerical control machine project proceeded in an orderly way, and the roller project was put into operation, having initially extended the industrial value chain of the iron and steel industry.

The “research, production and sales” work mechanism continued to make solid progress and reaped positive results. 68 scientific research and development as well as technological breakthrough projects were organized and conducted during the year. “Research and development of wheels for CRH”, a State-level project, was approved; the Company received the Anhui Science and Technology Progress Award for four project such as the “research on wheel steel used in heavy-haul railway trains and key technology”, while “annealing-free cold heading steel for hot-rolled wire rods” and the other three products were identified as new products of the provincial level. New products amounting to 2.1 million tonnes were developed during the year, having effectively enhanced the benefits for the current period, and upgraded the product mix of the Company.

## IV. Management Discussion and Analysis (continued)

Progress was made in quality management as losses from internal and external quality fell by 20% year-on-year. Two series of products, namely “cold-forming cold-rolled low carbon steel sheet and strip” and “rolled steel for the monobloc wheel of fast rail passenger trains” won the Gold Award of the China Iron and Steel Association for the 2011 physical quality of metallurgical products. In particular, the “rolled steel for the monobloc wheel of fast rail passenger trains” also won the Premium Quality Award, the highest award first set up for physical quality.



- **Results of the Group's Principal Operation for the Reporting Period Prepared under PRC Accounting Standards**

**(1) Analysis of principal operation by Segment and by Product**

Among the revenue from principal operation, iron and steel operation accounts for 96.83%. Among the gross profit of principal operation, iron and steel operation accounts for 105.15%.

Unit: RMB Million

Business segment/ product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/ (decrease) of gross profit margin (%)
<b>Business segment</b>						
Iron and steel	72,835	70,718	2.91	19.32	23.02	decreased by 2.92 percentage points
<b>Product segment</b>						
Steel plates	33,105	33,175	-0.21	4.90	11.80	decreased by 6.19 percentage points
Section steels	10,099	9,966	1.32	12.02	13.99	decreased by 1.70 percentage points
Wire rods	25,860	24,062	6.95	50.57	49.98	increased by 0.36 percentage point
Train wheels and wheels rims	1,491	1,357	8.99	17.59	19.35	decreased by 1.34 percentage points

## (2) Geographical analysis of operating income

Unit: RMB Million

Region	Ratio (%)	Operating income	Year-on-year increase/ (decrease) of operating income (%)
Anhui	49.50	42,990	46.99
Jiangsu	14.81	12,857	37.61
Shanghai	10.32	8,961	38.52
Zhejiang	6.68	5,801	1.88
Guangdong	5.13	4,454	-10.69
Other PRC regions	11.59	10,063	30.79
Exports	1.97	1,715	10.72

(3) During the reporting period, the Group's gross profit margin of principal operation was 4.01%, a decrease of 1.85 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the significant increase in the prices of iron ore and fuels.

### • Assets and Liabilities of the Group as at the end of the Reporting Period Prepared under PRC Accounting Standards

#### (1) Assets

As compared to the end of the previous year, cash and bank balances increased by 61%, mainly due to the increase in net cash flows from operating activities and borrowings; bills receivable increased by 72%, mainly due to the increase in sales revenue during the year; trade receivable increased by 165%, mainly due to increase in the amount of steel trading by way of prepayments and the acquisition of Changjiang Steel; long term equity investment increased by 56%, mainly due to the investment in the formation of Finance Company, an associated company; investment property decreased by 33%, mainly due to the transfer of subsidiaries' land leased to intangible assets after the lease agreement terminated; construction-in-progress increased by 211%, mainly due to new large-scale category & quality improving projects during the year and the acquisition of Changjiang Steel.



## IV. Management Discussion and Analysis (continued)

As compared to the end of previous year, the proportion of cash and cash balances as a percentage of total assets increased from 9.1% to 12.7%. The proportion of bills receivable out of total assets increased from 1.6% to 2.3%. The proportion of trade receivable out of total assets increased from 2% to 4.5%. The proportion of fixed assets out of total assets decreased from 49.1% to 40%. There were no material differences in the proportions of other assets out of total assets as compared to the end of the previous year.

During the reporting period, the Company's financial assets held-for-trading were accounted under the fair value method while other assets were accounted under the cost method. There were no material changes in the basis of measurement for all the assets.

### (2) Liabilities

As compared to the end of previous year, short term loans increased by 535%, mainly due to the year-on-year increase of import business settled by documentary bills in the fourth quarter and the acquisition of Changjiang Steel; interests payable increased by 275%, mainly due to the increase in the loans during the year; dividends payable decreased by 84%, mainly due to the payment of dividend declared in prior years during the year; non-current liabilities due within one year decreased by 66%, mainly due to the payment of bond with warrants; bonds payable increased by 826%, mainly due to the issuance of mid-term notes and corporate bonds; deferred tax liabilities increased by 100%, mainly due to the increasing assessment value occurred during the acquisition of Changjiang Steel; exchange fluctuation reserve decreased by 60%, mainly due to the depreciation of reporting currencies of some of the Company's overseas subsidiaries against Renminbi.

- **Expenses and Income Tax of the Group for the Reporting Period Prepared under PRC Accounting Standards**

During the reporting period, the Group's financial expenses increased by 35% over the previous year, mainly due to the increase in the average borrowings over the previous year; selling and administrative expenses increased by 20% and 7% respectively over the previous year, mainly due to the acquisition of Changjiang Steel; assets impairment losses increased by 3,760% over the previous year, mainly due to the provisions for decline in prices of inventories; investment income decreased by 31% over the previous year, mainly due to the year-on-year decrease in net profit of associated companies; non-operating expenses increased by 81% over the previous year, mainly due to the increase in the loss from disposal of fixed assets; minority interests increased by 34% over the previous year, mainly due to the acquisition of the non-wholly owned company Anhui Changjiang Iron and Steel Company Limited.





During the reporting period, the Group's income tax expenses amounted to RMB111.6 million, representing a decrease of 79% over the previous year, mainly due to the decrease in the total profit during the reporting period.

- **Operating Results during the Reporting Period Prepared under PRC Accounting Standards**

During the reporting period, the Group's revenue increased by 34% over the previous period, mainly due to the increase in the sales price of steel products during the year and the acquisition of Changjiang Steel; cost of sales increased by 36%, mainly due to the increase in the raw materials and fuels and the acquisition of Changjiang Steel; taxes and surcharges increased decreased by 15% over the previous year, mainly due to the decrease in the gross profit margin of steel products, resulting in the decrease in the value-added taxes which led to the decrease in the urban maintenance and construction tax and education expenses; operating profit decreased by 90% over the previous year, total profit decreased by 82% over the previous year, profit attributable to parent company decreased by 94%, all mainly because the increase rate of steel products was lower than the increase rate of raw materials and fuels in 2011 and due to the provisions for decline in prices of inventories.

- **Analysis of the Group's Cash Flows for the Reporting Period Prepared under PRC Accounting Standards**

In 2011, the Group realised a net profit available for distribution to the shareholders of the Company amounting to RMB69.6 million, a difference of RMB913.1 million when compared to the net increase in cash flows from operating activities amounting to RMB982.7 million, mainly due to the impact on the cash flows generated from operating activities coming from the increase of operating receivables and inventory and the decrease of operating payables was less than the depreciation and amortisation charges during the reporting period. The amount of net cash flows from operating activities increased by RMB582.7 million over the same period of the previous period, mainly because the impact on the cash flows generated from operating activities coming from the increase in account receivables and inventory and the decrease in operating payables decreased as compared to the previous year. The amount of net cash outflow from investing activities increased by RMB4,647 million over the same period of the previous year, mainly due to new large-scale category & quality-improving projects during the year and the setting up of an associated company, Magang Group Finance Company Limited. The amount of net cash flows from financing activities increased by RMB7,770 million over the same period of the previous year, mainly due to the issuance of corporate bonds and mid-term notes by the Company during the reporting period.

- **Account under Fair Value and its Gains and Losses**

In 2011, the Group's financial assets held-for-trading were accounted under the fair value method, using the market capital of stocks as the fair value prices.

## IV. Management Discussion and Analysis (continued)

During the reporting period, the effect on profits for the period by change in fair value of financial assets held-for-trading amounted to RMB0.22 million, accounting for 0.14% of the operating profit for the period. The sustainability, risk and future trend of financial assets held for trading has no material impact on the Company.

### • Major Suppliers and Customers

In 2011, the Group's purchase from the top five suppliers totalled RMB14,848 million, accounting for 30% of the Group's total purchase amount for the year. The Group's sales to the top five customers totalled RMB9,834 million, representing 11% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is the controlling shareholder of the Company. Other than that, in 2011, none of the Directors, Supervisors, their connected parties and other shareholders (to the knowledge of the Board holding 5% or more of the Company's shares) held any beneficial interest in the Group's five largest suppliers or customers.

### • The Operations and Results of the Group's Major Controlling Subsidiaries and Invested Entities

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB224 million. As at the end of the reporting period, it had total assets amounting to RMB3,462 million and net assets of RMB1,238 million.
- Anhui Changjiang Steel Co., Ltd has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw-threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. As at the end of the reporting period, it recorded net profit of RMB55 million, total assets of RMB5,428 million and net assets of RMB2,300 million.
- Ma Steel International Trade and Economics Corporation, the wholly-owned subsidiary, has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net loss for the reporting period amounted to RMB170 million. As at the end of the reporting period, it had total assets amounting to RMB7,494 million and net liabilities of RMB190 million.





- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB100 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB33 million. As at the end of the reporting period, it had total assets amounting to RMB271 million and net assets of RMB166 million.
- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US\$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB13 million. As at the end of the reporting period, it had total assets amounting to RMB195 million and net assets of RMB137 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB40 million. As at the end of the reporting period, it had total assets amounting to RMB1,053 million and net assets of RMB183 million.
- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB19 million. As at the end of the reporting period, it had total assets amounting to RMB1,323 million and net assets of RMB182 million.
- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB13 million. As at the end of the reporting period, it had total assets amounting to RMB636 million and net assets of RMB141 million.
- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB13 million. As at the end of the reporting period, it had total assets amounting to RMB589 million and net assets of RMB182 million.

## IV. Management Discussion and Analysis (continued)

- Anhui Masteel Holly Industries Co., Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 71% and an indirect stake of 29%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB32 million. As at the end of the reporting period, it had total assets amounting to RMB356 million and net assets of RMB173 million.
- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB164 million. As at the end of the reporting period, it had total assets amounting to RMB616 million and net assets of RMB545 million.
- Maanshan Harbor Group Co., Ltd has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB27 million. As at the end of the reporting period, it had total assets amounting to RMB991 million and net assets of RMB426 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB174 million. As at the end of the reporting period, it had total assets amounting to RMB765 million and net assets of RMB660 million.
- Ma Steel (Hefei) Processing and Distribution Co., Ltd has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB24 million. As at the end of the reporting period, it had total assets amounting to RMB821 million and net assets of RMB176 million.



- **Project Construction**

In 2011, the Group's expenses on construction projects amounted to RMB3,744 million, representing an increase of 197.14% over the previous year.

Major investment projects financed by other than fundraising proceeds

Unit: RMB million

<b>Project name</b>	<b>Total investment</b>	<b>Construction progress</b>
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment installation stage
Slab continuous casting project at No.4 steel & rolling plant	1,019	Installation of refined furnace steel structure
Hot-rolled pickling plate project at No.4 steel & rolling plant	1,008	Equipment installation stage
Converter and steel-refining project at No.4 steel & rolling plant	348	Steel columns and roofing structure of the main building
Coal moisture controlling project at the coke plant	2,944	Trial production and adjustment
Silicon steel project phase 2	1,494	Under piling construction
CRH train wheel steel project	320	Tests on heat loading
Hydrogenation of benzene project for Masteel coke making plant	54	Trial production and adjustment
<b>Total</b>	<b>10,137</b>	<b>/</b>

- **Financial Position and Exchange Risks**

As at 31 December 2011, the total amount of loans borrowed by the Group amounted to RMB21,791 million, including loans of RMB8,884 million for working capital and long-term loans of RMB12,907 million. Except for US dollar loans amounting to US\$1,816 million, all other loans were denominated in Renminbi. Except for US dollar loan which carried interests at a LIBOR plus a fixed percentage, among the Renminbi loans, loans amounting to RMB4,430 million carried fixed interest rates and loans amounting to RMB5,921 million carried floating interest rates. Also, the Group issued corporate bonds of RMB5.5 billion in 2011, and issued mid-term notes of RMB3.8 billion in total in 2010 and 2011. The amounts of all the Group's loans varied according to the scale of production and construction projects. No overdue loans have been recorded so far.

As at 31 December 2011, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) was 64.33%.

At present, all capital required for the Company's construction were self-owned cash. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB67,187 million.

## IV. Management Discussion and Analysis (continued)

As at 31 December 2011, the Group's cash and balances with financial institutions amounted to RMB10,303 million. Bills receivable amounted to RMB8,751 million. Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the RMB to US dollar exchange rate appreciated continuously in 2011, an exchange gain of RMB348 million was resulted from the change in exchange rate during the year. Meanwhile, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate has no adverse effect on the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of Euro and Japanese Yen exchange fluctuations on procurement payment was relatively small. Moreover, during the reporting period, while the borrowing rates of loans denominated in US dollars were lower than that of loans denominated in RMB, in addition to the depreciation of US dollar, the Company has increased part of the financing denominated in US dollars while reducing part of financing denominated in RMB.

- **Significant Accounting Estimates and Their Impact on the Company's Financial Position and Operating Results**

The Group's inventories are calculated at the lower of the costs and net realisable values. Provisions are made for the declined value of inventories whose costs are higher than the net realizable values and which are obsolete and slow-moving items (including spare parts). At the end of each year, the Group will review whether a single inventory is an obsolete and slow-moving inventory and whether the net realisable value is lower than the cost of the inventory.

The net realisable values of inventories are the estimated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made on the basis of the current market condition and the historical experience of manufacturing and selling products of a similar nature. The management re-assesses these estimates at each balance sheet date.

The Group's inventories mainly comprise raw materials, work in progress, finished goods and spare parts. By comparing the procurement costs of these inventories with the re-assessed net realisable values, a provision of approximately RMB677 million was made for price decreases in inventories and a write-off of approximately RMB0.65 million was made for price decreases in spare parts in 2011. These provisions had corresponding impacts on the Company's operating results in 2011.

Please refer to "Outcome of the Board's Discussions on the Reasons for and the Impact of the Changes to the Company's Accounting Policies and Accounting Estimates" for adjustment of the term of depreciation for fixed assets.

- **Changes in the Production and Operating Environment and Coping Strategies in 2012**

**(1) Changes in the international and domestic operating environments**

Looking forward to 2012, the world economy will be subject to increased uncertainty and instability, marked by weakened growth momentum. The European sovereign debt crisis is deteriorating, and there is an increased possibility for major developed countries to go into recession again, and this will undermine the economic growth of other nations. Under the impact of a number of factors such as the easing monetary policies of major economies and international capital speculations, volatility in the international market for bulk commodities will intensify, and there will be increased uncertainty over the trend of the international iron ore trade. In addition, as the financial crisis persists and international market competition intensifies, various forms of protectionism will become increasing violent.

The domestic situation in China suggests that 2012 will mark an important year for the continuity of the “Twelfth Five-year Plan”. The general tone of China’s task will be to seek progress while ensuring stability. China will continue to implement the proactive fiscal policy and the prudent monetary policy for maintaining stable and relatively fast economic development as well as general stability in the overall price levels.

On the whole, as the iron and steel enterprises will continue to encounter difficult situations arising from high costs, fallen demand, financing problems, intensified competition and increasing trade frictions, their operating profits are likely to remain at a low level.

**(2) Opportunities and challenges posed to the development of the Company**

***The opportunities***

First of all, China is still going through the industrialization and urbanization process. The experience from developed nations suggests that the consumption of steel products will remain high during this process; secondly, the Company’s successful completion of the reorganization of Anhui Chang Jiang Steel will be conducive to creating synergy and increasing regional market share; furthermore, China’s increasingly stringent requirements on energy conservation and environmental protection will help enterprises with leading edges in green economy or recycling economy secure new competitive advantages. In addition, the use of steel by high-speed rail trains, urban rail transit systems, marine engineering, manufacturing of high-end equipment and extra-high voltage smart power grids designated as the focus of development under the “Twelfth Five-year Development Plan for the Iron and Steel Industry” announced by the Ministry of Industry and Information Technology also provides the Company with new development opportunities.



## IV. Management Discussion and Analysis (continued)

### ***The challenges***

From an international perspective, the financial crisis has a far-reaching impact, characterized by the slow process of economic recovery, the rise of trade protectionism and the increasing trend of financialization of the iron ore market. As a result of the impact of domestic control policies in China, the growth in the aggregate demand for iron and steel is lagging behind the growth in aggregate supply, resulting in a situation in which supply far exceeds demand on the market and homogeneous competition among products further intensifies.

### **(3) Major risks posed to the Company**

- ***Risks associated with the macro economy***

Under the “Twelfth Five-year Plan”, the target for the annual average GDP growth has been set at 7%, far lower than the annual average growth rate of 10.5% realized during the period of the “Eleventh Five-year Plan”, while the overall benefits of the iron and steel industry are highly correlated with the degree of economic boom and the scale of infrastructure in China. Because of these, the industry will continue to encounter various problems such as low profit margins and overcapacity.

- ***Risks associated with the fluctuations in the prices of raw materials and fuels***

Iron ore imports by the Company may rise further on the continuous expansion of the Company's production scale. The increased impact of the fluctuations in iron ore prices on the Company's control over procurement costs as a result, coupled with the ongoing fluctuations in coking coal and coke prices at high levels in recent years are likely to impair the profitability of the Company if the prices of these major raw materials fluctuate within a wide range or upwards in the future.





- **Financial risks**

Due to the impact of China's control policies on the iron and steel industry, pressure is mounting over the availability of cash needed for the production and operations by iron and steel enterprises. The Company has increased its financing size in recent years. Following the issuance of RMB5,500 million corporate bonds and RMB2,800 million medium-term notes in 2011, it will be exposed to a greater risk of repayment pressures in the future. Moreover, as it largely relies on bank borrowings, the adjustment of the benchmark lending rates is likely to cause volatility in its interest expenses, thereby undermining its operating results.

- **Risks associated with environmental policies**

The Company reaped good results from its continued commitments to energy conservation and emissions reduction in recent years. However, environmental standards will tend to become increasingly stringent, given the growing emphasis on environmental issues in the society. If the Company does not manage to meet the national standards on an ongoing basis in the future, its production and business activities are likely to be undermined by environmental issues.

**(4) Countermeasures to be taken by the Company**

- Strengthening balanced and stable production to ensure the economic operation of various systems. The pre-ironmaking system focuses on the building of economical blast furnaces by optimizing the burden design and strengthening technological breakthrough and process improvement to ensure the quality of raw materials and fuels into the blast furnaces. The steelmaking system emphasizes on the reduction of the consumption of iron and steel materials by optimizing the processing system to improve the quality of molten steel. The steel rolling system concentrates on the improvement of the comprehensive production yield, enhances the precision of equipment for laying the foundation for the production of high value-added products. Further assure the process from ironmaking and steelmaking to optimize the allocation of resources during the whole process. Coordinate the division of work in production lines for long products between the headquarters and Ma Steel (Hefei) and Anhui Chang Jiang Steel to complement the advantages of each other.



## IV. Management Discussion and Analysis (continued)

- Intensifying the adjustment of variety portfolio to foster the advantages of electric furnaces. Increase the variety and output of high value-added products by focusing on efficiency and relying on the advantages over advanced equipment, technology and talented personnel. Strive to make a breakthrough in high-end products such as wheels for high-speed CRH, high-strength automobile plates and high-grade cold heading steel, and develop new superior products to create new competitive advantages on the market. Further improve the quality prevention and control system and the quality improvement mechanism, step up the control of the production process and enhance the quality accountability system for maintaining a good image of the Company's products.
- Strengthening the analysis of market movements to improve adaptability to the market. Set up a decision-making operating system that integrates market analysis, business decision-making, procedure execution as well as assessment and evaluation for effectively seizing business opportunities and mitigating risks. Establish a linkage working mechanism for sales, production and procurement for substantially reducing the inventory of raw materials and fuels such as imported iron ore to enhance benefits. A model integrating technology, business and service will be launched for strengthening technical services and adding value to products and services.



The Company has not disclosed profit forecast or operation plan.



- **Outlook for the Company's Future Development**

- (1) **Did the Company make and disclose any profit forecast for the new year? No**
- (2) **Capital requirements, plans for the use of capital and sources of capital**

<u>Capital expenditure commitments</u>	<u>Contract arrangements</u>	<u>Scheduling</u>	<u>Means of financing</u>	<u>Arrangements for sources of capital</u>	<u>Capital costs and use description</u>
				Depreciation expenses	1. RMB1,600 million for continued projects; 2. RMB726 million for various ad hoc projects; 3. RMB145 million for foreign capital injection projects; 4. RMB650 million for preparatory projects.

## V. Report of the Directors

### 1. INVESTMENTS BY THE COMPANY

Unit: RMB'000

Investment amount during the reporting period	5,408,810
Changes in the increase/decrease of investment amount	3,189,450
Investment amount for the same period of the previous year	2,219,360
Increase/decrease in investment amount (%)	1,437

### INVESTEES

Name of investee	Principal business activities	Percentage of equity interest in investee (%)
Maanshan Masteel Resources Regeneration Co., Ltd.	Recycling, processing and sale of scrap metals and other scrap materials.	100
Maanshan (Shanghai) Industrial Trading Co., Ltd.	Metal materials, building materials, hardware, electrical appliances using alternating current, general merchandise, office supplies, mining resources and coking products, warehousing, business information consulting services for logistics and import and export of goods and technologies.	100
Anhui Chang Jiang Iron and Steel Co., Ltd.	Production and sale of rebar steel, steel rods, section steel, angle steel, deformed steel, wire rods, bars, ferrous metal smelting, iron ore and iron ore powder as well as sale, import and export of scrap steel.	55



Name of investee	Principal business activities	Percentage of equity interest in investee (%)
Maanshan Masteel Steel Structure Technology Co., Ltd.	Production and making of metal products; making and installation of high-rise building steel structure, bridge steel structure and plant steel structure; foundation and infrastructure construction; making of non-standard equipment; manufacturing of lifting equipment; production and manufacturing of process steel structure; production, sale and servicing of industrial pipes; export of metal materials and steel structural products; contracting of steel structural projects inside and outside of China; steel structural engineering design and consulting services; trading and sale of metal materials and building materials; and dispatch of workers to overseas countries.	100
Maanshan Masteel Electric Repair Co., Ltd.	Installation, examination and repair of electrical equipment; installation of mechanical equipment and processing pipelines; making and installation of metal structures; dynamic balancing of rotating machinery as well as casting and processing of alloy bearings; manufacturing of reactors, electronic frequency meters and low-voltage cabinets and panels; and making of non-standard equipment.	100
Maanshan Masteel Surface Engineering Technology Co., Ltd.	Manufacturing, installation and repair of mechanical equipment and spare parts; production and sale of a variety of castings and forgings, metal products and building materials; installation of electrical and mechanical engineering; technical consulting services; and repair of home appliances.	100

## V. Report of the Directors (continued)

Name of investee	Principal business activities	Percentage of equity interest in investee (%)
Maanshan Masteel Equipment Installation and Engineering Co., Ltd.	Manufacturing, installation, debugging and maintenance of mechanical, electrical, hydraulic and lifting machinery, pressure pipelines, boilers and pressure containers; construction of industrial furnaces, anticorrosion, thermal insulation and civil engineering building; logistics lifting; processing, application and sale of H-shaped steel; engineering design, technical advice and labour services.	100
Maanshan (Chongqing) Materials Technology Co., Ltd.	Steel shearing and distribution, stamping, laser, welding processing and relevant technical services, metal products and storage services (excluding hazardous chemical materials) and sales.	70
Maanshan Masteel Yuyuan Logistics Co., Ltd.	Sea transport, road transport, freight forwarding agency, shipping agency, logistics warehousing, distribution, processing, information consulting, logistics financial services and related logistics services; and iron and steel-related purchase and sales operations; agent for engineering and equipment tenders.	100
Magang Group Finance Co., Ltd.	Provision of financial and financing advisory, credit verification and related advisory and agency business for members; assisting of members in effecting the receipt and payment of transaction amounts; handling of internal settlements and transfers between members and the designing of related settlement and liquidation plans.	49
CFHI Maanshan Heavy Industry Co., Ltd.	Research, development, design, manufacturing, sale and servicing of heavy-duty numerical control machines.	15



Name of investee	Principal business activities	Percentage of equity interest in investee (%)
Anhui Xinchuang Energy-saving and Environmental Technology Co., Ltd.	Energy-saving projects and services, flue gas treatment, anticorrosion engineering and services, industrial sewage treatment, noise treatment, comprehensive utilization of waste resources, technology research and development, engineering design, construction and general contracting, energy performance contracting, industrial environmental design, etc.	35

To minimize connected transactions of the Company, the Company has acquired a 42% equity interest in Magang Group Finance Co., Ltd. from Magang (Group) Holding upon approval at the eighth meeting of the seventh session of the Board of the Company held on 9 February 2012. Upon completion of the acquisition, the Company holds a 91% equity interest in the finance company. The transaction is subject to the approval of CBRC and other competent authorities.

## 1. Entrusted financial management and entrusted loans

### 1. Entrusted financial management

The Company had no entrusted financial management during the year.

### 2. Entrusted loans

The Company had no entrusted loans during the year.

## 2. Use of the Funds Raised

Unit: RMB Billion

Year of fundraising	Way of fundraising	Total amount of funds raised	Amount of funds raised used in the year	Total amount of funds raised used in aggregate	Total amount of funds unutilized	Use and place of unutilized funds raised
2011	Corporate Bonds	5.5	5.5	5.5	0	/
Total	/	5.5	5.5	5.5	0	/

The Company has used the proceeds raised to repay the share options and bonds with warrants expired on 13 November 2011 according to the Use of Proceeds Raised stated in the prospectus on the public issuance.

## V. Report of the Directors (continued)

### 3. Major investment projects financed by other than fundraising proceeds

Unit: RMB Million

Project name	Total investment	Construction progress
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment installation stage
Slab continuous casting project at No.4 steel & rolling plant	1,019	Installation of refined furnace steel structure
Hot-rolled pickling plate project at No.4 steel & rolling plant	1,008	Equipment installation stage
Converter and steel-refining project at No.4 steel & rolling plant	348	Steel columns and roofing structure of the main building
Coal moisture controlling project at the coke plant	2,944	Trial production and adjustment
Silicon steel project phase 2	1,494	Under piling construction
CRH train wheel steel project	320	Tests on heat loading
Hydrogenation of benzene project for Masteel coke making plant	54	Trial production and adjustment
Total	10,137	/

## 2. OUTCOME OF THE BOARD'S DISCUSSIONS ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO THE COMPANY'S ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### • Reasons for the adjustment of depreciation period for fixed assets

As a result of the Company's completion of a substantial amount of investment in fixed assets during the "Tenth Five-year Plan" and the "Eleventh Five-year Plan", the replacement ratio of the Company's fixed assets has been raised to more than 70%. This has facilitated the overall technological improvement to the Company's fixed assets. Moreover, the Company's increased commitment to large- and medium-sized maintenance services and technological transformation projects combined with large- and medium-sized maintenance services in recent years has ensured and improved equipment performance so that the service life of equipment could be extended. The re-evaluation of the Company's fixed assets and the verified actual service lives of the fixed assets suggest that the service lives of the fixed assets are generally longer than the periods formerly determined in the accounting estimates, and that the former depreciation rates of the fixed assets are higher than those of the majority of companies in the same industry. In accordance with the accounting standards, the Company should at least review the service lives and the estimated residual values of the fixed assets at the end of each year. If the estimates for the service lives of the fixed assets are different from the former estimates, the service lives of the fixed assets should be adjusted. Based on the actual utilization of fixed assets, and taking into account the overall state of the Company's assets under the equipment category and the depreciation levels in the same industry, the Board is of the view that the adjustment of the service lives of the assets under the equipment category among the fixed assets from 10 years to 13 years will make the Company's financial information appear more objective.



- **Impact of the adjustment of depreciation period for fixed assets on the Company**

Based on the above reasons, the Company has adjusted the depreciation period for the fixed assets under the equipment category from 10 years to 13 years, effective 1 October 2011. This adjustment will decrease the amount of depreciation of the Company's fixed assets for 2011 by RMB318.19 million, thereby increasing the interests and net profit of shareholders by RMB238.64 million.

- **Opinions of Independent Directors**

The Independent Directors are of the view that the adjustment of the depreciation period for the fixed assets is in compliance with the relevant laws and regulations, and in line with the actual utilization of the Company's fixed assets, and that the base for making such adjustment is true and reliable, without prejudice to the interests of shareholders. Such adjustment will allow the Company's financial information to reflect the Company's financial and operating conditions more objectively. Therefore, the Independent Directors approved the resolution of the Board on the adjustment of the depreciation period for fixed assets.

- The resolution on the adjustment of the depreciation period for fixed assets has been considered and approved at the 2011 second extraordinary general meeting.

Save the adjustment of the depreciation period for fixed assets, there are no other changes to the Company's accounting policies or accounting estimates.

## V. Report of the Directors (continued)

### 3. DAILY WORK OF THE BOARD

#### 1. Description of the Board meetings and details of the resolutions

<b>Session of the Meeting</b>	<b>Date of the Meeting</b>	<b>Information disclosure newspapers for publishing resolutions</b>	<b>Publication date of resolutions</b>
The twentieth meeting of the sixth session of the Board	11 January 2011	–	–
The twenty-first meeting of the sixth session of the Board	22 March 2011	Shanghai Securities News	23 March 2011
The twenty-second meeting of the sixth session of the Board	27 April 2011	Shanghai Securities News	28 April 2011
The twenty-third meeting of the sixth session of the Board	14 July 2011	Shanghai Securities News	15 July 2011
The twenty-fourth meeting of the sixth session of the Board	18 August 2011	Shanghai Securities News	19 August 2011
The first meeting of the seventh session of the Board	31 August 2011	Shanghai Securities News	1 September 2011
The second meeting of the seventh session of the Board	20 October 2011	Shanghai Securities News	21 October 2011
The third meeting of the seventh session of the Board	3 November 2011	Shanghai Securities News	4 November 2011
The fourth meeting of the seventh session of the Board	15 November 2011	Shanghai Securities News	16 November 2011
The fifth meeting of the seventh session of the Board	30 November 2011	Shanghai Securities News	1 December 2011
The sixth meeting of the seventh session of the Board	16 December 2011	–	–
The seventh meeting of the seventh session of the Board	30 December 2011	Shanghai Securities News	31 December 2011

Other than the resolutions of the Board meetings held on 11 January and 16 December, which were to approve the 2011 and 2012 plans of operation and operation, the resolutions of the Board meetings in 2011 were published on the following day in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange.

## 2. Implementation of the Resolutions of the Shareholders' Meetings by the Board

During the reporting period, all the members of the Company's Board have carried out their duties in accordance with the relevant laws and regulations and the Articles of Association, performed their duties diligently and have faithfully implemented the resolutions passed at the shareholders' general meetings and fully accomplished various assignments allocated at the shareholders' general meetings.

## 3. Establishment and improvement of work system, details and discharge of duties of the Audit Committee under the Board

The Board of the Company has set up the Audit Committee with sound work system. For the composition of the Audit Committee and its major work scope, please refer to "Audit Committee" of "Corporate Governance Report" in "Corporate Governance" in this annual report.

During the Reporting Period, discharge of duties by the Audit Committee is as follow:

In 2011, the Audit Committee of the sixth session of the Board held three meetings and all members attended each meeting. The meetings were chaired by Chairman Mr. Wong Chun Wa. Major details of the meetings are as follows:

- Reviewed the Company's audited financial statement of 2010, and the unaudited first quarterly financial statement and interim financial statement of 2011 and considered that the Company had complied with the requirements of the relevant regulations on the preparation of financial statements in every material respect and had made adequate disclosure with no material omissions.
- Reviewed the connected transactions between the Company and Holding during 2010 and considered that such transactions were conducted during the ordinary course of business between the two parties and the transactions conducted were under normal business terms or terms which were not less favourable than those provided to independent third parties (or under terms which were provided to independent third parties), and that such transactions were in the best interests of the Company and its shareholders. The yearly total amounts for the Company's transactions conducted in 2010 pursuant to the "Sale and Purchase of Ore Agreement" did not exceed the stated cap amounts.
- Inspected the Company's external guarantees for 2010 and issued independent opinions.

## V. Report of the Directors (continued)

- Reviewed the Board's self-assessment report on the Company's 2010 internal control, listened to the Company's report on the internal control status in the first half of 2011 and was of the view that the internal control and the risk management procedures were effective.
- Reviewed the Audit Committee's summary report in respect of the Company's auditing work in 2010 conducted by the auditors.
- Agreed that the Company would pay a fee totalling RMB4.535 million to Ernst & Young Hua Ming for their annual audit and execution of interim agreed upon procedures for year 2010 and agreed that Ernst & Young Hua Ming would be re-appointed as the Company's auditors for 2011.
- Reviewed the Report on the "Discharge of Duties by the Audit Committee for 2010".

The Audit Committee of the seventh session of the Board of the Company held one meeting and all members attended each meeting. The meeting was chaired by Chairman Mr. Qin Tongzhou. The meeting was to consider the unaudited third quarterly financial statement of 2011. The meeting was of the view that the Company had complied with the requirements of the relevant regulations on the preparation of financial statements in every material respect and had made adequate disclosure with no material omissions.

### 4. Discharge of duties of the Remuneration Committee under the Board

In 2011, the Remuneration Committee of the sixth session of the Board held two meetings.

The first meeting was conducted on 21 March. Apart from Mr. Hui Leung Wah who had appointed Mr. Wong Chun Wa to attend, all other members attended the meeting in person. The meeting was chaired by Mr. Su Yong. Major details of the meetings are as follows:

- In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of the Company" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations as well as completion of operation targets, together with a reference to respective scopes of work and major duties for the relevant Directors and Senior Management, the Remuneration Committee conducted appraisals on the 2010 operating performance of the Company's relevant Directors and Senior Management, and the appraisal results were submitted to the Board meeting held on 28 March 2011 for consideration.
- Reviewed the Report on the "Discharge of Duties by the Remuneration Committee for 2010".



The second meeting was conducted on 14 July. Apart from Mr. Su Yong who had appointed Mr. Han Yi to attend, all other members attended the meeting in person. The meeting was chaired by Mr. Han Yi. The meeting was to consider and approve the resolution of the remunerations of the directors of the seventh session of the Board of the Company.

**5. Establishment and improvement of the System Governing External Information Users of the Company**

The Company established the Administrative Measures for Information Disclosure in 2002, and made amendment to the same in 2005, 2007, 2008 and 2010 in order to ensure the Measures comply with the requirement of regulatory authorities. After the amendment that was made in 2010, the Measures included the relevant clauses of the System Governing External Information Users.

**6. Statement of the Board on responsibilities for internal control**

The Board of the Company accepts its accountability towards the sound condition and effectiveness of the Company's establishment of internal control system.

For details of the sound condition of the Company's establishment of the internal system and the Boards' self-assessment, please refer to "Internal Control" of "Corporate Governance Report" under "Corporate Governance" of this annual report.

**7. Establishment and implementation of Management System for People with Access to Insider Information**

In order to regulate the Company's management on people with access to insider information, the fifteenth meeting of the sixth session of the Board considered and approved the "Registration and Management System for People with Access to the Company's Insider Information" on 8 June 2010. The eighth meeting of the seventh session of the Board approved amendment on the System on 9 February 2012. During the reporting period, as far as the Board was aware of, the Company did not discover any trading in the Company's shares by insiders using insider information before the Company disclosed any material price-sensitive information; nor was there any investigation or rectification carried out by the regulatory departments. As such, the above-mentioned system was executed effectively.

**8. Was the Company and its subsidiaries included in the list of polluting enterprises released by environmental protection department? No**

The Company does not have major environmental problem.

The Company does not have other major social safety problem.

## V. Report of the Directors (continued)

### 4. FORMULATION AND IMPLEMENTATION OF A CASH DIVIDEND POLICY

According to the fourth paragraph in Article 184 of the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, dividends will be distributed to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis. Except that no cash dividend was declared due to the need to counter the impact of the financial crisis in 2008, the Company has been carrying out the distribution of profits in cash for many years on a continuous basis.

### 5. THE COMPANY MADE PROFIT DURING THE REPORTING PERIOD BUT NO CASH PROFIT DISTRIBUTION MOTION IS PROPOSED.

#### Reasons on profit making without cash profit distribution motion during the reporting period

As audited by Ernst & Young Hua Ming, the profits distributable to shareholders as at 31 December 2011 amounted to RMB6,508.43 million. In view of the current economic environment and the severe status of oversupply in iron and steel industry, and the stern challenges which the Company's operation is facing, in order to ensure normal operation and continuous development of the Company, the Board did not recommend to pay any cash dividend for 2011 and no capital reserve fund will be transferred to share capital.

#### Use of retained fund which was not utilized as dividend

To supplement its current capital for production.

## 6. THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION AND BONUS SHARING DECLARED BY THE COMPANY IN THE LAST THREE YEARS

Unit: RMB Million

Year of dividend	Bonus shared for each 10 shares (share)	Dividend distributed for each 10 shares (Taxes inclusive) (RMB)	Transfer of capital reserve to shares for each 10 shares (share)	Total amount of cash dividends (Taxes inclusive)	Net profits attributed to the shareholders of the Company shown in the consolidated statement for the dividend year	Ratio between the dividends and the net profit attributed to the shareholders of the Company in the consolidated statement (%)
2008	0	0	0	0	710.2	0
2009	0	0.40	0	308	392.4	78.57
2010	0	0.50	0	385	1,101.8	34.94

## 7. OTHER MATTERS

### 1. Purchase, sales or redemption of listed securities of the Company

In 2011, the Company has not redeemed any of its securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

### 2. Pre-emptive rights

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions of the pre-emptive rights.

### 3. Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at 31 December 2011 and the latest practicable date of the publication of this report (i.e. 29 February 2012), the Company has fulfilled the public float requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## VI. Report of the Supervisory Committee

Dear shareholders,

Entrusted by the Supervisory Committee of the Company and pursuant to the relevant requirements of the Company Law and the Articles of Association of the Company, I hereby report to you the major work of the Supervisory Committee in 2011.

### (1) MEETINGS OF THE SUPERVISORY COMMITTEE IN 2011

The Supervisory Committee held 12 meetings in 2011 based on the needs for its work. On the basis of having promptly acquired a thorough understanding of the Company's production operations and financial status, the Supervisory Committee has considered a number of significant events of the Company. Major matters considered at the meetings include: 1. the 2010 Annual Report, the 2011 Interim Report and the 2011 First and Third Quarterly Reports of the Company; 2. the "2010 Work Report of the Supervisory Committee" and the "2010 Report on the Performance of Duties by Supervisors"; 3. the resolution on the investment in restructuring Anhui Chang Jiang Steel Co., Ltd.; 4. the resolution on the changes in the provisions for price decreases of inventories, the write-off of bad debts and the disposal of fixed assets; 5. the resolution on the setup of Anhui Sichuang Environmental Technology Co., Ltd.; 6. the resolution on the Company's issue of bonds; 7. the resolution on the nomination of supervisor candidates for non-workers' representatives to the seventh session of the Supervisors Committee, and on the election of the Chairman of the seventh session of the Supervisors Committee; 8. the Financial Services Agreement entered into between the Company and Magang Group Finance Co.; 9. the resolution on the adjustment of the depreciation period for fixed assets; 10. the resolution on the investment in the setup of Maanshan Yuyuan Logistics Co., Ltd.; 11. the resolution on the investment in the setup of Maanshan Masteel Jinxi Rail Transportation Equipment Co., Ltd.; 12. the discussion of the Company's production and business plans for 2012; 13. the discussion of the Company's investment plans for 2012; 14. the listening to the report on income from the funds raised from the issue of corporate bonds and on the use of such income.

### (2) BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS IN 2011

The Supervisory Committee discharged its supervisory duties conscientiously in 2011 pursuant to the relevant requirements of the Company Law, the Articles of Association and the Rules of Meeting Procedure of the Supervisory Committee. Members of the Supervisory Committee attended Board meetings of the Company, and considered that the Board conscientiously executed the resolutions passed at shareholders' general meetings, faithfully fulfilled its obligation of good faith, and no acts that harmed the interests of the Company or shareholders have been found, and that all resolutions made by the Board were in compliance with the requirements of the relevant laws and regulations including the Company Law and the Articles of Association.



The Supervisory Committee carried out effective supervision over the operation management of the Company, and considered that in this year the Company had been continuously improving the corporate structure as a legal person and enhancing the internal operation and management of the enterprise in order to resist to market risk. The management of the Company worked in a diligent and responsible manner, and executed the resolutions passed by the Board conscientiously; and no breaches on rules were found during the course of operation.

The Supervisory Committee participated in the Company's important work by attending Board meetings. It effectively supervised the meeting agenda, voting procedures, voting results and so forth; made recommendations on the Company's operating activities, resolutions, profit distribution plan and so forth; and effectively supervised the guiding concept for making decisions, and whether specific decisions so made were in compliance with State laws and regulations, the Articles of Association and the resolutions passed at shareholders' general meetings, or were in the interests of shareholders.

### **(3) THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINIONS ON THE COMPANY'S OPERATIONS IN 2011**

#### **1. Operations in compliance with the law**

The Board operated in a regulated manner, and its decision-making process was lawful and valid in compliance with the relevant requirements stipulated in the Company Law, the Articles of Association and the Rules of Meeting Procedure of the Supervisory Committee. The Company has established and improved the internal control system. The Directors and the Management of the Company were able to work in a diligent and responsible manner when discharging their duties. No acts that breached the laws, regulations and the Articles of Association of the Company or harmed the interests of the Company have been discovered.

#### **2. Inspection of the Company's financial situation**

With the understanding towards the Company's financial status, the Supervisory Committee considered that the Company's financial statements truly reflected the financial status and operating results of the Company; and that the audit report was truthful and reasonable; and that the 2011 Annual Report prepared by the Board was truthful and lawful, and comprehensively reflected the Company's situation, and contained no false representations, misleading statements or material omissions.



## VI. Report of the Supervisory Committee (continued)

### 3. Inspection of the use of fundraising proceeds

Independent opinion of the Supervisory Committee on the actual application of the proceeds raised from the Company's latest fundraising exercise: the amount of funds raised by the Company from the issue of bonds in August 2011 totalled RMB5,500 million which was used for the payments for warrants and convertible corporate bonds attached with warrants expiring on 13 November 2011 in accordance with the plan for the application of the proceeds as set out in the prospectus. The proceeds have been fully utilized so far. The Supervisory Committee will continue to carry out effective supervision in this regard.

### 4. Acquisitions and sales of assets by the Company

During the reporting period, the Company invested in the restructuring of Anhui Changjiang Steel Co., Ltd., apart from which no major acquisitions, asset sales, asset swaps or mortgages were carried out.

### 5. Connected transactions

The connected transactions of the Company in 2011 were conducted in strict compliance with the Articles of Association and pursuant to the connected transactions agreements and that the transactions were fair and reasonable; major connected transactions were conducted on an arm's length basis and fulfilled the statutory approval process; and no act that harmed the interests of the Company and its shareholders were found.

### 6. Internal control self-evaluation report

Having audited the Board's 2011 self-evaluation report on the internal control as well as details of the establishment and implementation of the internal control system, the Supervisory Committee considered that the Company has established a relatively sound internal control system which was effectively implemented; and that the internal control self-evaluation report truthfully and objectively reflected details of the establishment and implementation of such internal control system.

## 7. Supervisory Committee's audit opinions on the Company's 2011 Annual Report

The procedures for preparing and reviewing the Company's 2011 Annual Report were in compliance with the relevant requirements of the laws, regulations and the Articles of Association. The content and the format thereof were in compliance with all the requirements of the CSRC and stock exchanges. The information contained therein could truthfully reflect the Company's operating results and financial status in the current year. No staff involved in the preparation and review of the annual report have been found to have acted against the confidentiality provisions.

In 2012, the Supervisory Committee of the Company will, in strict compliance with the Company Law, Articles of Association and relevant regulations and policies promulgated by the country, continue to faithfully discharge its duties to further improve the Company's regulated operations, and supervise to ensure that the Company is operating in accordance with relevant regulations. It will actively supervise the establishment and effective operation of the internal control system. It will focus on the supervision and management of the Company's internal control and carry out inspection on important issues such as major investments, management of raised funds, connected transactions and other important aspects of the Company. It will strive to discharge the duty of inspecting the finance of the Company, and carry out supervision on the financial operations of the Company by understanding and reviewing the financial statements on a regular basis.

**Zhang Xiaofeng**

*Chairman of the Supervisory Committee*

28 March 2012

## VII. Corporate Governance

### (1) SITUATIONS OF THE CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance corporate governance structure, consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager were clear and unambiguous.

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance and enhanced the fundamental system. Accordingly to the requirement of the CSRC, the Board set up "The Working Rules for the Secretary to the Board" timely, further regulating the work duty and procedures of the Secretary to the Board.

#### 1. Corporate Governance Report

In 2011, the Company has complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules.

#### (1) Directors

##### ***Directors and the composition of the Board***

In 2011, the Company's Board comprised seven Directors, of whom three were Executive Directors and four were Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-seventh of the members of the Board.

The Executive Directors and one Non-Executive Director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction, and are capable of making rational decisions on the matters to be resolved by the Board. Among the three Independent Directors, Mr. Qin Tongzhou is the member of the Chinese Institute of Certified Public Accountants (CICPA), the CFO of China Fire & Security Group Inc. with years of experience in the accounting profession; Ms. Yang Yada is the Professor of the School of Management, supervisor of master students and Dean of the School of Management of Anhui University of Technology who is knowledgeable in corporate management; Mr. Wu Tat Man Damon Albert is a legal practitioner in Hong Kong, now working as the Consultant Lawyer of Woo Kwan Lee & Lo with extensive experience in the field of law. These Independent Directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board fully complied with the requirements of the relevant laws, regulations and regulatory documents in the PRC and overseas. The names of all Directors were published in the Company's correspondence and specifications were made to Independent Directors.



During the reporting period, as far as the Board is aware of, there were no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board (including Chairman and General Manager) that were required to be disclosed.

All of the Directors of the Company had confirmed in written form that they had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Hong Kong Listing Rules.

The Company received from the three Independent Directors' independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors, Authorised Representatives and Directors" in the Hong Kong Listing Rules. The Board of the Company was therefore of the opinion that the three Independent Directors were all independent.

### ***Chairman and General Manager***

The positions of the Company's Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by a simple majority of all Directors in the Board. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board, ensuring that the Board will consider all matters involved in an appropriate manner, and facilitating an effective operation of the Board.

The Chairman is entitled to chair the shareholders' general meetings, to convene and chair Board meetings, to review the implementation of resolutions by the Board, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board, the Chairman may convene the shareholders' general meetings. Between sessions of the Board meetings, the Chairman shall give guidance to the major business activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board, and shall be accountable to the Board. The General Manager leads the Management, and is responsible for the usual course of operation in production and management, and organises the implementation of various resolutions by the Board. The General Manager shall regularly report to the Board or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board or the Supervisory Committee.

## VII. Corporate Governance (continued)

### ***Non-executive Directors***

The term of office of the Company's Non-executive Directors (including Independent Directors) is three years, from 31 August 2011 to 31 August 2014.

In order to protect the legal rights and interests of the minority shareholders and the stakeholders, the Company established the "Work System of Independent Directors". The system specifies in detail the appointment criteria and nomination procedures of Independent Directors and working conditions that the Company shall provide to Independent Directors. It also stipulates that Independent Directors shall issue independent opinions on matters such as connected transactions and external guarantees.

### ***Duties and authorities of the Board and the Management***

The Board performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including:

- To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;
- To decide on the annual operating plans and key investment proposals of the Company;
- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;



- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and trust management within the limit as stipulated in the Articles of Association.

There are three committees under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Please refer to "(4), (5) and (6)" of this section for the major duties of the committees.

The Company's Management performed their major responsibilities in accordance with the duties and authorities conferred by the Articles of Association, mainly including:

- To organise the implementation of the Company's annual operating plans and investment proposals;
- To propose the establishment schemes of the Company's internal management structure;
- To propose the Company's fundamental management system;
- To formulate the Company's basic constitutions;
- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;
- To decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointments, recruitment or removal and termination of the Company's staff;
- To deal with the important external businesses of the Company on its behalf;
- To propose the convening of extraordinary Board meetings.

## VII. Corporate Governance (continued)

### ***Board meeting***

The Board convenes four regular meetings annually, and notifies Directors about the time and date, location and agenda of a regular Board meeting 14 days in advance so as to ensure all Directors could attend the meetings. All Directors are given opportunities to raise matters for discussion and such matters will be included in the agendas of the regular meetings. If required by the Directors, the Management is able to provide adequate information timely to the Directors and such information can help the Directors make appropriate decisions. All or most of the Directors shall attend each regular Board meeting in person. When the Board vote on connected transactions, the connected Directors shall abstain from voting and the connected transactions shall be approved by the non-connected Directors. All Directors are entitled to and have the opportunity to access to the minutes of the Board meetings.

The Secretary to the Board is responsible for organising and preparing the Board meetings, and assist the Chairman to ensure that the procedures for the meetings comply with the requirements of relevant laws, regulations and the regulatory documents.

### **(2) Remuneration of the Directors, Supervisors and Senior Management**

#### ***Directors' remuneration***

The annual aggregate remuneration of all Directors of the seventh session of the Company's Board shall not exceed RMB2.20 million (tax inclusive) during their term of office. Each of the Independent Directors receives a fixed annual remuneration of not more than RMB80,000 (tax exclusive) from the Company. The Company has adopted an annual salary system for the remaining Directors who receive remuneration from the Company. Taking into account the performance of the Company and the Directors' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board' approval. No director may determine his/her own remuneration.

### ***Supervisors' remuneration***

The annual aggregate remuneration of all Supervisors of the seventh session of the Company's Supervisory Committee shall not exceed RMB1.4 million (tax inclusive) during their term of office. Each of the Independent Supervisors receives a fixed annual remuneration of not more than RMB60,000 (tax exclusive) from the Company. As for the remaining Supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for Supervisors approved by the shareholders' general meeting, and such remuneration shall be reported to the annual general meeting.

### ***Senior Management's remuneration***

The Company has adopted an annual salary system for the Senior Management. Taking into account the performance of the Company and the Senior Management member's personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the Senior Management will be implemented accordingly subject to the Board's approval.

## **(3) Nomination of Directors**

A new session of the Board of the Company shall be elected every three years. The term of office of all Directors is the same as the term of office of the Board for such session. Upon the expiry of the session, re-election must be held.

Candidates for Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 5% of the issued shares of the Company. Candidates for Independent Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

The nomination of a Director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an Independent Director, the Board will give its opinion on the nominee's qualifications and independence of holding the position of Independent Director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for Independent Directors to the SSE.

## VII. Corporate Governance (continued)

### (4) Audit Committee

The Audit Committee of the seventh session of the Board of the Company comprises Independent Directors Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert. Mr. Qin Tongzhou is the Chairman of the Committee. The major duties of the Committee are:

- To propose the appointment or change of external auditors;
- To monitor the Company's internal audit system and its implementation;
- To be responsible for the communication between the internal and external auditors;
- To review the Company's financial information and its disclosure;
- To review the Company's internal control system.

Furthermore, in order to fully leverage on the role of the Audit Committee, the Company has also specifically worked out "Annual Report Work Rules of the Audit Committee", which has streamlined the duties of the Audit Committee in the process of the preparation of annual report and the disclosure thereof.

### (5) Remuneration Committee of the Board

The Remuneration Committee of the seventh session of the Board of the Company comprises Independent Directors Mr. Wu Tat Man Damon Albert, Mr. Qin Tongzhou, and Ms. Yang Yada. Mr. Wu Tat Man Damon Albert is Chairman of the Committee. The major duties of the Committee are:

- To recommend to the Board with respect to the remuneration policies for all Directors and Senior Management of the Company, and the procedures of formulating such policies in a proper and transparent manner;
- To review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board;
- To review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment;
- To ensure that none of the Directors nor their associates could decide on their own remuneration;
- Other responsibilities as delegated by the Board.

## (6) Nomination Committee

The Nomination Committee of the seventh session of the Board of the Company comprises Independent Directors Ms. Yang Yada, Mr. Qin Tongzhou, Mr. Wu Tat Man Damon Albert and Chairman Mr. Su Jiangang, with Ms. Yang Yada as Chairman of the Committee. The major duties of the Committee are:

- To regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for Directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes;
- To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board;
- To seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and makes recommendations to the Board in this regard;
- To examine the independence of Independent Directors;
- To make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

## VII. Corporate Governance (continued)

### (7) Auditors' Remuneration

During the year, Ernst & Young Hua Ming was appointed as the auditors of the Group and have audited the attached financial reports prepared under the PRC Accounting Standards. The remuneration for the accounting firms amounted to RMB4,965,000. Among which, (i) RMB4,785,000 represented fee payable for audit services, including annual audit fee of RMB4,200,000 and the fees for agreed-upon procedures for 2011 interim financial report of RMB585,000; (ii) RMB180,000 represented the fees for non-audit verification services, which included fee of RMB30,000 for the relevant statement of accounting firm issued for the Company's proposed bond issuance, and fee of RMB150,000 for professional service verifying the availability of the funds raised from the 2011 corporate bonds. The aforementioned audit fee and the verification fee were already inclusive of disbursements incurred by the auditors and related taxes on the fees. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

As at 31 December 2011, Ernst & Young Hua Ming has provided auditing services to the Group for 18 consecutive years. Ms. Zhong Li and Ms. Wu Guoxin were the certified public accountants who have signed the Company's 2011 auditors' report. Ms. Zhong Li has provided auditing services to the Company for two consecutive years, while Ms. Wu Guoxin has provided auditing services to the Company for the first time.

In addition, Ernst & Young (China) Advisory Limited provided training services on fixed asset revaluation for the Company with a fee amounting to RMB350,000. Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. In 2011 the fee amounted to HK\$33,000.

### (8) Communication with Shareholders

#### *Effective communication*

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encouraging them to attend the shareholders' general meetings.

During the reporting period, the Company stated clearly in the 2010 annual general meeting notice and 2011 first and second extraordinary general meeting notices that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings.



During the reporting period, the Chairman attended the three shareholders' general meetings in person and served as the chairman of the meetings. The Company's relevant Directors, General Manager, the Person-in-charge of Financial Operations and Secretary to the Board attended the shareholders' general meetings in person and fully prepared for answering questions of shareholders' concern. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter.

### ***Voting by poll***

The Company states clearly in the Articles of Association that the voting at shareholders' general meetings shall be conducted by poll. Shareholders (including proxies) exercise their voting rights according to the number of shares with voting rights they represent and each share is entitled to the right of one vote. According to the results of voting by poll, the chairman of the meeting shall announce the approval of the proposed resolution at the meeting and shall record such items in the meeting minutes as the final proof. If the chairman of the meeting has any doubts on the resolutions submitted for approval, he/she may conduct a count of votes. If the chairman of the meeting does not conduct a count of votes, attended shareholders or proxies who disagree with the results announced by the chairman of the meeting are entitled to request a count of votes immediately after the announcement of voting results. The chairman of the meeting shall immediately conduct a count of votes. If a count of votes takes place at a shareholders' general meeting, the vote-counting results shall be recorded in the meeting minutes.

The minutes of the meeting, together with the signed shareholder attendance book and the proxy forms of proxies attending the meeting shall be kept in the premises of the Company. Shareholders may view copies of the shareholders' general meeting minutes for free during office hours. If any shareholder requests the Company for copies of the relevant meeting minutes, the Company can send such copies within 7 days upon receiving the relevant reasonable fees.

### **(9) Ad hoc Events for Corporate Governance**

During the reporting period, the Company once again carefully examined the implementation of various corrective measures since Company launched the ad hoc events for corporate governance according to the requirements of CSRC and its agency Anhui Securities Regulatory Bureau in order to consolidate the achievements of the ad hoc events for corporate governance, and found there was no corrective measures not yet enforced by the Company.

## VII. Corporate Governance (continued)

### (10) Other Provisions as Set Out in the Code Apart from the Above

During the reporting period, the Company's Directors acknowledged their responsibilities for preparing the Company's accounts. Ernst & Young Hua Ming, the auditors, made a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young Hua Ming has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2011. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2010 annual general meeting held on 15 June 2011.

### (2) PERFORMANCE OF DUTIES BY DIRECTORS

#### 1. Attendance of Directors in the Board Meetings

Name of Director	Independent Director	Required	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two
		attendance during the year					consecutive personal absence
Su Jiangang	No	12	11	0	1	0	No
Zhao Jianming	No	12	10	0	2	0	No
Qian Haifan	No	7	5	0	2	0	No
Ren Tianbao	No	7	7	0	0	0	No
Qin Tongzhou	Yes	7	3	4	0	0	No
Yang Yada	Yes	7	4	3	0	0	No
Wu Tat Man Damon Albert	Yes	7	1	4	0	2	No
Gu Jianguo	No	4	4	0	0	0	No
Gao Haijian	No	5	5	0	0	0	No
Hui Zhigang	No	5	5	0	0	0	No
Wong Chun Wa	Yes	5	4	0	1	0	No
Hui Leung Wah	Yes	5	4	0	1	0	No
Su Yong	Yes	5	3	0	2	0	Yes
Han Yi	Yes	5	4	0	1	0	No

During the reporting period, the sixth session of the Board held five meetings and the seventh session of the Board held seven meetings. Former Chairman Mr. Gu Jianguo resigned from the position of Chairman on 14 July 2011 due to work engagement and therefore he attended four Board meetings.



Mr. Su Yong, an Independent Director of the sixth session of the Board of the Company, was unable to attend the two consecutive Board meetings held on 14 July 2011 and 18 August 2011 respectively due to work engagement. However, Mr. Su had communicated with the Company in advance, and had appointed Mr. Han Yi and Mr. Hui Leung Wah, both Independent Directors, respectively according to the relevant requirements, in order to exercise his voting rights.

Board meetings held in the year	12
Including: Physical meetings	7
Meetings by way of correspondence	0
Physical meetings combined with correspondence	5

## 2. Dissenting Opinions to Related Matters of the Company Submitted by Independent Directors

During the reporting period, the Independent Directors of the Company did not make any dissenting opinions to the resolutions of the Board of the Company during the year and matters other than the resolutions of the Board.

## 3. Condition of Work System, Details and Discharge of Duties of the Independent Directors

In 2002, the Company established the “Work System of Independent Directors”, and made adjustments in 2005, in which detailed specifications were made to the employment requirements; procedures of nomination, election and change; rights and duties and working conditions for independent directors. Moreover, the Company established the “Annual Report Work System of the Independent Directors” in 2008, which gives full play to the role of the Independent Directors in preparation and disclosure of annual reports. In 2011, the Independent Directors of the Company strictly carried out the working rules of Independent Directors, faithfully fulfilled their duties and fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association and actively attended the meetings of the Board and its specialized committees, they also involved in the decision making on material matters of the Company, provided constructive suggestions on the Company’s corporate governance and production operation, and evaluated and issued independent opinions on matters such as connected transactions and external guarantees. During the reporting period, the Independent Directors did not have any contrary opinion on any matters of the Company. The Company’s Independent Directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company’s substantial shareholders, the de facto controllers, or other units or individuals who have conflict of interests with the Company, thus protecting the lawful interests of the shareholders, especially the minority shareholders, independently and objectively.

## VII. Corporate Governance (continued)

### (3) INDEPENDENCE AND COMPLETENESS OF THE COMPANY'S BUSINESS OPERATIONS, EMPLOYEES, ASSETS, ORGANIZATION AND FINANCE TOWARDS THE CONTROLLING SHAREHOLDER

	<b>Independent and complete</b>	<b>Details</b>
Independence and completeness of business operations	Yes	The Company possesses independent and complete operating businesses and business autonomy.
Independence and completeness of employees	Yes	The Company's personnel in production, technical, financial and sales are independent of Holding. Senior Management such as the Company's General Manager and Deputy General Manager are on the Company's payroll.
Independence and completeness of assets	Yes	The Company owns separate production systems, complementary systems and ancillary facilities. Industry property rights, trademarks and non-patent technologies are independently owned by the Company, as are systems for purchasing and marketing.
Independence and completeness of organisation	Yes	The Company has established a sound corporate organisation structure. The Board and the Supervisory Committee have been operating independently. Other internal departments are not subordinated to any functional departments at Holding.
Independence and completeness of finance	Yes	The Company has established an independent financial department and independent accounting systems; and has also formulated a sound financial management system.



**(4) ESTABLISHMENT AND IMPROVEMENT OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY**

Master plan for the establishment of internal control

Pursuant to the requirements of the “Basic Standards for Enterprise Internal Control” and other relevant national laws and regulations, and taking into account the five elements including internal environment, risk evaluation, control activities, information and communication and internal supervision, the Company has formulated the “Internal Control Manual”, establishing a sound internal control system in order to ensure that the corporate operation and management are in compliance with the relative laws and regulations, the safety of assets and the truthfulness, accuracy and completeness of information disclosure, thus improving operating efficiency and pushing forward the realization of the corporate strategic development goal.

A sound work plan set for the internal control system and execution of the plan

The Company amended and improved its “Internal Control Manual” comprehensively in 2010 and 2011 according to the amendments to the “Supporting Guidelines on Corporate Internal Control” as well as the modifications to the structure and functions of its internal organizations and the changes in the business processes, completed a new upgrade version of the “Internal Control Manual”, thereby further improving the internal control system of the Company, ensuring the effectiveness of the internal control system at all times.

Setup of an inspection and supervisory department for internal control

The Company confirmed that the Audit Department was responsible for the day-to-day inspection and supervision of the Company’s internal control.

## VII. Corporate Governance (continued)

Conduct of self-evaluation of  
internal supervision and control

During the reporting period, the Audit Department took the lead in forming an internal control self-evaluation team which conducted a comprehensive evaluation on the design and operation of the Company's internal control by focusing on key components such as internal environment, risk assessment, control activities, information and communication and internal supervision, and summarized the evaluation results and compiled them into an internal control evaluation report for submission to the Audit Committee. The auditors audited the effectiveness of internal control pertaining to financial reporting. The Audit Committee monitored the execution of the Company's internal control through evaluating the work of the Audit Department and the auditors. The Board confirmed whether the internal control system of the Company was effective or not in accordance with the report from the Audit Committee.

On 28 March 2012, the "Self-evaluation Report on Internal Control of the Company for year 2011" was considered and approved at the ninth meeting of the seventh session of the Board, and it was confirmed thereat that the internal control of the Company was effective in 2011.

Board's arrangements for internal  
control work

On 22 March 2011, the twenty-first meeting of the sixth session of the Board considered and approved the "Implementation Scheme for the Company's Internal Control Regulations" which includes work plan and implementation scheme for further establishing a sound internal control system.



Establishment and operation of an internal control system pertaining to financial statements

The Company's internal control system in relation to the preparation and disclosure of financial reports was formulated in accordance with the relevant State laws, rules, regulations of authorities and regulatory documents including the "Basic Principles of Corporate Internal Control" and its complementary guidelines jointly published by the five ministries of the Central Government including the Ministry of Finance. The content of the internal control system covered the arrangement of the preparation of financial reports and its control, the preparation of financial reports and its control, the submission and disclosure of the financial reports and its control and so forth. During the reporting period, the Company implemented the abovementioned system effectively.

Deficiencies of internal control and rectification situation

During the reporting period, the Board has discovered no material weaknesses in the internal control system including the financial reports of the Company and its implementation.

**(5) RELEVANT REPORTS ON INTERNAL CONTROL DISCLOSED BY THE COMPANY:**

1. Has the Company disclosed self-evaluation report on internal control? Yes
2. Has the Company disclosed the audit report on the Company's internal control over financial reporting issued by an auditing institution? Yes
3. Has the Company disclosed social responsibility report? Yes

Disclosure website for the afore-mentioned reports: [www.sse.com.cn](http://www.sse.com.cn)

**(6) THE RESPONSIBLE SYSTEM FOR MATERIAL ERRORS IN ANNUAL REPORT INFORMATION DISCLOSURE ESTABLISHED BY THE COMPANY**

The Company established the Administrative Measures for Information Disclosure in 2002, and made amendment to the same in 2005, 2007, 2008 and 2010 in order to ensure the Measures comply with the requirement of regulatory authorities. The Measures included the relevant clauses of the Inquiry System for Material Mistakes Made in Information Disclosure of Annual Reports.

1. During the reporting period, there was no correction to material accounting error.
2. During the reporting period, there was no supplement of material omission of information.
3. During the reporting period, there was no amendment on advance results announcement.

## VIII. Directors, Supervisors, Senior Management

The term of the sixth session of the Board and Supervisory Committee of the Company ended on 31 August 2011. The Directors of the seventh session of the Board and the Supervisors of non-staff representatives of the seventh session of the Supervisory Committee were elected at the first Extraordinary General Meeting of 2011 held on the same day.

In accordance with the Articles of Association, the terms of office of Directors and Supervisors are three years. The Company's current Senior Management were appointed by the seventh session of the Board. The terms of office of the current session of the Board, the Supervisory Committee and the current Senior Management of the Company commenced from 31 August 2011 and ended on 31 August 2014.

### (1) CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit: Share

Name	Position	Sex	Age	Shareholdings		Reasons of the change	Annual emoluments (Unit: RMB'000) (before tax)	Other compensation or allowances from corporate shareholders or other connected entities
				at the beginning of the year	at the end of the year			
Su Jiangang	Chairman	Male	57	3,886	3,886		422.6	Yes
Zhao Jianming	Director	Male	58				-	Yes
Qian Haifan	Director	Male	51				204.6	No
Ren Tianbao	Director	Male	48				164.1	No
Qin Tongzhou	Independent Director	Male	42				50	No
Yang Yada	Independent Director	Female	56				50	No
Wu Tat Man Damon Albert	Independent Director	Male	36				50	No
Zhang Xiaofeng	Supervisor	Male	50				505.3	No
Fang Jinrong	Supervisor	Male	48				-	Yes
Liu Xianli	Supervisor	Male	57				253.9	No
Wong Chun Wa	Independent Supervisor	Male	38				37.5	No
Su Yong	Independent Supervisor	Male	57				37.5	No
Ren Qiang	Senior Management	Male	51				164.5	No
Yan Hua	Senior Management	Male	46				164.4	No
Lu Kecong	Senior Management	Male	48				164.2	No
Total	/	/	/	3,886	3,886	/		/



**Mr. Su Jiangan:** Mr. Su became Chief Economist of the Company in June 1997. He became Director of the Company in September 1997 and Deputy General Manager of the Company in September 1999. He has been General Manager of the Company since January 2008. Mr. Su has been Secretary of the Party Committee of Holding and of the Company since December 2009 and Director of Holding since January 2010. Mr. Su became General Manger of Holding in February 2011. Mr. Su became Chairman of the Company on 14 July 2011, and ceased to be General Manger of the Company. Mr. Su is also Director of Maanshan Iron & Steel (HK) Limited and Director of MG Trading and Development GmbH.

**Mr. Zhao Jianming:** Mr. Zhao was appointed Deputy General Manager of the Company and Deputy Secretary of the Party Committee of the Company in June 1997 and has been Director of the Company since September 1997. Since September 1999, he has ceased to be Deputy General Manager of the Company and became Director of Holding in January 2010. Mr. Zhao also holds the office of Deputy Secretary of the Party Committee of Holding and Secretary of the Disciplinary Committee of Holding.

**Mr. Qian Haifan:** Mr. Qian was appointed Factory Manager and Secretary of the Party Committee of No.4 Milling Plant in March 2005, Factory Manager and Deputy Secretary of the Party Committee of No.4 Milling Plant in August 2005 and Deputy General Engineer of the Company in April 2010. Mr. Qian was appointed General Manager of the Company in July 2011 and Director of the Company in August 2011.

**Mr. Ren Tianbao:** Mr. Ren was appointed Secretary of the Party Committee and Deputy Factory Manager of No.1 Milling Plant in February 2006, Secretary of the Party Committee, Director and Deputy General Manager of Ma Steel (Hefei) Iron & Steel Co., Ltd. in July 2008. Mr. Ren was appointed Deputy General Manager of the Company in July 2011. He became Director of the Company in August 2011. He was appointed Secretary to the Board on 9 February 2012.

**Mr. Qin Tongzhou:** Mr. Qin is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is presently CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming Certified Public Accountants from March 2001 to March 2010. He was appointed Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG in July 2010. Mr. Qin was appointed Independent Director of the Company on 31 August 2011.

## VIII. Directors, Supervisors, Senior Management (continued)

**Ms. Yang Yada:** Ms. Yang is presently professor, master instructor and Dean of School of Management of Anhui University of Technology. Ms. Yang was appointed professor of School of Management of Anhui University of Technology in September 2002, mainly engaged in teaching and researching in fields of financial management and enterprise strategy. She sequentially served as Head of Business Administration Department and Deputy Dean of School of Management of Anhui University of Technology. She is presently Dean of School of Management of Anhui University of Technology and Deputy Chairman of Economic Association of Maanshan. She was elected as members of 10th and 11th National People's Congress. Ms. Yang was appointed Independent Director of the Company on 31 August 2011.

**Mr. Wu Tat Man Damon Albert:** Mr. Wu is a practising solicitor in Hong Kong. He is currently a consultant of Woo, Kwan, Lee & Lo, Solicitors & Notaries, a solicitor firm in Hong Kong. Mr. Wu has worked in various law firms in Hong Kong and has extensive experience in the legal industry. He is specialised in corporate finance, takeovers and mergers, foreign direct investments in China and listing related legal matters. Mr. Wu was appointed Independent Director of the Company on 31 August 2011.

**Mr. Zhang Xiaofeng:** Mr. Zhang was appointed Director of the Publicity Department (United Front Work Department) of the Company since July 1997. He was appointed Chairman of the Labour Union of Holding and the Company in August 2008 and ceased to be Director of the Publicity Department (United Front Work Department) of the Company in September 2008. He was appointed Chairman of the Supervisory Committee of the Company on 31 August 2008.

**Mr. Fang Jinrong:** Mr. Fang was appointed Deputy Supervisor of the Finance Department of Maanshan Magang Holding Company ("Magang Holding") since November 1997. In September 1998, Magang Holding was restructured into Holding and Mr. Fang was appointed Deputy Manager of the Finance Department. He has held the position of Manager of the Finance Department since February 2004. Mr. Fang has been Supervisor of the Company since 31 August 2005.

**Mr. Liu Xianli:** Mr. Liu was appointed Secretary of the Party Committee of Hot-rolled Plate Factory in February 2004, Secretary of the Party Committee and Deputy Factory Manager of First General Steel Making and Rolling Factory in March 2005. He has held the position of Manager of Enterprise Management Department since February 2006. Mr. Liu has been Supervisor of the Company since 31 August 2008.



**Mr. Wong Chun Wa:** Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he became Qualified Accountant of Zhongtian International Limited from February 2006 to October 2006. He established ACT Business Consultants Limited in December 2006 and acted as the company's director. Mr. Wong was appointed Independent Director of the Company on 31 August 2005. He was appointed Independent Supervisor of the Company on 31 August 2011. Mr. Wong is also independent director of China Zhongwang Holdings Limited.

**Mr. Su Yong:** Mr. Su was appointed Head of the Enterprise Management Department of the School of Management of Fudan University in October 2003, and Deputy Director of the University's Eastern Management Research Centre in October 2004 respectively. Mr. Su has been Independent Director of the Company since 31 August 2005, and become Independent Supervisor of the Company on 31 August 2011. He also serves as independent director of Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Baosight Software Co. Ltd, Shanghai International Airport Co. Ltd and SGSB Group Co. Ltd.

**Mr. Ren Qiang:** Mr. Ren was appointed Deputy Manager of Production Department in July 2002, Factory Manager and Deputy Secretary of the Party Committee of No.1 Iron-making Plant in February 2008, Manager and Deputy Secretary of the Party Committee of the Coke Plant in July 2009. Mr. Ren was appointed Deputy General Manager of the Company in July 2011.

**Mr. Yan Hua:** Mr. Yan was appointed Manager of Automation Project Co. and Director of Metering Department in July 2003. Mr. Yan was appointed Deputy General Manager of the Company in July 2011.

**Mr. Lu Kecong:** Mr. Lu was appointed Manager and Secretary of the Party General Branch of Ma Steel International Trade & Economics Corporation ("Ma Steel International Trade Corp") and Director of Foreign Affairs Office in July 2004; General Manager (Director) and Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in May 2010; General Manager (Director) and Deputy Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in February 2011. Mr. Lu was appointed Deputy General Manager of the Company in July 2011.

The terms of office of current Directors, Supervisors and Senior Management members of the Company commenced from 31 August 2011 and ended on 31 August 2014. Apart from Chairman Mr. Su Jianguang who held 3,886 A shares, none of the other Directors, Supervisors and Senior Management held any shares of the Company. There was no change of shareholding of the above staff during the reporting period.

## VIII. Directors, Supervisors, Senior Management (continued)

Save as disclosed above, as at 31 December 2011, none of the current Directors, Supervisors or Senior Management had any interests or short positions in any of the shares, relevant shares or bonds of the Company or any of its associated corporations (within the meaning of Part XV of the "Securities and Futures Ordinance") which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance, or required to notice the Company and the Hong Kong Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

During the reporting period, none of the Company's Directors, Supervisors, Senior Management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor Holding's subsidiaries had taken part in any arrangements that allow Directors, Supervisors and Senior Management of the Company to benefit from acquiring shares in or debentures of any other corporations.

### (2) POSITIONS IN SHAREHOLDERS' UNIT

<b>Name</b>	<b>Name of shareholder's unit</b>	<b>Position</b>	<b>Whether receiving an remuneration or allowance</b>
Su Jiangang	Magang (Group) Holding Company Limited	Director, General Manager	Yes
Zhao Jianming	Magang (Group) Holding Company Limited	Director	Yes
Zhang Xiaofeng	Magang (Group) Holding Company Limited	Chairman of the Labour Union	No
Fang Jinrong	Magang (Group) Holding Company Limited	Manager of the Finance Department	Yes

## POSITIONS IN OTHER ENTITIES

<b>Name</b>	<b>Name of other entities</b>	<b>Positions</b>	<b>Whether receiving an remuneration or allowance</b>
Qin Tongzhou	China Fire & Security Group Inc. ("CFSG")	CFO	Yes
Yang Yada	Anhui University of Technology	Dean of School of Management	Yes
Wu Tat Man Damon Albert	Woo, Kwan, Lee & Lo	Consultant	Yes

### (3) EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management

Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders' general meeting, and based on their respective appraisals.

Annual emoluments received by the Company's Non-independent Supervisors were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for Independent Supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholders' general meeting.

Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office

Basis for determination of Directors, Supervisors and Senior Management

Appraisals

## VIII. Directors, Supervisors, Senior Management (continued)

### 1. Actual Payment to Directors, Supervisors and Senior Management

Details of the emoluments received by the Company's Executive Directors and Senior Management received in 2011 are listed as follows (Unit: RMB'000):

<b>Name</b>	<b>Position</b>	<b>Annual emoluments (tax inclusive)</b>
Su Jiangang	Chairman	422.6
Qian Haifan	Director, General Manager	204.6
Ren Tianbao	Director, Deputy General Manager, Secretary to the Board	164.1
Ren Qiang	Deputy General Manager	164.5
Yan Hua	Deputy General Manager	164.4
Lu Kecong	Deputy General Manager	164.2

Details of the emoluments received by the Company's Non-independent Supervisors received in 2011 are listed as follows (Unit: RMB'000):

<b>Name</b>	<b>Position</b>	<b>Annual emoluments (tax inclusive)</b>
Zhang Xiaofeng	Chairman of the Supervisory Committee	505.3
Liu Xianli	Supervisor	253.9

The above-mentioned emoluments received by the Company's Executive Directors, Non-independent Supervisors and Senior Management include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2011 in accordance with the pension scheme of the Company.

In 2011, Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert, all Independent Directors of the seventh session of the Board, received an allowance for Independent Director of RMB50,000 (tax inclusive) each from the Company. Mr. Su Yong and Mr. Wong Chun Wa, both Independent Supervisors of the seventh session of the Supervisory Committee, received an allowance for Independent Supervisor of RMB37,500 (tax inclusive) each from the Company.

Mr. Zhao Jianming, Director, and Mr. Fang Jinrong, Supervisor, received their emoluments at Holding. Mr. Su Jiangang, Chairman, has been receiving emoluments at Holding from 31 August 2011.

In 2011, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB4,470,000 (tax inclusive). This total amount of salaries includes emoluments received by the sixth session of members of the Board, members of the Supervisory Committee and the former Senior Management at their term of office as Directors, Supervisors and Senior Management from the Company in 2011, and exclusive of emoluments received by the seventh session of members of the Board, members of the Supervisory Committee and the current Senior Management before the commencement of their term of office in 2011.

#### (4) PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Su Jiangang	Chairman	Appointment	
Su Jiangang	General Manager	Resignation	Re-appointed as Chairman
Qian Haifan	Director, General Manager	Appointment	
Ren Tianbao	Director, Secretary to the Board, Deputy General Manager	Appointment	
Qin Tongzhou	Independent Director	Appointment	
Yang Yada	Independent Director	Appointment	
Wu Tat Man Damon Albert	Independent Director	Appointment	
Wong Chun Wa	Independent Supervisor	Appointment	
Wong Chun Wa	Independent Director	Resignation	Expiry of the term of office
Su Yong	Independent Supervisor	Appointment	
Su Yong	Independent Director	Resignation	Expiry of the term of office
Ren Qiang	Deputy General Manager	Appointment	
Yan Hua	Deputy General Manager	Appointment	
Lu Kecong	Deputy General Manager	Appointment	
Gu Jianguo	Chairman	Resignation	Other work engagements
Gao Haijian	Deputy General Manager	Resignation	Other work engagements
Gao Haijian	Director, Secretary to the Board	Resignation	Expiry of the term of office
Hui Zhigang	Deputy General Manager	Resignation	Other work engagements
Hui Zhigang	Director	Resignation	Expiry of the term of office
Hui Leung Wah	Independent Director	Resignation	Expiry of the term of office
Han Yi	Independent Director	Resignation	Expiry of the term of office
Cheng Shaoxiu	Independent Supervisor	Resignation	Expiry of the term of office
An Qun	Independent Supervisor	Resignation	Expiry of the term of office
Shi Xiongliang	Deputy General Manager	Resignation	Other work engagements
Ding Yi	Deputy General Manager	Resignation	Other work engagements
Su Shihuai	Deputy General Manager, General Engineer	Resignation	Other work engagements

## VIII. Directors, Supervisors, Senior Management (continued)

The resignation of Mr. Gu Jianguo from his office of Chairman, Director and other positions of the Board was approved at the twenty-third meeting of the sixth session of the Board on 14 July 2011; Mr. Su Jiengang was elected Chairman of the Company; The resignation of Mr. Su Jiengang from his office of General Manager was approved; The resignation of Mr. Gao Haijian, Mr. Hui Zhigang, Mr. Shi Xiongliang, Mr. Ding Yi and Mr. Su Shihuai from Senior Management positions such as Deputy General Manager was approved; Mr. Qian Haifan was appointed General Manager, and accordingly to his nominations, Mr. Ren Tianbao, Mr. Ren Qiang, Mr. Yan Hua and Mr. Lu Kecong were appointed Deputy General Managers.

The first Extraordinary General Meeting of 2011 of the Company held on 31 August 2011 has elected Mr. Su Jiengang, Mr. Zhao Jianming, Mr. Qian Haifan, Mr. Ren Tianbao, Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert as Directors of the seventh session of the Board, among whom Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert were Independent Directors. The meeting also elected Mr. Fang Jinrong, Mr. Su Yong and Mr. Wong Chun Wa as Supervisors of non-staff representatives, among whom Mr. Su Yong and Mr. Wong Chun Wa were Independent Supervisors. Mr. Zhang Xiaofeng and Mr. Liu Xianli were elected as Supervisors of staff representative.

### (5) EMPLOYEES

Total number of current employees	41,287
The number of resigned or retired staff for whom the Company was responsible for pensions	23,052

#### Profession constitution

Profession category	Number of staff of profession constitution
Managerial staff	3,347
Technician	3,835
Production line	33,603
Sales representative	270
Financial staff	232

#### Education

Educational level	Number of staff
Postgraduate	385
Graduate	4,693
Junior college	8,436
Vocational secondary or below	27,773

## IX. Movements in Share Capital and Shareholders

### (1) SHARE MOVEMENTS

#### 1. Table on Share Movements

Unit: Share

	Prior to the current movements		Increase/(decrease) of current movements (+, -)					After current movements	
	Number of shares	Percentage (%)	Issue of new shares	Bonus share	Transferred from reserves	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
including:									
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Foreign owned shares	-	-	-	-	-	-	-	-	-
including:									
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB-denominated ordinary shares	5,967,751,186	77.5	-	-	-	-	-	5,967,751,186	77.5
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	22.5	-	-	-	-	-	1,732,930,000	22.5
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100

#### 2. Movements in Shares Subject to Selling Restrictions

During the reporting period, there were no movements in shares subject to selling restrictions.

## IX. Movements in Share Capital and Shareholders (continued)

### (2) ISSUANCE AND LISTING OF SECURITIES

#### 1. Previous Issuance of Securities over the Past Three Years

Unit: million shares

Currency: RMB

Types of stocks and derivative securities	Date of issuance	Issue price (RMB)	Issue amount	Date of listing	Number of shares approved for listing and trading	Date of termination of trading
Convertible corporate bonds, convertible bonds attached with warrants and classes of corporate bonds						
11馬鋼01	25 August 2011	100	31.6	13 September 2011	31.6	25 August 2014
11馬鋼02	25 August 2011	100	23.4	13 September 2011	23.4	25 August 2016

Upon approval of the China Securities Regulatory Commission in Doc. [2011] No. 1177, the Company was allowed to issue corporate bonds with a nominal value of not more than RMB5,500 million to the public. On 24 August 2011, the Company and CITIC Securities Co., Ltd. (lead underwriter) made a coupon rate inquiry to institutional investors offline. Based on the subscription results after the inquiry with institutional investors offline and following the unanimous negotiations by the issuer and the sponsor (lead underwriter), the coupon rate for the 3-year corporate bonds for the current issue was finally fixed at 5.63%, while the coupon rate for the 5-year corporate bonds was fixed at 5.74%. These rates would remain unchanged during the duration of the bonds.

#### 2. Movements in total shares and share capital structure

The total number of issued shares and the share capital structure of the Company had not changed as a result of any bonus issue or share placement during the reporting period.

#### 3. Existing internal employee shares

The Company had no internal employee shares as at the end of the reporting period.

### (3) SHAREHOLDER AND ACTUAL HOLDERS

#### 1. The number of shareholders and shareholding structure

Total number of shareholders at the end of 2011	373,929	Total number of shareholders as at a month before the issue date of this annual report	Unit: Shares 368,580
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#### **Shareholding of the top ten shareholders**

Name of shareholder	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,423,927	0	0
HKSCC (Nominees) Limited	Foreign shareholder	22.16	1,706,547,897	0	Unknown
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.58	45,000,000	0	Unknown
王勇	Others	0.27	20,700,000	0	Unknown
中國銀行－嘉實滬深300指數證券投資基金	Others	0.17	13,050,590	0	Unknown
通用電氣資產管理公司－GEAM信託基金中國A股基金	Others	0.15	11,886,246	0	Unknown
中國工商銀行股份有限公司－華夏滬深300指數證券投資基金	Others	0.11	8,650,000	0	Unknown
第一生命保險株式會社	Others	0.10	7,770,834	0	Unknown
張俊英	Others	0.10	7,520,000	0	Unknown
張武	Others	0.08	6,400,356	0	Unknown

## IX. Movements in Share Capital and Shareholders (continued)

### Shareholding of top ten shareholders without selling restrictions

Name of shareholder	Number of shares held without selling restrictions	Type of shares
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,706,547,897	Overseas-listed foreign shares
中國建設銀行－鵬華價值優勢股票型 證券投資基金	45,000,000	RMB-denominated ordinary shares
王勇	20,700,000	RMB-denominated ordinary shares
中國銀行－嘉實滬深300指數證券 投資基金	13,050,590	RMB-denominated ordinary shares
通用電氣資產管理公司－GEAM信託 基金中國A股基金	11,886,246	RMB-denominated ordinary shares
中國工商銀行股份有限公司－ 華夏滬深300指數證券投資基金	8,650,000	RMB-denominated ordinary shares
第一生命保險株式會社	7,770,834	RMB-denominated ordinary shares
張俊英	7,520,000	RMB-denominated ordinary shares
張武	6,400,356	RMB-denominated ordinary shares

#### Description of any connected relationships or concerted actions among the above-mentioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.

As at the end of the reporting period, Holding held a total of 3,886,423,927 shares of the Company (no change in the number of shares held during the reporting period), including 3,830,560,000 A shares of the Company on behalf of the State and increased a total of 55,863,927 A shares of the Company via the trading system of the SSE. Holding is the controlling shareholder of the Company. For details, please refer to "Substantial shareholders and actual holders". HKSCC (Nominees) Limited held 1,706,547,897 H shares (a decrease of 938,000 shares during the reporting period) of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody.

As at 31 December 2011 and 29 February 2012, which is the latest practicable date for the publication of this report, to the best knowledge of the Directors, the Company had sufficient public float as stipulated by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (“Hong Kong Listing Rules”).

Save as disclosed above, details of the holders of the Company’s H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2011 were as follows:

<b>Name of shareholder</b>	<b>Capacity as holder or deemed holder of interests</b>	<b>Number of shares interested or deemed interested (Shares)</b>	<b>Approximate percentage of the Company’s issued H shares (%)</b>
Morgan Stanley	Note 1	83,639,926 (Long position) 60,883,133 (Short position)	4.83 3.51
FMR LLC	Note 2	122,381,000(Long position)	7.06

Note 1: Morgan Stanley has a long position of 83,639,926 shares in the form of interests held by legal entities controlled by the substantial shareholder; and a short position of 60,883,133 shares.

Note 2: FMR LLC has a long position of 122,381,000 shares as the actual owner.

## IX. Movements in Share Capital and Shareholders (continued)

### 2. Substantial shareholders and actual holders

#### (1) Substantial shareholders and actual holders

Legal Person

Unit: RMB'000

Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gu Jianguo
Date of Incorporation	1 September 1993
Registered capital	6,298,290
Major business operations and management	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.

#### (2) Change of substantial shareholders and actual holders

There is no change in substantial shareholders and actual holders during the reporting period.

### The Proprietorship and Controlling Relationship between the Company and its De Facto Controller



### 3. Other shareholders as legal persons with shareholdings of 10% or above

There is no shareholder as a legal person with shareholdings of 10% or above at the end of the reporting period.

## X. Shareholders' General Meeting

### (1) ANNUAL GENERAL MEETING

<u>Session of meeting</u>	<u>Date of meeting</u>	<u>Information disclosure newspapers for publishing resolutions</u>	<u>Information disclosure date for publishing resolutions</u>
2010 annual general meeting	15 June 2011	Shanghai Securities News	16 June 2011

During the reporting period, the Company held one annual general meeting in strict accordance with the holding procedures stipulated in relevant laws, regulations and the Articles of Association. The details are as follows:

On 15 June 2011, the Company held the 2010 annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News, and the websites of the SSE and the Hong Kong Stock Exchange on 16 June 2011.

### (2) EXTRAORDINARY GENERAL MEETING

<u>Session of meeting</u>	<u>Date of meeting</u>	<u>Information disclosure newspapers for publishing resolutions</u>	<u>Information disclosure date for publishing resolutions</u>
2011 first extraordinary general meeting	31 August 2011	Shanghai Securities News	1 September 2011
2011 second extraordinary general meeting	30 December 2011	Shanghai Securities News	31 December 2011



## X. Shareholders' General Meeting (continued)

During the reporting period, the Company held two extraordinary general meetings in strict accordance with the holding procedures stipulated in relevant laws, regulations and the Articles of Association. The details are as follows:

On 31 August 2011, the Company held the first 2011 extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News, and on the websites of the SSE and the Hong Kong Stock Exchange on 1 September 2011.

On 30 December 2011, the Company held the second 2011 extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News, and on the websites of the SSE and the Hong Kong Stock Exchange on 31 December 2011.

## XI. Significant Matters

### (1) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company had no material litigation and arbitration during the reporting period.

### (2) INSOLVENCY OR RESTRUCTURING RELATED MATTERS

The Company had no insolvency or restructuring related matters during the reporting period.

### (3) EQUITY HELD BY THE COMPANY IN OTHER LISTED COMPANIES AND EQUITY INVESTMENT IN FINANCIAL INSTITUTIONS

#### 1. Investment in Securities

Item no.	Type of securities	Securities code	Abbreviation	Initial investment amount (RMB)	Number of shares held (share)	Book value at the end of the reporting period (RMB)	Proportion of securities investment	Gain/loss generated during the reporting period (RMB)
							at the end of the reporting period (%)	
1	Stock	601857	PetroChina	584,500	35,000	340,900	56.07	-66,150
2	Stock	601898	China Coal Energy	201,960	12,000	108,120	17.78	-25,800
3	Stock	601390	China Railway Group	158,400	33,000	83,160	13.68	-61,710
4	Stock	601186	China Railway Construction	181,600	20,000	75,800	12.47	-65,000
Other securities investments held at the end of the reporting period				0	/	0	0	0
Gain/loss from disposal of securities investments				/	/	/	/	0
Total				1,126,460	/	607,980	100%	-218,660

As at the end of the reporting period, apart from the above-mentioned shares issued by listed companies, the Company did not hold any equity in other listed companies or non-listed financial enterprises. During the reporting period, the Company did not buy or sell shares of other listed companies.



## XI. Significant Matters (continued)

### (4) TRADING OF ASSETS

#### 1. Acquisition of Assets

At the meeting of the Sixth Session of the Board of the Company on 27 April 2011, it was approved that the Company will contribute approximately RMB1.234 billion in cash for the purchase of 660 million non-public offered shares of Changjiang Steel, representing 55% of the total number of shares after the capital increase and share capital enlargement by Changjiang Steel. Payment for the consideration of acquisition of shares and the procedures for industry and commence registration transfer were completed on 30 April 2011. The acquisition date was confirmed as 30 April 2011. On the acquisition date, the net asset fair value of Changjiang Steel amounted to RMB2,244 million. From the date of the purchase to the end of the reporting period, Changjiang Steel contributed to the Company a net profit of RMB30 million, representing 16% of the net profit of the Group.

## (5) MATERIAL CONNECTED TRANSACTIONS IN THE REPORTING PERIOD

### 1. Connected transactions related to normal operations

Unit: RMB'000

Connected party	Connected relation	Type of connected transaction	Details of connected transaction	Pricing principles of connected transaction	Amount of connected transaction	Proportion to amount of the transaction under the same category (%)	Way of settlement of connected transaction
Magang (Group) Holding Company Limited	Parent company	Purchase of goods	Purchase of iron ore, limestone and dolomite	Refer to information in "Connected Transaction"	2,397,161	11	Cash or bills
Magang (Group) Holding Company Limited	Parent company	Sales of goods	Steel products and other products purchased by Holding from the Company	Market price	1,780	0.002	Cash or bills
Magang (Group) Holding Company Limited	Parent company	Sales of goods	Water, electricity, telephone and other services acquired by Holding from the Company	Market price	86,386	7	Cash or bills
Magang (Group) Holding Company Limited	Parent company	Purchase of goods	Payment by the Company for fixed assets and construction services	Market price	176,629	3	Cash or bills
Magang (Group) Holding Company Limited	Parent company	Receipt of labour services	Payment by the Company to Holding for other services and products	Market price	316,183	100	Cash or bills
Total				/	2,978,139	/	

## XI. Significant Matters (continued)

### Normal Business Transactions between the Company and Holding

The normal business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding and were settled in cash or bills. The details of which are as follows:

- (1) To ensure that the Company has sufficient ore to meet the production demands, Holding agreed to continuously provide the Company with ore on a first priority basis. The Company entered into the “Sale and Purchase of Ore Agreement” for 2010 to 2012 with Holding on 15 October 2009 which was subsequently approved at the extraordinary general meeting held on 15 December 2009.

The payment made by the Company to Holding in respect of the “Sale and Purchase of Ore Agreement” from 1 January 2011 to 31 December 2011 was as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	2,397,161	11

The price of iron ore per tonne purchased every year by the Company from Holding shall be determined between the two parties on a half-year basis during the term of the agreement. The price per tonne for a particular first half-year shall first be arrived at, through arm's length negotiations, with reference to the weighted average price per tonne of the same type of iron ore supplied by the three largest independent suppliers and delivered to the Company's vicinity at Maanshan City of Anhui Province in the PRC in the second half of the preceding year, and the price per tonne shall be further adjusted retrospectively at the end of that first half-year and shall not be higher than the three largest independent suppliers' weighted average price per tonne for that first half-year. The price per tonne for the second half-year shall first be arrived at, through arm's length negotiations, with reference to the three largest independent suppliers' weighted average price per tonne for the first half-year, and the price shall be further adjusted retrospectively at the end of the second half-year and shall not be higher than the three largest independent suppliers' weighted average price per tonne for that second half-year.



The respective prices of limestone and dolomite per tonne purchased every year by the Company from Holding shall be determined between the two parties on a half-year basis during the term of the agreement. The respective prices per tonne of a particular first half-year shall first be arrived at, through arm's length negotiations, with reference to the respective weighted average prices per tonne of limestone and dolomite supplied by the respective three largest independent suppliers and delivered to the Company's vicinity at Maanshan City of Anhui Province in the PRC in the second half of the preceding year, and the respective prices per tonne shall be further adjusted retrospectively at the end of that first half-year and shall not be higher than the respective three largest independent suppliers' weighted average prices per tonne for that first half-year. The respective prices per tonne for the second half-year shall first be arrived at, through arm's length negotiations, with reference to the respective three largest independent suppliers' weighted average prices per tonne for the first half-year; and the respective prices shall be further adjusted retrospectively at the end of the second half-year and shall not be higher than the respective three largest independent suppliers' weighted average prices per tonne for that second half-year.

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. During the reporting period, such transactions were conducted pursuant to the terms as set out in the "Sale and Purchase of Ore Agreement" with effect from 2010 to 2012. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB2,573,320,000.

The continuing connected transactions between the Company and Holding under the "Sale and Purchase of Ore Agreement" for the year 2011 have been approved by the shareholders' general meeting of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated have not been exceeded.

## XI. Significant Matters (continued)

- (2) Save for the connected transactions made pursuant to the aforementioned “Sale and Purchase of Ore Agreement”, amounts of other connected transactions in the normal course of business with Holding are as follows (RMB’000):

	Amount paid	Proportion of transaction of the same category (%)
Steel products and other products purchased by Holding from the Company	1,780	0.002
Water, electricity, telephone and other services acquired by Holding from the Company	86,386	7
Payment by the Company for fixed assets and construction services	176,629	3
Payment by the Company to Holding for other services and products	316,183	100

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The total amount of these transactions, accounting for 2.27% of the audited tangible asset value of the Company for the year ended 31 December 2011, did not have any adverse impact on the Company’s profits.

- (3) Businesses between the Company and Magang Group Finance Company Limited (“Finance Company”)

Business nature		Amount of loan or deposit RMB’000	Interest rate of loan or deposit/ Discount rate	Interest incomes/ expenses RMB’000
Deposit	Maximum daily deposit	4,130,657	0.5%-1.31%	968
	Monthly average maximum daily deposit	1,199,403		
Loan		779,000	6.232%-6.560%	22,259



Since 18 October 2011, the Company participated in the trial operation of the Finance Company. A portion of sales revenue was received through the Finance Company. On 3 November 2011, the Company and the Finance Company entered into the Finance Services Agreement. From 18 October 2011 to 31 December 2012, the Finance Company provided financial services including depository, loan and entrusted loan services to the Company.

At the extraordinary general meeting held by the Company on 30 December 2011, the resolution on the depository services together with the relevant annual caps in respect of the above Finance Services Agreement was not approved by independent shareholders. From 18 October 2011 to 2 November 2011, the Group placed deposit into the Finance Company and gained interest income thereon. Since 11 November 2011, the Group did not continue to place deposit into the Finance Company.

Ernst & Young Hua Ming, the Company's auditors, were engaged to report on the Group's continuing connected transactions as set out in the above in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming have issued their letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules, which qualified for the continuing connected transaction of the Depository Services conducted pursuant to the Finance Service Agreements as detailed in item (3) above ("Depository Services"). Based on the Company's extraordinary general meeting held on 30 December 2011, the resolution in relation to the Depository Services and the relevant annual caps were not approved by the independent shareholders. As a result, the provisions relating to the Depository Services in the Finance Service Agreements and the relevant annual caps are invalid. As such, the auditors of the Company cannot confirm whether (i) the Depository Services was entered into, in all material respects, in accordance with the relevant agreements governing the Depository Services during the year ended 31 December 2011; and (ii) the Depository Services has not exceeded the annual cap set for the year ended 31 December 2011.

- As at 31 December 2011, save for ordinary business transactions and dividends due to Holding, there was no amount due to or from the Company's connected parties.
- Material contracts with the controlling shareholder

Save for the material contracts signed for the above connected transactions, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder at any time during the year ended 31 December 2011.

# XI. Significant Matters (continued)

## (6) MATERIAL CONTRACTS AND PERFORMANCE THEREOF

### 1. Trusts, contracts and lease arrangements which contributed 10% or more of the total profit of the Company for the reporting period

#### (1) Entrustment

The Company did not have entrustment during the year.

#### (2) Contracting

The Company did not act as contractor during the year.

#### (3) Leasing

The Company did not have lease arrangement during the year.

### 2. Guarantees

Unit: US\$ Million

#### External guarantees provided by the Company

##### (Excluding guarantees provided for controlled subsidiaries)

Total guarantee amount during the reporting period (Excluding guarantees provided for subsidiaries)	0
Total balance of guarantees at the end of the reporting period (A) (Excluding guarantees provided for subsidiaries)	0

#### Total guarantees provided for controlled subsidiaries by the Company

Total guarantee amount provided for subsidiaries during the reporting period	0
Total balance of guarantees provided for subsidiaries at the end of the reporting period (B)	55

#### Total guarantee amount provided by the Company

##### (including guarantees for controlled subsidiaries)

Total guarantee amount (A+B)	55
Proportion of total guarantee amount to the Company's assets (%)	1.27
Including:	
Guarantee amount provided for shareholders, the de facto controller and connected parties (C)	0
Guarantee amount provided directly or indirectly for entities with gearing ratio exceeding 70% (D)	0
Total guarantee amount exceeding 50% of net assets (E)	0
Total amount of the three guarantees mentioned above (C+D+E)	0

At the end of the reporting period, all the Company's guarantees were provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB347 million. All the guarantees were approved by the Board of the Company beforehand.

### 3. Other material contracts

The Company had no other material contracts during the year.

## (7) PERFORMANCE OF UNDERTAKINGS

1. There were no undertakings made by the Company, controlling shareholder and the de facto controller during the year or before.

## (8) APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Unit: RMB'000

Whether reappointed accounting firm:	No
	Current Appointment
Name of domestic accounting firm	Ernst & Young Hua Ming
Remuneration of domestic accounting firm	4,965
Term of auditing of domestic accounting firm	18

## (9) PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND THE DE FACTO CONTROLLER

During the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, the de facto controller, acquirer were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market, published reprimand or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges. The CSRC and its delegated institutions did not inspect the Company and did not make any corrective suggestions to the Company either.

## (10) OTHER SIGNIFICANT EVENTS

The Company had no other significant events during the year.

## XI. Significant Matters (continued)

### (11) INDEX OF INFORMATION DISCLOSURES ON NEWSPAPERS

Announcement title	Newspapers	Date of announcement
Announcement of 2010 Estimated Annual Results of Maanshan Iron	Page B20, Shanghai Securities News	18 January 2011
Announcement of Maanshan Iron	Page 71, Shanghai Securities News	26 February 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B61, Shanghai Securities News	23 March 2011
Announcement on Resolutions of the Sixteenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron	Page B61, Shanghai Securities News	23 March 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B15, Shanghai Securities News	28 April 2011
Announcement on Resolutions of the Seventeenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron	Page B15, Shanghai Securities News	28 April 2011
Announcement on External Investment of Maanshan Iron	Page B15, Shanghai Securities News	28 April 2011
Notice of 2010 Annual General Meeting of Maanshan Iron	Page B15, Shanghai Securities News	28 April 2011
Announcement on Resolutions Passed at the 2010 Annual General Meeting of Maanshan Iron	Page B12, Shanghai Securities News	16 June 2011
Announcement on the Implementation of 2010 A Share Bonus and Dividend Distribution of Maanshan Iron	Page B33, Shanghai Securities News	6 July 2011
Announcement on the Approval by the Public Offering Review Committee of the CSRC of the Application of Corporate Bond Issuance of Maanshan Iron	Page B11, Shanghai Securities News	8 July 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B33, Shanghai Securities News	15 July 2011
Announcement on Resolutions of the Eighteenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron	Page B33, Shanghai Securities News	15 July 2011
Notice of the 2011 First Extraordinary General Meeting of Maanshan Iron	Page B33, Shanghai Securities News	15 July 2011
Announcement on the Approval by the CSRC of the Application of Corporate Bond Issuance of Maanshan Iron	Page 58, Shanghai Securities News	30 July 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B107, Shanghai Securities News	19 August 2011

<b>Announcement title</b>	<b>Newspapers</b>	<b>Date of announcement</b>
Announcement on Resolutions of the Nineteenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron	Page B107, Shanghai Securities News	19 August 2011
Announcement on Resolutions Passed at the 2011 First Extraordinary General Meeting of Maanshan Iron	Page B20, Shanghai Securities News	1 September 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B20, Shanghai Securities News	1 September 2011
Announcement on Resolutions of the First Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron	Page B20, Shanghai Securities News	1 September 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B23, Shanghai Securities News	21 October 2011
Announcement on Payment and Interest Payment “06馬鋼債” of Maanshan Iron	Page B24, Shanghai Securities News	2 November 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page A2, Shanghai Securities News	4 November 2011
Announcement on Connected Transaction of Entering into the Finance Services Agreement of Maanshan Iron	Page A2, Shanghai Securities News	4 November 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B30, Shanghai Securities News	16 November 2011
Announcement on Resolutions of the Fourth Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron	Page B30, Shanghai Securities News	16 November 2011
Notice of the 2011 Second Extraordinary General Meeting of Maanshan Iron	Page B30, Shanghai Securities News	16 November 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page B22, Shanghai Securities News	1 December 2011
Announcement on Resolutions of the Fifth Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron	Page B22, Shanghai Securities News	1 December 2011
Announcement on Resolutions Passed at the 2011 Second Extraordinary General Meeting of Maanshan Iron	Page 37, Shanghai Securities News	31 December 2011
Announcement on Resolutions of the Board of Maanshan Iron	Page 37, Shanghai Securities News	31 December 2011
Announcement on Resolutions of the Seventh Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron	Page 37, Shanghai Securities News	31 December 2011

The above announcements were concurrently published on the websites of the SSE (<http://www.sse.com.cn>) and the Hong Kong Stock Exchange (<http://www.hkex.com.hk>).

## XII. Financial Statements

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Note: The notes to the financial statements with “\*” are disclosed in accordance with the rules governing the listing of securities on the stock exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

# Report of the Auditors



Ernst & Young Hua Ming (2012) Shen Zi No. 60438514\_A06

## To the shareholders of Maanshan Iron & Steel Company Limited:

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

### 1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### 2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of 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.

# Report of the Auditors (Continued)

Ernst & Young Hua Ming (2012) Shen Zi No. 60438514\_A06

### 3. OPINION

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of Maanshan Iron & Steel Company Limited as at 31 December 2011 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

**Ernst & Young Hua Ming**

Beijing, the People's Republic of China

**Zhong Li**

Chinese Certified Public Accountant

**Wu Guoxin**

Chinese Certified Public Accountant

28 March 2012

# Consolidated Balance Sheet

31 December 2011

Renminbi Yuan

ASSETS	Note V	2011	2010
<b>CURRENT ASSETS:</b>			
Cash and bank balances	1	<b>10,302,925,888</b>	6,382,691,015
Financial assets held for trading	2	<b>607,980</b>	826,640
Bills receivable	3	<b>8,750,705,282</b>	8,374,602,622
Trade receivables	4	<b>1,883,404,218</b>	1,097,779,220
Dividends receivable	5	<b>99,902,452</b>	118,800,000
Prepayments	6	<b>3,651,999,532</b>	1,377,143,617
Other receivables	7	<b>694,493,241</b>	711,812,863
Inventories	8	<b>14,132,127,677</b>	12,451,795,018
		<hr/>	<hr/>
Total current assets		<b>39,516,166,270</b>	30,515,450,995
		<hr/>	<hr/>
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments	9,10	<b>1,610,793,100</b>	1,034,491,013
Investment properties	11	<b>4,540,409</b>	6,771,343
Fixed assets	12	<b>32,415,260,148</b>	34,405,603,226
Construction materials		<b>265,351,474</b>	281,058,134
Construction in progress	13	<b>4,672,053,374</b>	1,504,328,744
Intangible assets	14	<b>2,002,437,828</b>	1,863,353,636
Deferred tax assets	15	<b>626,426,316</b>	493,868,095
		<hr/>	<hr/>
Total non-current assets		<b>41,596,862,649</b>	39,589,474,191
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>81,113,028,919</b>	70,104,925,186
		<hr/> <hr/>	<hr/> <hr/>

# Consolidated Balance Sheet (Continued)

31 December 2011  
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	2011	2010
<b>CURRENT LIABILITIES:</b>			
Short term loans	17	<b>6,202,785,816</b>	977,093,278
Bills payable	18	<b>5,542,687,963</b>	5,269,342,225
Accounts payable	19	<b>7,030,282,017</b>	5,550,236,792
Deposits received	20	<b>7,028,115,939</b>	8,127,236,452
Payroll and benefits payable	21	<b>243,707,642</b>	284,521,457
Taxes payable	22	<b>(326,154,569)</b>	(411,180,601)
Interest payable		<b>218,132,515</b>	58,185,998
Dividends payable	23	<b>80,281,968</b>	506,995,720
Other payables	24	<b>731,793,349</b>	946,266,361
Non-current liabilities due within one year	25	<b>2,681,045,000</b>	7,857,611,313
Total current liabilities		<b>29,432,677,640</b>	29,166,308,995
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans	26	<b>12,906,772,000</b>	11,368,731,100
Bonds payable	27	<b>9,243,722,051</b>	997,833,200
Deferred income	28	<b>552,778,524</b>	573,288,652
Deferred tax liability	15	<b>44,328,987</b>	–
Total non-current liabilities		<b>22,747,601,562</b>	12,939,852,952
Total liabilities		<b>52,180,279,202</b>	42,106,161,947
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	29	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	30	<b>8,338,358,399</b>	8,338,358,399
Surplus reserves	31	<b>3,442,866,348</b>	3,206,200,814
Retained profits	32	<b>7,456,020,890</b>	8,008,142,354
Exchange fluctuation reserve		<b>16,483,680</b>	40,704,768
Equity attributable to owners of the parent		<b>26,954,410,503</b>	27,294,087,521
Minority interests		<b>1,978,339,214</b>	704,675,718
Total shareholders' equity		<b>28,932,749,717</b>	27,998,763,239
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>81,113,028,919</b>	70,104,925,186

The financial statements are signed by the following persons

Company Representative:  
**Su Jiangan**  
28 March 2012

Chief Accountant:  
**Qian haifan**  
28 March 2012

Head of Accounting:  
**Zhang Qianchun**  
28 March 2012

# Consolidated Statement of Income

Year ended 31 December 2011  
Renminbi Yuan

	Note V	2011	2010
Revenue	33	<b>86,842,202,249</b>	64,981,112,494
Less: Cost of sales	33	<b>83,363,550,895</b>	61,173,087,326
Business taxes and surcharges	34	<b>226,945,827</b>	265,952,521
Selling expenses	35	<b>285,821,929</b>	238,440,760
Administrative expenses	36	<b>1,291,493,700</b>	1,207,589,989
Financial expenses	37	<b>989,610,102</b>	732,400,757
Assets impairment losses	38	<b>676,714,989</b>	17,532,724
Loss on fair value changes		<b>218,660</b>	210,720
Add: Investment income	39	<b>150,451,675</b>	219,550,777
including: share of profits of associates and jointly-controlled entities		<b>128,871,481</b>	204,748,955
Operating profit		<b>158,297,822</b>	1,565,448,474
Add: Non-operating income	40	<b>166,979,551</b>	159,047,930
Less: Non-operating expenses	41	<b>24,178,005</b>	13,384,684
including: loss on disposal of non-current assets		<b>18,753,548</b>	6,513,280
Profit before tax		<b>301,099,368</b>	1,711,111,720
Less: Income tax	42	<b>111,602,445</b>	519,502,407
Net profit		<b>189,496,923</b>	1,191,609,313
Attributable to owners of the Parent		<b>69,578,129</b>	1,101,838,516
Minority shareholders		<b>119,918,794</b>	89,770,797

# Consolidated Statement of Income (Continued)

Year ended 31 December 2011  
Renminbi Yuan

	Note V	2011	2010
EARNINGS PER SHARE:			
Basic	43	<b>0.90 cents</b>	14.30 cents
Diluted		<b>N/A</b>	N/A
Other comprehensive income	44	<b>(24,221,088)</b>	23,284,819
Total comprehensive income		<b>165,275,835</b>	1,214,894,132
Including:			
Total comprehensive income attributable to owners of the Parent		<b>45,357,041</b>	1,125,123,335
Total comprehensive income attributable to the minority shareholders		<b>119,918,794</b>	89,770,797

# Consolidated Statement of Changes In Equity

Year ended 31 December 2011

Renminbi Yuan

	Attributable to owners of the Parent						Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total		
	(Note V.29)	(Note V.30)	(Note V.31)	(Note V.32)				
1. At 1 January 2011	7,700,681,186	8,338,358,399	3,206,200,814	8,008,142,354	40,704,768	27,294,087,521	704,675,718	27,998,763,239
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	69,578,129	-	69,578,129	119,918,794	189,496,923
(ii) Other comprehensive income	-	-	-	-	(24,221,088)	(24,221,088)	-	(24,221,088)
Total comprehensive income	-	-	-	69,578,129	(24,221,088)	45,357,041	119,918,794	165,275,835
(iii) Capital contribution and withdrawal by shareholders								
(a) Acquisition of minority interests	-	-	-	-	-	-	1,181,266,000	1,181,266,000
(b) Others	-	-	-	-	-	-	-	-
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	236,665,534	(236,665,534)	-	-	-	-
(b) Dividend paid	-	-	-	(385,034,059)	-	(385,034,059)	(27,521,298)	(412,555,357)
(v) Transfer within shareholders' equity	-	-	-	-	-	-	-	-
3. At 31 December 2011	7,700,681,186	8,338,358,399	3,442,866,348	7,456,020,890	16,483,680	26,954,410,503	1,978,339,214	28,932,749,717

# Consolidated Statement of Changes In Equity (Continued)

Year ended 31 December 2011

Renminbi Yuan

	Attributable to equity holders of the Parent						Minority interests	Total shareholders' equity
	Share capital (Note V.29)	Capital reserve (Note V.30)	Surplus reserves (Note V.31)	Retained profits (Note V.32)	Exchange fluctuation reserve	Sub-total		
1. At 1 January 2010	7,700,681,186	8,338,358,399	3,057,920,649	7,350,273,452	17,419,949	26,464,653,635	720,208,964	27,184,862,599
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	1,101,838,516	-	1,101,838,516	89,770,797	1,191,609,313
(ii) Other comprehensive income	-	-	-	-	23,284,819	23,284,819	-	23,284,819
Total comprehensive income	-	-	-	1,101,838,516	23,284,819	1,125,123,335	89,770,797	1,214,894,132
(iii) Capital contribution and withdrawal by shareholders								
(a) Acquisition of minority interests	-	-	-	-	-	-	(32,790,825)	(32,790,825)
(b) Others	-	-	12,337,798	-	-	12,337,798	5,039,382	17,377,180
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	135,942,367	(135,942,367)	-	-	-	-
(b) Dividend paid	-	-	-	(308,027,247)	-	(308,027,247)	(77,552,600)	(385,579,847)
(v) Transfer within shareholders' equity	-	-	-	-	-	-	-	-
3. At 31 December 2010	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>3,206,200,814</u>	<u>8,008,142,354</u>	<u>40,704,768</u>	<u>27,294,087,521</u>	<u>704,675,718</u>	<u>27,998,763,239</u>

# Consolidated Cash Flow Statement

Year ended 31 December 2011  
Renminbi Yuan

	Note V	2011	2010
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		<b>102,432,052,698</b>	76,923,056,450
Refunds of taxes		<b>19,600,168</b>	1,638,844
Cash received relating to other operating activities	45	<b>65,269,901</b>	78,592,586
		<hr/>	<hr/>
Sub-total of cash inflows		<b>102,516,922,767</b>	77,003,287,880
		<hr/>	<hr/>
Cash paid for goods and services		<b>(94,334,101,499)</b>	(68,938,506,167)
Cash paid to and on behalf of employees		<b>(4,392,425,754)</b>	(3,968,017,755)
Cash paid for all taxes		<b>(2,244,785,532)</b>	(3,140,704,020)
Cash paid relating to other operating activities	45	<b>(562,930,432)</b>	(556,052,567)
		<hr/>	<hr/>
Sub-total of cash outflows		<b>(101,534,243,217)</b>	(76,603,280,509)
		<hr/>	<hr/>
Net cash flows from operating activities	46	<b>982,679,550</b>	400,007,371
		<hr/>	<hr/>
2. Cash flows from investing activities:			
Cash received from retrieval of investments		<b>1,760,000</b>	–
Cash received from investment income		<b>300,604,186</b>	198,621,207
Net cash received from disposal of fixed assets, intangible assets and other long term assets		<b>4,824,524</b>	27,314,670
Cash received due to decrease in pledged deposits, net		–	2,199,744,370
Net cash received from acquisition of a subsidiary		<b>383,261,393</b>	–
Cash received relating to other investing activities	45	<b>62,009,300</b>	74,889,566
		<hr/>	<hr/>
Sub-total of cash inflows		<b>752,459,403</b>	2,500,569,813
		<hr/>	<hr/>
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		<b>(4,210,598,401)</b>	(2,091,321,539)
Cash paid for acquisitions of investments		<b>(540,100,000)</b>	(39,900,000)
Cash paid for purchasing minority interests		–	(32,790,825)
Cash paid due to increase in pledged deposits, net		<b>(311,760,491)</b>	–
		<hr/>	<hr/>
Sub-total of cash outflows		<b>(5,062,458,892)</b>	(2,164,012,364)
		<hr/>	<hr/>
Net cash flows from investing activities		<b>(4,309,999,489)</b>	336,557,449
		<hr/>	<hr/>

# Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2011  
Renminbi Yuan

	Note V	2011	2010
3. Cash flows from financing activities:			
Cash received from borrowings		<b>34,542,382,458</b>	13,286,042,257
Cash received from capital contribution		<b>171,266,000</b>	–
including: capital contribution by minority shareholders		<b>171,266,000</b>	–
Cash received from issuance of corporate bonds and medium-term notes		<b>8,239,888,000</b>	997,500,000
Sub-total of cash inflows		<b>42,953,536,458</b>	14,283,542,257
Cash repayments of borrowings		<b>(34,050,665,899)</b>	(14,559,651,522)
Cash paid for distribution of dividend or profits and for interest expenses		<b>(1,988,777,665)</b>	(580,122,890)
including: dividend paid to minority shareholders by subsidiaries		<b>(27,521,298)</b>	(77,552,600)
Sub-total of cash outflows		<b>(36,039,443,564)</b>	(15,139,774,412)
Net cash flows from financing activities		<b>6,914,092,894</b>	(856,232,155)
4. Effect of foreign exchange rate changes on cash		<b>21,701,427</b>	1,785,113
5. Net increase/(decrease) in cash and cash equivalents		<b>3,608,474,382</b>	(117,882,222)
Add: Balance of cash and cash equivalents at beginning of year		<b>5,385,065,613</b>	5,502,947,835
6. Balance of cash and cash equivalents at end of year	47	<b>8,993,539,995</b>	5,385,065,613

# Balance Sheet

31 December 2011  
Renminbi Yuan

ASSETS	Note XI	2011	2010
<b>CURRENT ASSETS:</b>			
Cash and bank balances		<b>4,768,791,715</b>	3,087,223,561
Financial assets held for trading		<b>607,980</b>	826,640
Bills receivable		<b>6,866,227,009</b>	7,456,373,686
Trade receivables	1	<b>2,412,923,730</b>	2,350,835,807
Dividends receivable		<b>152,701,212</b>	197,494,579
Prepayments		<b>3,035,017,626</b>	1,278,962,474
Other receivables	2	<b>87,210,086</b>	73,786,134
Inventories	3	<b>10,433,971,452</b>	10,601,699,907
Total current assets		<b>27,757,450,810</b>	25,047,202,788
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments	4	<b>5,408,814,497</b>	2,219,360,976
Investment properties		<b>17,593,986</b>	17,999,035
Fixed assets		<b>28,163,111,487</b>	32,075,219,828
Construction materials		<b>282,303,496</b>	252,574,410
Construction in progress		<b>3,415,642,243</b>	1,420,353,347
Intangible assets		<b>1,182,953,916</b>	1,215,033,032
Deferred tax assets		<b>597,145,110</b>	479,719,267
Total non-current assets		<b>39,067,564,735</b>	37,680,259,895
<b>TOTAL ASSETS</b>		<b>66,825,015,545</b>	62,727,462,683

# Balance Sheet (Continued)

31 December 2011  
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	2011	2010
<b>CURRENT LIABILITIES:</b>		
Short term loans	<b>720,152,772</b>	264,908,000
Bills payable	<b>2,219,224,949</b>	2,762,510,000
Accounts payable	<b>6,868,767,357</b>	4,730,311,762
Deposits received	<b>5,644,238,568</b>	6,832,999,783
Payroll and benefits payable	<b>175,902,146</b>	229,661,197
Taxes payable	<b>(388,139,010)</b>	(388,889,831)
Interest payable	<b>215,949,993</b>	58,022,621
Dividends payable	<b>5,936,218</b>	506,995,720
Other payables	<b>564,693,699</b>	895,353,523
Non-current liabilities due within one year	<b>2,681,045,000</b>	7,843,611,313
<b>Total current liabilities</b>	<b>18,707,771,692</b>	23,735,484,088
<b>NON-CURRENT LIABILITIES:</b>		
Long term loans	<b>12,838,172,000</b>	11,278,731,100
Bonds payable	<b>9,243,722,051</b>	997,833,200
Deferred income	<b>523,714,144</b>	540,572,623
<b>Total non-current liabilities</b>	<b>22,605,608,195</b>	12,817,136,923
<b>Total liabilities</b>	<b>41,313,379,887</b>	36,552,621,011
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	<b>8,338,358,399</b>	8,338,358,399
Surplus reserves	<b>2,964,168,101</b>	2,964,168,101
Retained profits	<b>6,508,427,972</b>	7,171,633,986
<b>Total shareholder's equity</b>	<b>25,511,635,658</b>	26,174,841,672
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>66,825,015,545</b>	62,727,462,683

# Statement of Income

Year ended 31 December 2011  
Renminbi Yuan

	Note XI	2011	2010
Revenue	6	<b>78,067,121,225</b>	65,373,961,475
Less: Cost of sales	6	<b>76,284,120,046</b>	62,655,167,678
Business taxes and surcharges		<b>169,681,572</b>	236,987,944
Selling expenses		<b>235,331,501</b>	216,160,050
Administrative expenses		<b>887,825,688</b>	967,508,708
Financial expenses		<b>530,013,425</b>	509,092,010
Assets impairment losses	7	<b>674,480,000</b>	13,906,462
Add: Gain on fair value changes		<b>218,660</b>	210,720
Investment income	8	<b>206,612,395</b>	401,763,634
Including: share of profits associates and jointly-controlled entities		<b>130,918,471</b>	208,619,071
Operating (loss)/profit		<b>(507,937,272)</b>	1,176,691,537
Add: Non-operating income		<b>120,142,902</b>	110,771,981
Less: Non-operating expenses		<b>7,755,393</b>	8,476,662
Including: loss on disposal of non-current assets		<b>5,261,751</b>	5,987,267
(Loss)/profit before tax		<b>(395,549,763)</b>	1,278,986,856
Add: Income tax credit/(expense)		<b>117,377,808</b>	(373,270,297)
Net (loss)/profit		<b>(278,171,955)</b>	905,716,559
Other comprehensive income		-	-
Total comprehensive (loss)/income		<b>(278,171,955)</b>	905,716,559

# Statement of Changes In Equity

Year ended 31 December 2011

Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2011	7,700,681,186	8,338,358,399	2,964,168,101	7,171,633,986	26,174,841,672
2. Decrease during the year					
(i) Net profit	-	-	-	(278,171,955)	(278,171,955)
(ii) Other comprehensive income	-	-	-	-	-
Sub-total (i) and (ii)	-	-	-	(278,171,955)	(278,171,955)
(iii) Capital contribution and withdrawal					
(a) Capital contribution by shareholders	-	-	-	-	-
(b) Others	-	-	-	-	-
(iv) Profit appropriation					
(a) Transfer to surplus reserves	-	-	-	-	-
(b) Dividend paid	-	-	-	(385,034,059)	(385,034,059)
(c) Others	-	-	-	-	-
(v) Transfers within shareholders' equity	-	-	-	-	-
3. At 31 December 2011	<b>7,700,681,186</b>	<b>8,338,358,399</b>	<b>2,964,168,101</b>	<b>6,508,427,972</b>	<b>25,511,635,658</b>

# Statement of Changes In Equity (Continued)

Year ended 31 December 2011  
Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2010	7,700,681,186	8,338,358,399	2,873,596,445	6,664,516,330	25,577,152,360
2. Increase during the year					
(i) Net profit	-	-	-	905,716,559	905,716,559
(ii) Other comprehensive income	-	-	-	-	-
Sub-total (i) and (ii)	-	-	-	905,716,559	905,716,559
(iii) Capital contribution and withdrawal					
(a) Capital contribution by shareholders	-	-	-	-	-
(b) Others	-	-	-	-	-
(iv) Profit appropriation					
(a) Transfer to surplus reserves	-	-	90,571,656	(90,571,656)	-
(b) Dividend paid	-	-	-	(308,027,247)	(308,027,247)
(c) Others	-	-	-	-	-
(v) Transfers within shareholders' equity	-	-	-	-	-
3. At 31 December 2010	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>2,964,168,101</u>	<u>7,171,633,986</u>	<u>26,174,841,672</u>

# Cash Flow Statement

Year ended 31 December 2011  
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	Note XI	2011	2010
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		<b>90,409,877,010</b>	73,226,450,977
Cash received relating to other operating activities		<b>41,685,070</b>	33,372,000
Sub-total of cash inflows		<b>90,451,562,080</b>	73,259,822,977
Cash paid for goods and services		<b>(80,588,208,969)</b>	(67,455,646,935)
Cash paid to and on behalf of employees		<b>(3,697,004,367)</b>	(3,614,583,500)
Cash paid for all taxes		<b>(1,604,273,560)</b>	(2,629,543,400)
Cash paid relating to other operating activities		<b>(564,899,168)</b>	(571,281,122)
Sub-total of cash outflows		<b>(86,454,386,064)</b>	(74,271,054,957)
Net cash flows from/(used in) operating activities	9	<b>3,997,176,016</b>	(1,011,231,980)
2. Cash flows from investing activities:			
Cash received from investment income		<b>348,120,468</b>	278,245,265
Net cash received from disposal of fixed assets, intangible assets and other long term assets		<b>271,057,296</b>	12,344,916
Cash received due to decrease in pledged deposits, net		<b>–</b>	2,049,545,713
Cash received relating to other investing activities		<b>62,009,300</b>	57,428,300
Sub-total of cash inflows		<b>681,187,064</b>	2,397,564,194
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		<b>(3,575,042,007)</b>	(1,735,416,651)
Cash paid for acquisitions of investments		<b>(3,149,444,444)</b>	(35,000,000)
Sub-total of cash outflows		<b>(6,724,486,451)</b>	(1,770,416,651)
Net cash flows from/(used in) investing activities		<b>(6,043,299,387)</b>	627,147,543

# Cash Flow Statement (Continued)

Year ended 31 December 2011  
Renminbi Yuan

	2011	2010
3. Cash flows from financing activities:		
Cash received from borrowings	<b>21,122,536,749</b>	10,575,527,950
Cash received from issuance of medium-term notes	<b>8,239,888,000</b>	997,500,000
Sub-total of cash inflows	<b>29,362,424,749</b>	11,573,027,950
Cash repayments of borrowings	<b>(24,190,976,450)</b>	(10,791,303,200)
Cash paid for distribution of dividend or profits and for interest expenses	<b>(1,685,760,546)</b>	(1,051,907,837)
Sub-total of cash outflows	<b>(25,876,736,996)</b>	(11,843,211,037)
Net cash flows from/(used in) financing activities	<b>3,485,687,753</b>	(270,183,087)
4. Effect of foreign exchange rate changes on cash	<b>242,003,772</b>	(18,032,311)
5. Net increase/(decrease) in cash and cash equivalents	<b>1,681,568,154</b>	(672,299,835)
Add: Balance of cash and cash equivalents at beginning of year	<b>3,087,223,561</b>	3,759,523,396
6. Balance of cash and cash equivalents at end of year	<b>4,768,791,715</b>	3,087,223,561

# Notes to Financial Statements

31 December 2011  
Renminbi Yuan

## I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People’s Republic of China (the “PRC”) on 1 September 1993. The registration number of the Company’s business license is Qi Gu Wan Zong Zi No. 340000400002545. The headquarter of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. The Company’s A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The Company together with its subsidiaries (collectively known as the “Group”) is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company was RMB6,455,300,000, and the number of shares was 6,455,300,000, which included state-owned shares with selling restrictions of 3,830,560,000 shares, domestic legal person shares of 87,810,000 shares, domestic natural person shares of 10,000 shares, ordinary A shares of 803,990,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

From the years 2007 to 2009, among the total number of warrants of 1,265,000,000 attached to the Company’s bonds with warrants of 1,245,381,186 warrants were exercised by certain holders in exchange for the Company’s ordinary A shares. After exercising, the Company’s registered capital increased to RMB7,700,681,186.

As at 31 December 2011, the Company had issued 7,700,681,000 shares in total, including ordinary A shares of 5,967,751,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.29 to the financial statements.

The Company’s principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycling and processing of discarded vehicles (limited to the internally discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificate); rendering of technological services and consultancy services.

The parent company of the Group is Magang (Group) Holding Company Limited (the “Holding”), which is incorporated in the PRC.

The financial statements were approved by the board of directors on 28 March 2012. According to the Articles of Association of the Company, the financial statements will be submitted to the shareholders’ meeting for approval.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principals” and 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, application guidance, interpretations and other related regulations issued later on (collectively known as the “CAS”).

The financial statements are prepared based on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

### 2. STATEMENT OF ADOPTION OF THE CAS

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

### 3. ACCOUNTING PERIOD

The accounting year of the Group is from 1 January to 31 December of each calendar year.

### 4. REPORTING CURRENCY

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan (“RMB”) except when otherwise indicated.

The Group's subsidiaries use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

### 5. BUSINESS COMBINATION

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as “Business combination involving entities under common control” and “Business combination involving entities not under common control”.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 5 BUSINESS COMBINATION (CONTINUED)

#### **Business combination involving entities under common control**

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under a business combination involving entities under common control, the combining entity obtains control of another involving entity being absorbed on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

#### **Business combination involving entities not under common control**

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

Any excess of the sum of fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 6. CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2011. A subsidiary is a company or entity that is controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealised gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance offsets minority interests. Any changes in the minority interests without losing control is recognised as an equity transaction.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

### 7. CASH AND CASH EQUIVALENTS

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuation arising from the translation mentioned above are recognised as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the cash flow statement.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognised when and only when:

- (1) The contractual rights to the cash flows from the financial asset expire; or
- (2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an “transfer arrangement” and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognised in the income statement.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognised initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

The financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria are satisfied:

- (1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different measurement basis of financial instruments.
- (2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.
- (3) Hybrid instruments which contains one or more embedded derivatives, unless the containing of embedded derivatives does not have substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from relevant hybrid instruments.
- (4) Hybrid instruments which contains embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Classification and measurement of financial assets (Continued)

For the equity investment where there is quoted market price from an active market or the fair value cannot be reliably measured, such equity investment shall not be designated as financial assets at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset at fair value through profit and loss in initial recognition, it shall not be reclassified to other categories of financial asset. Also, assets from other categories of financial asset shall not reclassify to financial assets at fair value through profit and loss.

In accordance with the above conditions, the Group has designated these kinds of financial assets mainly includes the financial assets held for trading.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised, impaired, or amortised.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortised using the effective interest method, with interests recognised as interest income or expense. The fair value changes of available-for-sale financial assets are recognised as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognised initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognised as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

#### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

#### Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, but it does not belong to financial liabilities that are designated at fair value through profit or loss. It is subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Bonds with warrants

The Group evaluates the terms of the issuance of bonds with warrants to determine whether it contains both a liability and an equity component. The bonds with warrants issued contain both a liability and an equity component. On initial recognition, it should be bifurcated the liability and equity component and accounted for them separately. In the bifurcation, the liability component shall be initially recognised and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. The portion of the transaction costs relating to the liability components is recognised as part of the liability and amortised in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognised as part of the equity and is not remeasured in subsequent years.

The issuance of bonds with warrants contain both a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognised as derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

#### Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. These techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

#### *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortised cost would have had the impairment not been recognised at the reversal date.

#### *Available-for-sale financial assets*

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income due to decline in the fair value shall be removed and recognised in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in the income statement.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Impairment of financial assets (Continued)

##### *Available-for-sale financial assets (Continued)*

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognised directly in other comprehensive income.

##### *Financial assets carried at cost*

If there is objective evidence that an impairment loss on the financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognised in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under the above mentioned principles.

#### Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognise the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognise the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognise the financial asset and recognise the related assets and liabilities incurred. If the control over the financial asset has not been lost, the Group recognises the financial asset to the extent of its continuing involvement of the financial asset and recognise an associated liability.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 10. RECEIVABLES

- (1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the income statement.
- (2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognised as impairment loss and charged to the income statement.

### 11. INVENTORIES

Inventories include raw materials, work in progress, finished goods, construction contracts and spare parts.

Inventories are initially recognised at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories, other than construction contracts and spare parts, are determined on weighted average basis. Cost of spare parts, lower valued consumables and packing materials are charged to the income statement when issued.

Contract costs shall comprise direct materials, direct labour, utilisation expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised loss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statement. Provision of impairment for construction contract is assessed at period end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognised in the income statement.

Inventories are accounted for using the perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and net realisable value. If the cost is in excess of amounts expected to be realised from their sale or use, provision for inventories is recognised in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on category basis for raw materials, and on an individual basis for finished goods.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. LONG TERM EQUITY INVESTMENTS

Long term equity investments consist of investments in subsidiaries, jointly-controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long term equity investments are initially recognised at initial investment cost on acquisition.

Long term investment shall be recognised at initial investment cost upon acquisition. For the long term investments that acquired through business combination involving entities under common control, the initial investment cost shall be the share in the carrying amount the acquiree's equity. For business combination involving entities not under common control, the initial investment cost of should be the cost of acquisition (For those complete the business combination involving entities not under common control in various stages by means of numerous transactions, the initial investment cost is the sum of the carrying amount of the acquiree's equity investments held before the acquisition date and new investment cost on the acquisition date), which is the sum of the fair value of assets paid, liabilities incurred or assumed and equity securities issued. In addition to the long term investment acquired through business combination, it should be treated as follow: for the transaction is paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses. For the issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities. For the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in investment contract or agreement is not at fair value.

The cost method is applied for long term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the company.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. LONG TERM EQUITY INVESTMENTS (CONTINUED)

The equity method is applied for long term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures). 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 the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognised). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortisation using the straight line method (if exists) should be recognised as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

When long term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under equity method, the amount recognised in the equity previously shall be transferred to the income statement upon its disposal.

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in note II.23. For the other long term investments which do not have quoted market price from active market, and the fair value cannot be reliably measured, the impairment assessment and measurement of provision for impairment, further details are stated in note II.9.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 13. INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including land use rights and properties lent out under operating lease) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalised when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to the income statement.

The Group accounts for investment properties under cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over its estimated useful life, the period over which that future economic benefits will flow into the Group.

For the impairment assessment and measurement of provision for impairment of the investment properties adopts the cost model, further details are stated in note II.23.

### 14. FIXED ASSETS

Fixed assets are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognised; otherwise, is charged to the income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	<b>Estimated useful life</b>	<b>Estimated residual value</b>	<b>Annual depreciation rate</b>
Buildings and structures	10 – 20 year	3%	4.9 – 9.7%
Machine equipment	13year	3%	7.5%
Office Equipment	10 year	3%	9.7%
Transportation vehicles and equipment	5 year	3%	19.4%

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 14. FIXED ASSETS (CONTINUED)

The components of fixed assets which have difference useful life and generate difference kind of benefits to the enterprise, it should have difference depreciation rate and method.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

For the impairment assessment and measurement of provision for impairment of the fixed assets, further details are stated in note II.23.

### 15. CONSTRUCTION IN PROGRESS

Construction in progress is recognised based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalised borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

For the impairment assessment and measurement of provision for impairment of the construction in progress, further details are stated in note II.23.

### 16. BORROWING COSTS

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 16. BORROWING COSTS (CONTINUED)

The capitalisation of borrowing costs commences when:

- (1) Expenditures for the assets are being incurred;
- (2) Borrowing costs are incurred;
- (3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following methods:

- (1) For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income
- (2) For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than three months, until the acquisition or construction is resumed.

### 17. INTANGIBLE ASSETS

Intangible assets are recognised if and only if it is probably that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognised and measured at its fair value

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 17. INTANGIBLE ASSETS (CONTINUED)

The useful lives of the Group's intangible assets are as follows:

	<b>Useful life</b>
Land use rights	50 years
Mining rights	25 years
Back-up roll technology	10 years

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortised over the useful lives on the straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

For the intangible assets with indefinite useful live, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, it should not have amortisation and its useful live is reviewed at least at each financial year end. If there is indication that the useful live is finite, it should follow the accounting treatment of intangible assets with finite lives as mentioned above.

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. "Research" refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. "Development" refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

For the impairment assessment and measurement of provision for impairment of the intangible assets, further details are stated in note II.23.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 18. PROVISIONS

Except for contingent considerations or contingent liabilities assumed under a business combination, a provision is recognised if:

- (1) the obligation is a present obligation assumed by the Group; and
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

For the provision that is being acquired from business combination, it should be initially measured at fair value. After the initial recognition, the amount of provision should be subsequently measured at the higher of the amount being recognised and the initial recognised amount after deducting the accumulated amortisation in accordance with revenue recognition principal.

### 19. REVENUE

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

#### Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 19. REVENUE (CONTINUED)

#### Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters in to contract or agreement with other parties which contains both sales of goods and rendering of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

#### Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and effective interest rate.

#### Lease income

Lease income from operating lease is recognised over the lease terms on the straight-line basis. Contingent lease income is recognised when it incurred.

### 20. GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 21. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognised directly in equity, which recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognised as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

- (1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, 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.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 21. INCOME TAX (CONTINUED)

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 22. LEASE

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as a finance lease. All the other leases are termed as operating leases.

#### Operating lease as lessee

Rental payable under the operating leases are charged to the income statement or capitalised on the straight-line basis over the lease term, contingent rental payment is charged to the income statement when it incurs.

#### Operating lease as lessor

Rental receivable under operating leases are credited to the income statement over the lease terms on the straight-line basis.

### 23. IMPAIRMENT OF ASSETS

The Group determines the impairment of assets according to following method, except for inventories, deferred tax assets, financial assets, and long term equity investment measured at cost method which do not have quoted market price in an active market and their fair value cannot be reliably measured.

The Group assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 23. IMPAIRMENT OF ASSETS (CONTINUED)

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Impairment losses cannot be reversed in the prospective accounting periods.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 24. EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the unpaid amount of employee benefits as a liability. An entity shall recognise the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. endowment insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalised in related assets or charged to the income statement.

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contribution into the Annuity Plan and charged to the income statement.

Termination benefits are recognised as liabilities and charged to the income statement when, and only when, the Group demonstrably commits itself to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy by having a detailed formal plan or voluntary redundancy advices which are without realistic possibility of withdrawal.

The Group accounts for the early retirement scheme in the same way as termination benefits. All salaries and social security contributions the Group committed to pay for the period from early retirement date to normal retirement date shall be recognised as employee benefits and charged to the income statement if the conditions on termination benefits are met.

### 25. PROFIT DISTRIBUTION

The cash dividend of the Company is recognised as a liability upon the approval at the annual general meeting.

### 26. RELATED PARTIES

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 27. SEGMENT REPORTING

Reportable segments are identified and segments' information are disclosed based on operating segments which are determined based on the internal organisation structure, management requirements and internal reporting system.

An operating segment is a component of the Group meeting all the following conditions:

- (1) it may earn revenues and incur expense from business activities;
- (2) its operating results are reviewed regularly by the Company's management, to make decisions about the resources to be allocated to the segment and to assess its performance;
- (3) its financial information regarding financial position, operating results and cash flows are available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic

### 28. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have significant effect on the amounts recognised in the financial statements:

#### *Operating lease – as lessor*

The Group has entered into operating leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to lease contract.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 28. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### *Judgements (CONTINUED)*

##### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgement is made on individual basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

#### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

##### *Impairment of available-for-sale financial assets*

The Group has classified certain assets into available for sale, and the change in fair value is recognised in the shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

##### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 28. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### *Estimation uncertainty (CONTINUED)*

##### *Deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

##### *Estimation of useful lives of fixed assets*

The Group's management determines the estimated useful lives of its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions.

##### *Impairment of receivables*

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.

##### *Estimation of inventories under net realisable value*

The management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on each balance sheet date.

### 29. CHANGES IN ACCOUNTING ESTIMATES

Upon the completion of the construction projects carried out in the Eleventh Five-Year Plan, and the elimination of certain backward production machineries, the Company's fixed assets improved in terms of structure, productivity, wear-resistance and technologies. As a result, the useful life of the Company's machinery was adjusted from ten years to thirteen years. The resolution has been approved by the Board of Directors in its fourth meeting in 2011 and by shareholders in the second extraordinary general meeting in 2011.

# Notes to Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 29. CHANGES IN ACCOUNTING ESTIMATES (CONTINUED)

Useful life	Before change	After change
Machine equipment	10 years	13 years

The effects of the above change in accounting estimate on 2011 annual financial statements are as follows:

This change in accounting estimates was accounted for prospectively, and its effects to the financial statements are: the amount of fixed assets depreciation reduced by RMB 318.19 million, and the amount of owners' equity and net profit both reduced by RMB 238.64 million.

## III. TAX

### 1. THE PRINCIPAL KINDS OF TAXES AND THE RELATED RATES ARE AS FOLLOWS:

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refund rates of 9% to 17%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.
Business tax	Payable based on 3% to 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to a corporate income tax rate of 25% on their assessable profit.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
Real estate tax	Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

# Notes to Financial Statements (Continued)

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## III. TAX (CONTINUED)

### 2. TAX BENEFITS AND APPROVAL DOCUMENTS

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rates ranging from 22% to 25% and enjoy the “Two years exempted and subsequent three years with 50% reduction” tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax at the rate of 15%. Other subsidiaries located elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the countries, ranging from 16.5% to 30%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

### 3. OTHER NOTES

The State Administration of Taxation (“SAT”) issued a tax circular “Enterprise Income Tax Issues relating to Nine Companies Listed Overseas” (“Circular No. 664”) in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax (“CIT”) arising from the expired preferential rate and the applicable rate should be settled according to the provisions of “Law on the Administration of Tax Collection”.

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

In response to the notice issued by the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES)

The details of subsidiaries are as follows:

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment</b>															
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Public	Anhui, PRC	Lu Kecong	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	150509582	RMB 50,000,000	-	100	100	Y	-	-	
Design & Research Institute of Maanshan Iron & Steel company Limited ("Design & Research Institute")	Limited liability	Anhui, PRC	Fang Zhengfang	Service industry	RMB 100,000,000	Planning and design of metallurgical construction and environmental protection projects, construction supervision and contract service	732997248	RMB 8,500,000	-	66.82	66.82	Y	55,014,718	55,014,718	
MG Control Technique Company Limited ("MG Control Technique")	Limited liability	Anhui, PRC	Yan Hua	Manufacturing	RMB 12,000,000	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	738900283	RMB 8,000,000	-	97.93	100	Y	691,614	691,614	
Anhui Masteeel K.Wah New Building Materials Co., Ltd. ("Anhui Masteeel K. Wah")	Sino-foreign joint venture	Anhui, PRC	Xu Ruilin	Manufacturing	USD 8,389,000	Production, sale and transportation of slag products and provision of related consultation services	743065876	USD 5,872,300	-	70	70	Y	41,204,631	41,204,631	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino-HK joint venture	Anhui, PRC	Zhu Jinran	Manufacturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	746789078	RMB 10,333,358	-	100	100	Y	-	-	
Ma Steel (Chu) Processing and Distribution Co., Ltd. ("Ma Steel (Chu)")	Limited liability	Anhui, PRC	Zhu Jinran	Manufacturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	784791782	RMB 27,800,000	-	92	92	Y	5,156,928	5,156,928	

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES) (CONTINUED)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment (Continued)</b>															
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino-foreign joint venture	Guangdong, PRC	Zhu Jinan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	751955545	RMB 80,000,000	-	66.7	66.7	Y	60,736,445	60,736,445	
Manshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Wholly-owned subsidiary	Hong Kong, PRC	N/A	Manufacturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,800,000	-	100	100	Y	-	-	
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	754878645	RMB 30,000,000	-	100	100	Y	-	-	
Manshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 900,000	-	90	90	Y	691,040	691,040	
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Zhu Jinan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	773138073	RMB 90,000,000	-	75	75	Y	35,295,165	35,295,165	

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES) (CONTINUED)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment (Continued)</b>															
MG Trading and Development GmbH ("MG Trading")	Wholly-owned subsidiary	Germany	N/A	Trading	EUR 153,388	Trading of equipment, iron and steel products and provision of technology services	N/A	EUR 153,388	-	100	100	Y	-	-	
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Limited liability	Australia	N/A	Mine production and sales	AUD 21,737,900	Production and sale of iron ores through an unincorporated joint venture	N/A	AUD 21,737,900	-	100	100	Y	-	-	
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Limited liability	Anhui, PRC	Qin Chang-rong	Manufacturing	RMB 500,000,000	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used and repair and maintenance of used	788567175	RMB 355,000,000	-	71	71	Y	358,895,206	358,895,206	(ii)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Masteel (Hefei) Processing")	Limited liability	Anhui, PRC	Zhu Jinran	Manufacturing	RMB 120,000,000	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	793567946	RMB 106,800,000	-	89	89	Y	19,376,154	19,376,154	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Zhu Jinran	Manufacturing	RMB 150,000,000	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	670909619	RMB 106,500,000	-	71	71	Y	47,825,465	47,825,465	

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES) (CONTINUED)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment (Continued)</b>															
Ma Steel United Electric Steel Roller Co. Ltd. ("Ma Steel Roller")	Limited liability	Anhui, PRC	Wang Xiaoguang	Manufacturing	USD 30,000,000	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	667902117	USD 15,300,000	-	51	51	Y	92,038,261	92,038,261	
Maanshan Used Vehicle Trading Centre Co. Ltd. ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Zheng Minzhu	Trading	RMB 500,000	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	664226184	RMB 500,000	-	100	100	Y	-	-	
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd. ("Jiangnan Iron and Steel")	Limited liability	Anhui, PRC	Zhang Mingru	Manufacturing	RMB 1,000,000	Monitoring and testing of steel materials and products, titanium alloy, thermostatic materials products, raw materials and fuels; service of physical and chemical inspection technique; application, appraisal and repair of physical and chemical devices.	69570971X	RMB 1,000,000	-	100	100	Y	-	-	
Maanshan Masteel Electric Repair Co., Ltd. ("Masteel Electric Repair")	Limited liability	Anhui, PRC	Xu Yulin	Manufacturing	RMB 10,000,000	Technological service in energy saving, environment protection and construction projects; repair of electric facilities and machines	57571855-0	RMB 10,000,000	-	100	100	Y	-	-	(i)
Maanshan Masteel Steel Structure Technology Co., Ltd. ("Masteel Steel Structure")	Limited liability	Anhui, PRC	Zhang Maohan	Manufacturing	RMB 530,000,000	Production of high level building steel structure, bridge steel structure, customised machine, sale of metal and construction materials	57571623-4	RMB 530,000,000	-	100	100	Y	-	-	(i)
Maanshan Masteel Surface engineering Technology Co., Ltd. ("Masteel Surface engineering")	Limited liability	Anhui, PRC	Chen Hong	Manufacturing	RMB 275,000,000	Production, installation and repair of complete equipment and spare parts, application of surface engineering technology	57571990-5	RMB 275,000,000	-	100	100	Y	-	-	(i)
Maanshan Masteel Equipment Installation Engineering Co., Ltd. ("Masteel Equipment Installation")	Limited liability	Anhui, PRC	Xia Huming	Manufacturing	RMB 100,000,000	Production, installation and repair of pressure pipeline, boiler and pressure container	57571843-5	RMB 100,000,000	-	100	100	Y	-	-	(i)

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES) (CONTINUED)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment (Continued)</b>															
Maanshan Masteel Resource Regeneration Co., Ltd. ("Masteel Resource Regeneration")	Limited liability	Anhui, PRC	Wang Kaiping	Trading	RMB 50,000,000	Recollection, processing and sale of scrap metals	57442238-3	RMB 50,000,000	-	100	100	Y	-	-	(i)
Maanshan (Shanghai) Industrial Trading Co., Ltd. ("Shanghai Trading")	Limited liability	Shanghai, PRC	Dai Huaqiang	Trading	RMB 60,000,000	Trading of metal materials, construction materials, tools and iron ore; storage service and trading information consultation	57273921-4	RMB 60,000,000	-	100	100	Y	-	-	(i)
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Limited liability	Chongqing, PRC	Dai Huaqiang	Trading	RMB 250,000,000	Simple processing and delivery of steel products, and related services, storage and sale of metal products	57797482-X	RMB 175,000,000	-	70	70	Y	75,280,180	75,280,180	(i)
Maanshan Masteel Yuyuan Logistics Co., Ltd. ("Masteel Yuyuan Logistics")	Limited liability	Anhui, PRC	Yan Hua	Trading	RMB 200,000,000	Sales of steel, processing of metallic products, storage service, agent of freight shipping and project tender	58723125-3	RMB 200,000,000	-	100	100	Y	-	-	(i)
Maanshan Iron & Steel (Hebei) Industrial Water Supply Co., Ltd. ("Hebei Water Supply")	Limited liability	Anhui, PRC	Qin Chang-rongrong	Manufacturing	RMB 50,000,000	Industrial water production, sales	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	(i)
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd. ("Shanghai Electrical and Mechanical Technology")	Limited liability	Shanghai, PRC	Fan Jun	Service industry	RMB 6,650,000	Electrical and mechanical technology in the field of technology development, technology consulting, technology transfer technical services, goods and technology import and export business the design of mechanical, and electrical equipment and accessories, sales, industrial automation systems integration, project management	58063033-1	RMB 6,650,000	-	100	100	Y	-	-	(i)

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD SUBSIDIARIES) (CONTINUED)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
<b>Subsidiaries acquired by establishment or investment (Continued)</b>															
Maanshan Iron & Steel Zhonglian Maritime Co., Ltd. ("Zhonglian Maritime")	Limited liability	Anhui, PRC	Yan Hua	Service industry	RMB 253,000,000	Domestic coastal, middle and lower reaches of the Yangtze River and Pearl River Delta	58152067-9	RMB 157,064,000	-	62	62	Y	96,266,000	96,266,000	(i)
<b>Subsidiaries acquired not under common control</b>															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Zhu Jimen	Manufacturing	USD 20,000,000	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except dangerous chemical products)	75732471X	USD 20,000,000	-	71	71	Y	55,039,891	55,039,891	
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Limited liability	Anhui, PRC	Li Jianshe	Manufacturing	RMB 1,200,000,000	Production and sale of iron and steel products, trading of iron ore and scrap steel, import and export business	71993429-3	RMB 1,200,000,000	-	55	55	Y	1,034,827,516	1,034,827,516	(ii)
<b>Subsidiaries acquired under common control</b>															
Anhui Masteel Intelligent Stereoscopic Parking Equipments Company Limited ("Masteel Auto-Parking")	Limited liability	Anhui, PRC	Qiu Xiaogen	Manufacturing	USD 2,500,000	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	758545127	USD 2,500,000	-	100	100	Y	-	-	

(i) The above subsidiaries were established during the current period.

(ii) During the current year, the Company acquired a 55% equity interest in Anhui Chang Jiang Iron and Steel at RMB1.234 billion as consideration. The detailed information was stated in Note VI.4.

(iii) As at 22 March 2011, the board of directors approved the resolution to inject capital of RMB1.42 billion, by two stages, to Masteel (Hefei). As at 31 December 2011, the capital injection was not completed.

### 2. CHANGE IN THE SCOPE OF CONSOLIDATION

Except for the newly established subsidiaries during the current year and the statement in Note IV.4, the scope of financial statements consolidation is consistent with the previous year.

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 3. ENTITIES NEWLY INCLUDED IN THE CONSOLIDATION SCOPE THIS YEAR

In 2011, the subsidiaries newly included in the consolidation scope are as follows:

	Net assets at 30 June 2011	Net profit/(loss) from the date of incorporation/purchase to period end
Masteel Electric Repair	10,338,752	338,752
Masteel Steel Structure	530,671,745	671,745
Masteel Surface Engineering	273,281,572	(1,718,428)
Masteel Equipment Installation	100,412,905	412,905
Masteel Resource Regeneration	50,908,279	908,279
Shanghai Trading	67,833,727	7,833,727
Chongqing Material	250,933,932	933,932
Anhui Chang Jiang Iron and Steel	2,299,616,702	55,172,259
Masteel Yuyuan Logistics	296,209,585	(56,415)
Hefei Water Supply	49,954,029	(45,971)
Shanghai Electrical and Mechanical Technology	6,649,200	(800)
Zhonglian Maritime	253,300,000	-

### 4. BUSINESS COMBINATION INVOLVING ENTITIES NOT UNDER COMMON CONTROL

As at 30 April 2011, the Company acquired a 55% equity interest in Anhui Chang Jiang Iron and Steel for a cash consideration of RMB1.23 billion. The consideration of acquisition has been paid, and the procedures for the transfer of equity interest have been completed on 30 April 2011. The acquisition date was determined as 30 April 2011.

As at the acquisition date, the book values and fair values of Anhui Chang Jiang Iron and Steel's identifiable assets and liabilities were as follows:

	30 April 2011 Fair value	30 April 2011 Book value
Cash and bank balances	1,617,705,837	1,617,705,837
Bills receivable	237,227,698	237,227,698
Trade receivables	28,263,272	28,263,272
Other receivables	129,148,806	129,148,806
Inventories	738,602,646	738,602,646
Prepayments	230,946,667	230,946,667
Other current assets	110,206,256	110,206,256
Fixed assets	554,983,590	507,342,521
Construction in progress	1,806,572,096	1,691,535,897
Construction materials	1,881,611	1,881,611
Intangible assets	172,481,750	151,282,313
Deferred tax assets	19,717,664	19,717,664
	<hr/>	<hr/>
Total assets	5,647,737,893	5,463,861,188

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 4. BUSINESS COMBINATION INVOLVING ENTITIES NOT UNDER COMMON CONTROL (CONTINUED)

	30 April 2011 Fair value	30 April 2011 Book value
Short term loans	380,000,000	380,000,000
Accounts payable	1,057,724,989	1,057,724,989
Bills payable	440,000,000	440,000,000
Deposits received	506,798,269	506,798,269
Payroll and benefits payable	25,874,209	25,874,209
Taxes payable	35,708,803	35,708,803
Other payables	26,837,045	26,837,045
Other current liabilities	74,345,750	74,345,750
Deferred tax liabilities	45,969,176	–
Long-term payables	2,723,770	2,723,770
Other non-current liabilities	807,311,438	807,311,438
Total liabilities	3,403,293,449	3,357,324,273
Net assets	2,244,444,444	2,106,536,915
Minority interests	1,010,000,000	947,941,612
	1,234,444,444	1,158,595,303
Goodwill	–	–
	1,234,444,444 <sup>(i)</sup>	

(i) The consideration of acquisition comprises of RMB1,234,444,444 in cash.

# Notes to Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 4. BUSINESS COMBINATION INVOLVING ENTITIES NOT UNDER COMMON CONTROL (CONTINUED)

The operating results and cash flows of Anhui Chang Jiang Iron and Steel during the period from the date of acquisition to the period end are as follows:

	<b>From 30 April 2011 to 31 December 2011</b>
Revenue	4,330,053,918
Net profit	55,172,259
Net cash flows from operating activities	153,723,864
Net cash flows from investing activities	(850,612,317)
Net cash flows from financing activities	(64,940,319)

### 5. EXCHANGE RATES USED TO TRANSLATE THE STATEMENTS OF FOREIGN OPERATIONS

	<b>Average rates</b>		<b>Closing rates</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
EUR	<b>8.4845</b>	9.3018	<b>8.1625</b>	8.8065
HKD	<b>0.8308</b>	0.8657	<b>0.8107</b>	0.8509
AUD	<b>6.5616</b>	6.4217	<b>6.4093</b>	6.7139

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CASH AND BANK BALANCES

	2011			2010		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
Cash on hand						
– RMB	-	-	379,595	-	-	155,208
Balances with financial institutions						
– RMB	-	-	6,159,157,034	-	-	4,683,911,396
– HKD	958,695	0.8107	777,214	351,544	0.8509	299,129
– USD	366,001,630	6.3009	2,306,139,673	59,303,332	6.6227	392,748,175
– EUR	6,843,880	8.1625	55,863,168	5,066,783	8.8065	44,620,629
– JPY	53,048,740	0.0811	4,302,412	453,195	0.0813	36,827
– AUD	73,833,617	6.4093	473,221,799	40,204,839	6.7139	269,931,269
			<u>8,999,461,300</u>			<u>5,391,547,425</u>
Others						
– RMB	-	-	1,303,084,993	-	-	990,988,382
			<u>1,303,084,993</u>			<u>990,988,382</u>
Total			<u><u>10,302,925,888</u></u>			<u><u>6,382,691,015</u></u>

As at 31 December 2011, the Group's cash and bank balances amounting to RMB1,309,385,893 have been pledged to banks as securities (31 December 2010: RMB997,625,402), including other monetary assets amounting to RMB1,281,984,993 (31 December 2010: RMB990,988,382) pledged as securities for trade facilities and performance bonds, and other monetary assets RMB21,100,000 certificates of deposit as collateral to obtain the RMB20,000,000 bank borrowings, and demand deposits amounting to USD1,000,000 (equivalent to RMB6,300,900) (31 December 2010: USD1,000,000, equivalent to RMB6,637,020) pledged to banks to issue letters of credit.

As at 31 December 2011, the Group has cash and bank balances amounting to RMB588,084,729 that have been deposited outside the PRC (31 December 2010: RMB287,188,479).

Cash deposited in current account earns interest at floating interest rates. Terms of time deposits are from one month, six months to one year, which depends on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. FINANCIAL ASSETS HELD FOR TRADING

	2011	2010
Equity instruments held for trading	<b>607,980</b>	826,640

The above equity instruments were all listed on the Shanghai or Shenzhen Stock Exchange. According to the management's opinion, there is no material restriction on realisation of these investments as at the balance sheet date.

### 3. BILLS RECEIVABLE

	2011	2010
Bank acceptance bills	<b>8,744,305,937</b>	8,374,602,622
Commercial acceptance bills	<b>6,399,345</b>	-
Total	<b>8,750,705,282</b>	8,374,602,622

As at 31 December 2011 and 31 December 2010, the ageing of the Group's bills receivable were all within six months.

As at 31 December 2011, certain of the Group's bank's acceptance bills amounting to RMB440,265,525 were secured to the bank to obtain short-term loans of RMB391,700,000 (31 December 2010: RMB0), and certain of the Group's bank's acceptance bills amounting to RMB81,302,740 were secured to banks to issue bank acceptance bills to suppliers (31 December 2010: RMB0).

As at 31 December 2011 and 31 December 2010, there were no trade receivables transferred from bills receivable because of pledging or the drawers' inability to pay, and the top five largest endorsed undue bills receivable were as follows:

#### 2011

Issue entity	Issue date	Maturity date	Amount
Company 1	2011-11-24	2012-2-24	<b>91,011,615</b>
Company 2	2011-10-08	2012-1-08	<b>50,000,000</b>
Company 3	2011-10-21	2012-1-21	<b>50,000,000</b>
Company 4	2011-10-21	2012-1-21	<b>50,000,000</b>
Company 5	2011-9-21	2012-3-21	<b>50,000,000</b>
Total			<b>291,011,615</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. BILLS RECEIVABLE (CONTINUED)

2010

Issue entity	Issue date	Maturity date	Amount
Company 1	2010-10-15	2011-4-12	43,000,000
Company 2	2010-11-18	2011-2-16	40,000,000
Company 3	2010-12-22	2011-6-21	30,000,000
Company 4	2010-12-20	2011-3-1	30,000,000
Company 5	2010-7-13	2011-1-8	28,000,000
Total			<u>171,000,000</u>

As at 31 December 2011, certain of the Group's bills receivable amounted to RMB11,000,000 were discounted to get short-term loans (31 December 2010: RMB52,582,299).

### 4. TRADE RECEIVABLES

The Group's trade receivables were interest-free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analysed below:

	2011	2010
Within one year	<b>1,745,317,179</b>	1,049,949,000
One to two years	<b>101,189,924</b>	39,677,062
Two to three years	<b>21,741,448</b>	11,293,541
Over three years	<b>30,637,752</b>	12,649,598
	<b>1,898,886,303</b>	1,113,569,201
Less: Provisions for bad debts	<b>15,482,085</b>	15,789,981
Total	<b><u>1,883,404,218</u></b>	<u>1,097,779,220</u>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. TRADE RECEIVABLES (CONTINUED)

The balances of trade receivables are analysed as follows:

	2011				2010			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed impairment individually	1,694,403,498	89	(6,927,040)	-	936,327,886	84	(6,927,040)	1
Other insignificant but assessed impairment individually	204,482,805	11	(8,555,045)	4	177,241,315	16	(8,862,941)	5
<b>Total</b>	<b>1,898,886,303</b>	<b>100</b>	<b>(15,482,085)</b>		<b>1,113,569,201</b>	<b>100</b>	<b>(15,789,981)</b>	

The movement of provision for bad debts against trade receivables for the year is disclosed in note V.16.

An analysis of the amount of provision for bad debts being written off in the current year:

Reason	2011	2010
Bankrupt or liquidated debtors	307,896	4,638,129
Debtors with age over three years and demonstrated by sufficient evidence that they were irrecoverable	-	-
Less: Reversal of bad debts provisions written-off in prior year	-	-
<b>Total</b>	<b>307,896</b>	<b>4,638,129</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2011, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	637,463,994	Within one year	32
Company 2	Independent third party	91,774,515	Within one year	5
Company 3	Independent third party	61,241,540	Within one year	3
Company 4	Independent third party	59,942,819	Within one year	3
Company 5	Independent third party	46,012,637	Within one year	2
		<u>896,435,505</u>		<u>45</u>

As at 31 December 2010, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	176,221,549	Within one year	16
Company 2	Independent third party	100,964,605	Within one year	9
Company 3	Independent third party	99,402,907	Within one year	9
Company 4	Independent third party	57,024,479	Within one year	5
Company 5	Parent company	51,390,735	Within one year	5
		<u>485,004,275</u>		<u>44</u>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. TRADE RECEIVABLES (CONTINUED)

The following balances of trade receivables are denominated in foreign currencies:

	2011			2010		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	2,160,613	6.3009	13,613,805	47,603,264	6.6227	315,262,136
EUR	51,058,590	8.1625	416,765,739	574,555	8.8065	5,059,819
HKD	-	0.8107	-	2,563,002	0.8509	2,180,858
AUD	1,790,711	6.4093	11,477,201	2,663,305	6.7139	17,881,163
Total			<b>441,856,745</b>			<b>340,383,976</b>

As at 31 December 2011 and 31 December 2010, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 31 December 2011 and 31 December 2010, trade receivables due from either shareholders who hold 5% or above of the Company's equity interests or other related parties are stated in note VI.6 to the financial statements.

### 5. DIVIDENDS RECEIVABLE

#### 2011

	Opening balance	Addition	Reduction	Closing balance	Reason of not yet collected	Whether impaired
	Within one year					
Jiyuan JinMa Coke	118,800,000	-	30,000,000	88,800,000	Not paid	No
BOC-Ma Steel	-	83,109,394	83,109,394	-		
Henan Longyu energy	-	11,102,452	-	11,102,452	Not paid	No
Other	-	17,811,736	17,811,736	-		
Total	<b>118,800,000</b>	<b>112,023,582</b>	<b>130,921,130</b>	<b>99,902,452</b>		

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. DIVIDENDS RECEIVABLE (CONTINUED)

2010

	Opening balance	Addition	Reduction	Closing balance	Reason of not yet collected	Whether impaired
Within one year						
Jiyuan JinMa Coke	18,000,000	136,800,000	36,000,000	118,800,000	Not paid	No
BOC-Ma Steel	6,751,198	67,119,078	73,870,276	-		
Total	<u>24,751,198</u>	<u>203,919,078</u>	<u>109,870,276</u>	<u>118,800,000</u>		

### 6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

	2011		2010	
	Balance	Ratio (%)	Balance	Ratio (%)
Within one year	<b>3,577,858,961</b>	<b>98</b>	1,353,499,820	98
One to two years	<b>62,936,806</b>	<b>2</b>	8,415,265	1
Two to three years	<b>3,223,018</b>	<b>-</b>	5,170,354	-
Over three years	<b>7,980,747</b>	<b>-</b>	10,058,178	1
Total	<u><b>3,651,999,532</b></u>	<u><b>100</b></u>	<u>1,377,143,617</u>	<u>100</u>

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects were not yet completed which resulted in the corresponding prepayments not being settled. The above prepayments for construction projects will be written off against relevant estimated liabilities (recorded in trade payables) when the final inspection and settlement were completed.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. PREPAYMENTS (CONTINUED)

As at 31 December 2011, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason of not yet settled
Company 1	Independent third party	180,737,176	2011	(i)
Company 2	Independent third party	150,045,500	2011	(i)
Company 3	Independent third party	137,879,988	2011	(i)
Company 4	Independent third party	128,559,490	2011	(i)
Company 5	Independent third party	120,878,100	2011	(i)
		<b>718,100,254</b>		

As at 31 December 2010, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason of not yet settled
Company 1	Independent third party	231,737,601	2010	(i)
Company 2	Independent third party	122,694,005	2010	(i)
Company 3	Independent third party	102,848,958	2010	(i)
Company 4	Independent third party	102,436,673	2010	(i)
Company 5	Independent third party	89,922,417	2010	(i)
		<b>649,639,654</b>		

- (i) As at the balance sheet date, the lack of settlement of the Group's top five largest prepayments were mainly attributable to the delay in supply of raw materials.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. PREPAYMENTS (CONTINUED)

The following balances are denominated in foreign currencies:

	2011			2010		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
JPY	<b>734,564,790</b>	<b>0.0811</b>	<b>59,575,408</b>	6,160,000	0.0813	500,562
EUR	<b>9,365,370</b>	<b>8.1625</b>	<b>76,444,833</b>	3,023,295	8.8065	26,624,647
USD	<b>576,000</b>	<b>6.3009</b>	<b>3,629,318</b>	-	-	-
Total			<b>139,649,559</b>			27,125,209

As at 31 December 2011 and 31 December 2010, the balances of prepayment did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in note VI.6 to the financial statements.

### 7. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

	2011	2010
Within one year	<b>629,236,865</b>	708,970,916
One to two years	<b>65,187,029</b>	1,991,324
Two to three years	<b>267,210</b>	1,934,364
Over three years	<b>6,872,634</b>	5,986,756
	<b>701,563,738</b>	718,883,360
Less: Provisions for bad debts	<b>7,070,497</b>	7,070,497
Total	<b>694,493,241</b>	711,812,863

The movement of provision for bad debts against other receivables for the year is disclosed in note V.16.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. OTHER RECEIVABLES (CONTINUED)

Other receivables balance is analysed as follows:

	2011				2010			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed impairment individually	591,166,267	84	(2,400,000)	-	690,407,240	96	(2,400,000)	-
Other insignificant but assessed impairment individually	110,397,471	16	(4,670,497)	4	28,476,120	4	(4,670,497)	16
<b>Total</b>	<b>701,563,738</b>	<b>100</b>	<b>(7,070,497)</b>		<b>718,883,360</b>	<b>100</b>	<b>(7,070,497)</b>	

As at 31 December 2011, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivable (%)
Company 1	Independent third party	363,610,006	Within one year	51
Company 2	Independent third party	72,802,497	Within one year	9
Company 3	Independent third party	45,005,936	Within one year	6
Company 4	Independent third party	32,407,410	One to two years	5
Company 5	Independent third party	29,637,911	Within one year	5
		<b>543,463,760</b>		<b>76</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. OTHER RECEIVABLES (CONTINUED)

As at 31 December 2010, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivable (%)
Company 1	Independent third party	561,766,501	Within one year	79
Company 2	Independent third party	66,688,481	Within one year	9
Company 3	Independent third party	31,535,253	Within one year	4
Company 4	Independent third party	3,503,840	One to two years	0.5
Company 5	Independent third party	2,400,000	Over three years	0.5
		665,894,075		93

As at 31 December 2011 and 31 December 2010, the Group did not have any derecognition of other receivables due to transfer of financial assets.

As at 31 December 2011 and 31 December 2010, the balances of other receivables did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests.

### 8. INVENTORIES

	2011			2010		
	Balance	Provision for impairment	Carrying Amount	Balance	Provision for impairment	Carrying Amount
Raw materials	9,264,801,568	(528,942,228)	8,735,859,340	8,193,400,601	-	8,193,400,601
Spare parts	2,127,045,170	(61,226,316)	2,065,818,854	1,712,853,023	(61,875,468)	1,650,977,555
Finished goods	1,333,503,797	(61,316,046)	1,272,187,751	921,345,723	-	921,345,723
Work in progress	1,972,118,447	(86,456,715)	1,885,661,732	1,554,840,839	-	1,554,840,839
Construction contract	172,600,000	-	172,600,000	131,230,300	-	131,230,300
Total	14,870,068,982	(737,941,305)	14,132,127,677	12,513,670,486	(61,875,468)	12,451,795,018

The movement of impairment provision against inventories for the year is disclosed in note V.16.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. INVENTORIES (CONTINUED)

At each balance sheet date, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2011 and 2010, there was no reversal of impairment provision against inventories.

At 31 December 2011, the carrying amount of the Group's inventories, which were pledged as securities for subsidiaries' trading facilities for the issuance of bank bills, amounted to RMB0 (31 December 2010: RMB309,831,082).

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

#### 2011

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation Code
<b>Jointly-controlled entities</b>						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Qian Haifan	Servicing	RMB1,000,000	67890875X
Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration")	Sino-foreign joint venture	Anhui, PRC	Fang Zhengfang	Manufacturing	RMB10,000,000	553276621
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tiansheng	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. (i) ("Shenglong Chemical")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515



# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (CONTINUED)

2010

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation Code
<b>Jointly-controlled entities</b>						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Qian Haifan	Servicing	RMB1,000,000	67890875X
Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration")	Sino-foreign joint venture	Anhui, PRC	Fang Zhengfang	Manufacturing	RMB10,000,000	553276621
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tiansheng	Manufacturing	RMB222,220,000	750738573
Tengzhou Shenglong Coke Co., Ltd. ("Tengzhou Shenglong Coke")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Maanshan Harbour Group Co., Ltd. ("Maanshan Harbour")	Limited liability	Anhui, PRC	Hui zhiqiang	Transportation	RMB250,000,000	150502057
Anhui All-monitor Automobile Transmission System Co., Ltd. ("All-monitor Transmission System")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB50,000,000	786503901
Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour")	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (CONTINUED)

2010

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit/(loss) during the year
<b>Jointly-controlled entities</b>					
BOC-Ma Steel	677,087,600	25,473,037	651,614,563	507,124,470	168,206,951
MASTEEL-CMI	1,177,272	6,293	1,170,979	1,142,160	129,024
Sino-Japan Resource Regeneration	8,067,124	16,243	8,050,881	-	(1,949,119)
<b>Associates</b>					
Jiyuan JinMa Coke Tengzhou	1,726,380,465	1,370,895,841	355,484,624	2,907,745,257	201,107,547
Shenglong Coke	1,312,550,898	669,230,538	643,320,360	1,711,897,956	85,806,080
Shanghai Iron and Steel Electronic	1,775,795,863	1,599,387,375	176,408,488	186,972,205	101,979,997
Maanshan Harbour	907,661,846	495,041,454	412,620,392	231,385,804	32,053,019
All-monitor Transmission System	34,184,909	(207,788)	34,392,697	1,837,694	(6,477,882)
Zhengpu Harbour	101,578,339	1,591,243	99,987,096	-	(12,904)

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. LONG TERM EQUITY INVESTMENTS

#### 2011

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
<b>Equity method:</b>										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	325,807,282	87,174,414	(83,109,394)	329,872,302	50	50	-	-	(83,109,394)
MASTEEL-CMI	500,000	585,489	-	(22,654)	562,835	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	3,944,932	-	(1,803,134)	2,141,798	49	(note)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	125,091,931	35,851,764	-	160,943,695	36	36	-	-	-
Tengzhou Shenglong Coke	66,776,000	205,852,171	-	(20,320,012)	185,532,159	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	35,281,697	10,365,248	(6,000,000)	39,646,945	20	20	-	-	(6,000,000)
Maanshan Harbour	112,500,000	182,417,451	11,128,386	(1,800,000)	191,745,837	45	45	-	-	(1,800,000)
All-monitor Transmission System	13,500,000	11,737,900	-	(243,856)	11,494,044	45	45	(3,738,814)	-	-
Zhengpu Harbour	35,000,000	35,000,000	-	(4,516)	34,995,484	35	35	-	-	-
MASTEEL-Financial	490,000,000	-	496,844,061	-	496,844,061	49	49	-	-	-
Xinchuang Energy Resource	17,500,000	-	17,500,000	(98,220)	17,401,780	35	35	-	-	-
<b>Cost method:</b>										
Henan Longyu Energy Co., Ltd.										
	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	(11,102,452)
China the 17th Metallurgy Construction Co., Ltd.										
	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	(1,010,894)
Shanghai Luojing Mineral Dock Co., Ltd.										
	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	(8,830,842)
China First Heavy Industries Ma'anshan Heavy Industry Co. Ltd.										
	15,000,000	-	15,000,000	-	15,000,000	15	15	-	-	-
Tongling Yuanda	17,600,000	-	17,600,000	(1,760,000)	15,840,000	18	18	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	(170,000)
<b>Total</b>	<b>1,194,193,360</b>	<b>1,034,491,013</b>	<b>691,463,873</b>	<b>(115,161,786)</b>	<b>1,610,793,100</b>			<b>(3,738,814)</b>	<b>-</b>	<b>(112,023,582)</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. LONG TERM EQUITY INVESTMENTS (CONTINUED)

2010

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
<b>Equity method:</b>										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	308,822,884	84,103,476	(67,119,078)	325,807,282	50	50	-	-	(67,119,078)
MASTEEL-CMI	500,000	849,620	64,512	(328,643)	585,489	50	50	-	-	(328,643)
Sino-Japan Resource										
Regeneration	4,900,000	-	4,900,000	(955,068)	3,944,932	49	(note)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	202,370,092	59,521,839	(136,800,000)	125,091,931	36	36	-	-	(136,800,000)
Tengzhou Shenglong Coke	66,776,000	180,697,941	25,154,230	-	205,852,171	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	8,878,969	26,402,728	-	35,281,697	20	20	-	-	-
Maanshan Harbour	112,500,000	170,620,165	13,372,286	(1,575,000)	182,417,451	45	45	-	-	(1,575,000)
All-monitor Transmission System	13,500,000	18,391,761	-	(6,653,861)	11,737,900	45	45	(3,738,814)	(3,738,814)	-
Zhengpu Harbour	35,000,000	-	35,000,000	-	35,000,000	35	35	-	-	-
<b>Cost method:</b>										
Henan Longyu										
Energy Co., Ltd.	1,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	(8,839,983)
China the 17th Metallurgy										
Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	(160,000)
Shanghai Luojing										
Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	(605,021)
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	(4,793,785)
<b>Total</b>	<b>654,093,360</b>	<b>999,403,592</b>	<b>248,519,071</b>	<b>(213,431,650)</b>	<b>1,034,491,013</b>			<b>(3,738,814)</b>	<b>(3,738,814)</b>	<b>(220,221,510)</b>

(note) As at the end of the reporting period, the Group holds a 49% equity interest in Sino-Japan Resource Regeneration. The chairman of the board of directors was appointed by the Group. Among the board of directors, two of the directors were appointed by the Group and three of the directors were appointed by Nippon Steel Engineering Co., Ltd. According to the articles of association of Sino-Japan Resource Regeneration, the resolution of the financial and operating policies require more than half of the votes of the directors and the approval from the chairman of the board of directors. Thus, the Group accounted for Sino-Japan Resource Regeneration as an investment in jointly-controlled entity under the equity method.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. LONG TERM EQUITY INVESTMENTS (CONTINUED)

According to the directors' opinion, there was no material restriction on realisation of long term investments as at the balance sheet date.

\* All investments in jointly-controlled entities and associates accounted for under equity method and other equity investments accounted for under cost method are invested in unlisted companies.

### 11. INVESTMENT PROPERTIES

Investment properties subsequently measured under cost method:

#### 2011

	<b>Buildings and Land use rights</b>
Cost:	
At 1 January 2011	<b>8,152,147</b>
Transfer into intangible assets (note V.14)	<b>(2,422,651)</b>
	<hr/>
At 31 December 2011	<b>5,729,496</b>
	<hr/>
Accumulated depreciation:	
At 1 January 2011	<b>1,380,804</b>
Provided during the year	<b>184,111</b>
Transfer into intangible assets (note V.14)	<b>(375,828)</b>
	<hr/>
At 31 December 2011	<b>1,189,087</b>
	<hr/>
Impairment:	
At 1 January 2011 and 31 December 2011	<b>-</b>
	<hr/>
Net carrying amount:	
At 31 December 2011	<b>4,540,409</b>
	<hr/> <hr/>
At 1 January 2011	<b>6,771,343</b>
	<hr/> <hr/>

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. INVESTMENT PROPERTIES (CONTINUED)

2010

	Buildings and Land use rights
Cost:	
At 1 January 2010	5,638,945
Additions	90,551
Transfer from intangible assets (note V.14)	2,422,651
	<hr/>
At 31 December 2010	8,152,147
	<hr/>
Accumulated depreciation:	
At 1 January 2010	911,770
Provided during the year	157,673
Transfer from intangible assets (note V.14)	311,361
	<hr/>
At 31 December 2010	1,380,804
	<hr/>
Impairment:	
At 1 January 2010 and 31 December 2010	–
	<hr/>
Net carrying amount:	
At 31 December 2010	6,771,343
	<hr/> <hr/>
At 1 January 2010	4,727,175
	<hr/> <hr/>

\* The Group's investment property is located in Mainland China, in accordance with medium term leases. The investment property rented to third parties under operating leases is detailed in note X.1.

The movement of impairment provision for investment properties for the year is disclosed in note V.16.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. FIXED ASSETS

2011

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2011	21,417,742,775	40,817,547,190	443,930,297	216,538,384	62,895,758,646
Business combination not under common control	225,977,383	296,452,037	32,106,458	447,712	554,983,590
Acquisition	2,836,973	53,252,715	80,799,626	408,014	137,297,328
Transfer from construction –in progress (note V.13)	890,321,691	1,493,171,007	1,908,507	14,779,986	2,400,181,191
Reclassifications	56,873,990	(57,138,234)	264,244	-	-
Disposal	(39,146,976)	(62,712,863)	(5,541,896)	-	(107,401,735)
Other decrease	(692,315,928)	(34,123,440)	-	-	(726,439,368)
At 31 December 2011	21,862,289,908	42,506,448,412	553,467,236	232,174,096	65,154,379,652
Accumulated depreciation:					
At 1 January 2011	7,868,179,121	20,085,760,235	368,517,725	79,843,603	28,402,300,684
Provided during the year	1,115,466,185	3,151,436,256	29,590,551	36,294,755	4,332,787,747
Reclassifications	21,949,933	(21,967,021)	17,088	-	-
Disposal	(22,251,994)	(56,196,415)	(5,375,254)	-	(83,823,663)
At 31 December 2011	8,983,343,245	23,159,033,055	392,750,110	116,138,358	32,651,264,768
Impairment:					
At 1 January 2011	5,252,400	82,602,336	-	-	87,854,736
Provided/(disposal)	-	-	-	-	-
31 December 2011	5,252,400	82,602,336	-	-	87,854,736
Net carrying amount:					
At 31 December 2011	12,873,694,263	19,264,813,021	160,717,126	116,035,738	32,415,260,148
At 1 January 2011	13,544,311,254	20,649,184,619	75,412,572	136,694,781	34,405,603,226

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. FIXED ASSETS (CONTINUED)

2010

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2010	20,723,321,211	40,680,293,488	436,313,529	216,467,480	62,056,395,708
Acquisition	4,572,542	13,320,614	1,873,714	70,904	19,837,774
Transfer from construction					
– in progress (note V.13)	453,468,974	1,030,635,327	11,384,775	–	1,495,489,076
Reclassifications	813,749,762	(824,278,762)	10,529,000	–	–
Disposal	(21,368,324)	(82,423,477)	(16,170,721)	–	(119,962,522)
Other decrease	(556,001,390)	–	–	–	(556,001,390)
At 31 December 2010	21,417,742,775	40,817,547,190	443,930,297	216,538,384	62,895,758,646
Accumulated depreciation:					
At 1 January 2010	6,391,562,457	16,908,536,678	348,559,669	44,162,439	23,692,821,243
Provided during the year	1,143,964,056	3,598,271,730	32,729,209	35,681,164	4,810,646,159
Reclassifications	345,005,820	(347,585,780)	2,579,960	–	–
Disposal	(12,353,212)	(73,462,393)	(15,351,113)	–	(101,166,718)
At 31 December 2010	7,868,179,121	20,085,760,235	368,517,725	79,843,603	28,402,300,684
Impairment:					
At 1 January 2010	5,252,400	85,423,244	–	–	90,675,644
Disposal	–	(2,820,908)	–	–	(2,820,908)
31 December 2010	5,252,400	82,602,336	–	–	87,854,736
Net carrying amount:					
At 31 December 2010	13,544,311,254	20,649,184,619	75,412,572	136,694,781	34,405,603,226
At 1 January 2010	14,326,506,354	23,686,333,566	87,753,860	172,305,041	38,272,898,821

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. FIXED ASSETS (CONTINUED)

As at 31 December 2011, the Group has no intention to dispose any fixed assets and held no fixed assets that were temporarily idle.

As at 31 December 2011, certificates of ownership in respect of 55 of the Group's buildings in PRC, with an aggregate cost of RMB880.04 million (31 December 2010: approximately RMB2,611.69 million), have not been issued by the relevant government authorities. The directors represented that the Group is in the process of obtaining the relevant certificates, and it has no significant adverse impact on the Group's operations.

At 31 December 2011, certain of the Group's production equipment with a net carrying amount of RMB195,389,381 (31 December 2010: RMB37,986,953), were pledged as security to acquire bank loans amounting to RMB115,000,000 (31 December 2010: RMB15,000,000), the detail of which is disclosed in note V.17.

The movement of impairment provision for fixed assets for the year is disclosed in note V.16.

### 13. CONSTRUCTION IN PROGRESS

	2011			2010		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Products quality project	3,690,968,753	-	3,690,968,753	364,069,851	-	364,069,851
Energy-saving and environment protection project	133,927,923	-	133,927,923	154,180,398	-	154,180,398
Equipment advancement and other modification projects	757,806,463	-	757,806,463	902,103,098	-	902,103,098
Other projects	89,350,235	-	89,350,235	83,975,397	-	83,975,397
<b>Total</b>	<b>4,672,053,374</b>	<b>-</b>	<b>4,672,053,374</b>	<b>1,504,328,744</b>	<b>-</b>	<b>1,504,328,744</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. CONSTRUCTION IN PROGRESS (CONTINUED)

2011

Name of projects	Budget cost RMB'000	Opening	Additions	Transferred to	Closing	Source of fund	Average
		balance	during	fixed assets	balance		percentage of
		RMB	the year	(note V.12)	RMB		completion
			RMB	RMB	RMB		%
1. Products quality project (i)	10,210,780	364,069,851	4,665,435,083	(1,338,536,181)	3,690,968,753	Internally generated funds	36%
2. Energy-saving and environment protection project	715,925	154,180,398	241,948,468	(262,200,943)	133,927,923	Internally generated funds	19%
3. Equipment advancement and other modification projects	963,366	902,103,098	460,973,777	(605,270,412)	757,806,463	Internally generated funds	79%
4. Other projects	N/A	83,975,397	199,548,493	(194,173,655)	89,350,235	Internally generated funds	N/A
		1,504,328,744	5,567,905,821	(2,400,181,191)	4,672,053,374		
Less: Impairment		-	-	-	-		
Total		1,504,328,744	5,567,905,821	(2,400,181,191)	4,672,053,374		

Note (i): Including projects amounting to RMB1,806,572,096 that were acquired by business combination not under common control.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. CONSTRUCTION IN PROGRESS (CONTINUED)

2010

Name of projects	Budget cost RMB'000	Opening	Additions	Transferred to	Closing	Source of fund	Average
		balance	during	fixed assets	balance		percentage of
		RMB	the year	(note V.12)	RMB		completion
			RMB	RMB	RMB		%
1. Products quality project	389,120	194,613,507	283,879,429	(114,423,085)	364,069,851	Internally generated funds	94
2. Energy-saving and environment protection project	475,892	67,883,027	128,540,990	(42,243,619)	154,180,398	Internally generated funds	32
3. Equipment advancement and other modification projects	1,119,580	1,242,630,024	451,900,253	(792,427,179)	902,103,098	Internally generated funds	81
4. Other projects	N/A	292,828,084	337,542,506	(546,395,193)	83,975,397	Internally generated funds	N/A
		<u>1,797,954,642</u>	<u>1,201,863,178</u>	<u>(1,495,489,076)</u>	<u>1,504,328,744</u>		
Less: Impairment		-	-	-	-		
Total		<u>1,797,954,642</u>	<u>1,201,863,178</u>	<u>(1,495,489,076)</u>	<u>1,504,328,744</u>		

The Group had not capitalised any borrowing costs in the year 2011 and 2010.

The movement of impairment provision for construction in progress for the year is disclosed in note V.16.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. INTANGIBLE ASSETS

2011

	Back-up roll technology	Land use rights	Mining rights	Total
Cost:				
At 1 January 2011	45,082,836	2,115,520,329	150,421,069	2,311,024,234
Business combination not under common control	-	172,481,750	-	172,481,750
Additions	-	17,536,683	6,027,840	23,564,523
Transfer from investment property (note V.11)	-	2,422,651	-	2,422,651
Exchange realignment	-	-	(6,964,299)	(6,964,299)
At 31 December 2011	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Accumulated depreciation:				
At 1 January 2011	751,381	420,573,075	26,346,142	447,670,598
Provided during the year	4,508,283	44,160,942	4,679,277	53,348,502
Transfer from investment property (note V.11)	-	375,828	-	375,828
Exchange realignment	-	-	(1,303,897)	(1,303,897)
At 31 December 2011	5,259,664	465,109,845	29,721,522	500,091,031
Impairment:				
At 1 January 2010 and At 31 December 2011	-	-	-	-
Net carrying amount				
At 31 December 2011	39,823,172	1,842,851,568	119,763,088	2,002,437,828
At 1 January 2011	44,331,455	1,694,947,254	124,074,927	1,863,353,636

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. INTANGIBLE ASSETS (CONTINUED)

2010

	Back-up roll technology	Land use rights	Mining rights	Total
Cost:				
At 1 January 2010	–	2,126,951,213	128,553,274	2,255,504,487
Additions	45,082,836	8,818,815	9,255,082	63,156,733
Transfer to investment property (note V.11)	–	(2,422,651)	–	(2,422,651)
Disposal	–	(17,827,048)	–	(17,827,048)
Exchange realignment	–	–	12,612,713	12,612,713
At 31 December 2010	45,082,836	2,115,520,329	150,421,069	2,311,024,234
Accumulated depreciation:				
At 1 January 2010	–	380,261,096	19,463,641	399,724,737
Provided during the year	751,381	41,551,232	4,841,342	47,143,955
Transfer to investment property (note V.11)	–	(311,361)	–	(311,361)
Disposal	–	(927,892)	–	(927,892)
Exchange realignment	–	–	2,041,159	2,041,159
At 31 December 2010	751,381	420,573,075	26,346,142	447,670,598
Impairment:				
At 1 January 2010 and At 31 December 2010	–	–	–	–
Net carrying amount				
At 31 December 2010	44,331,455	1,694,947,254	124,074,927	1,863,353,636
At 1 January 2010	–	1,746,690,117	109,089,633	1,855,779,750

The movement of impairment provision for intangible assets for the year is disclosed in note V.16.

At 31 December 2011, certain of the Group's land use rights with a net carrying amount of RMB293,900,139 (31 December 2010: RMB26,041,109) were pledged as security to acquire bank loans amounting to RMB150,000,000 (31 December 2010: RMB14,000,000). The land use rights in the 2011 amortisation amounted to RMB 42,973,143 (2010: RMB 500,791). The detail is disclosed in notes V.17 and V.25.

\* All land use rights belong to the Group and are located in Mainland China and are held under medium term leases.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. DEFERRED TAX ASSETS/LIABILITIES

Recognised deferred tax assets:

	2011	2010
Opening balance	<b>493,868,095</b>	779,581,081
Business combination not under common control	<b>19,717,664</b>	–
Recognised in the income statement during the year	<b>112,840,557</b>	(285,712,986)
	<hr/>	<hr/>
Closing balance	<b>626,426,316</b>	493,868,095
	<hr/> <hr/>	<hr/> <hr/>
<b>Breakdown</b>	<b>2011</b>	2010
Impairment provisions of assets	<b>214,003,151</b>	32,296,327
Sales incentive	<b>21,114,455</b>	102,464,659
Repair and maintenance expenses	<b>5,430,750</b>	8,367,709
Salary payable	<b>39,885,987</b>	44,607,770
Unrealised profit	<b>6,204,758</b>	9,805,084
Deductible tax losses	<b>320,682,494</b>	273,182,494
Others	<b>19,104,721</b>	23,144,052
	<hr/>	<hr/>
Total	<b>626,426,316</b>	493,868,095
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2011, the Group had unrecognised deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB104.24 million (2010: RMB52.26 million) which will expire in 2016 and tax credits arising from the purchase of domestic produced machinery and equipments and other unused tax credits amounting to RMB86.76 million (2010: RMB158.14 million) and RMB5.08 million (2010: RMB5.08million), respectively, which have not been recognised.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Unrecognised deferred tax assets arising from deductible tax losses will be expired in the following years:

	2011	2010
Expire in 2016	<b>235,212,127</b>	–
Expire in 2015	<b>64,092,572</b>	64,092,572
Expire in 2014	<b>9,650,928</b>	9,650,928
Expire in 2013	<b>107,661,488</b>	134,947,513
Expire in 2012	<b>333,707</b>	333,707
	<b>—————</b>	<b>—————</b>

The Group has not recognised the deferred tax assets related to the above deductible temporary differences and unused tax losses, because it is not highly probable that future taxable profit will be available to be utilised.

Recognised deferred tax liabilities:

	2011	2010
Opening balance	–	–
Business combination not under common control	<b>45,969,176</b>	–
Recognised in the income statement during the year	<b>(1,640,189)</b>	–
	<b>—————</b>	<b>—————</b>
Closing balance	<b>44,328,987</b>	–
	<b>—————</b>	<b>—————</b>

<b>Breakdown</b>	<b>2011</b>	<b>2010</b>
Fair value adjustments relating to business combination not under common control	<b>44,328,987</b>	–
	<b>—————</b>	<b>—————</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. ASSETS IMPAIRMENT PROVISIONS

	2011					Closing balance
	Opening Balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	22,860,478	-	-	-	(307,896)	22,552,582
Including: Trade receivables	15,789,981	-	-	-	(307,896)	15,482,085
Other receivables	7,070,497	-	-	-	-	7,070,497
Provisions for inventories	61,875,468	676,714,989	-	(649,152)	-	737,941,305
Including: Raw materials	-	528,942,228	-	-	-	528,942,228
Work in progress	-	86,456,715	-	-	-	86,456,715
Finished products	-	61,316,046	-	-	-	61,316,046
Spare parts	61,875,468	-	-	(649,152)	-	61,226,316
Impairment of held-to-maturity investments	-	-	-	-	-	-
Impairment of long term equity investments	3,738,814	-	-	-	-	3,738,814
Impairment of investment properties	-	-	-	-	-	-
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
<b>Total</b>	<b>176,329,496</b>	<b>676,714,989</b>	<b>-</b>	<b>(649,152)</b>	<b>(307,896)</b>	<b>852,087,437</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. ASSETS IMPAIRMENT PROVISIONS (CONTINUED)

	2010					
	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	27,611,159	-	(112,552)	-	(4,638,129)	22,860,478
Including: Trade receivables	20,540,662	-	(112,552)	-	(4,638,129)	15,789,981
Other receivables	7,070,497	-	-	-	-	7,070,497
Provisions for inventories	82,043,978	13,906,462	-	(34,074,972)	-	61,875,468
Including: Raw materials	33,417,210	-	-	(33,417,210)	-	-
Spare parts	48,626,768	13,906,462	-	(657,762)	-	61,875,468
Impairment of held-to-maturity investments	-	-	-	-	-	-
Impairment of long term equity investments	-	3,738,814	-	-	-	3,738,814
Impairment of investment properties	-	-	-	-	-	-
Impairment of fixed assets	90,675,644	-	-	-	(2,820,908)	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	(2,820,908)	82,602,336
Impairment of construction in progress	-	-	-	-	-	-
Impairment of intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>200,330,781</b>	<b>17,645,276</b>	<b>(112,552)</b>	<b>(34,074,972)</b>	<b>(7,459,037)</b>	<b>176,329,496</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 17. SHORT TERM LOANS

Types of loans	2011			2010		
	Original currency	Year end exchange rate	RMB equivalents	Original currency	Year end exchange rate	RMB equivalents
Entrusted loans						
– RMB (i)	-	-	389,000,000	-	-	10,000,000
Unsecured loans						
– RMB	-	-	767,504,500	-	-	480,582,299
– USD	178,127,671	6.3009	1,122,364,644	40,000,000	6.6227	264,908,000
Guaranteed loans						
– RMB (ii)	-	-	50,000,000	-	-	-
Secured loans						
– RMB (ii)	-	-	265,000,000	-	-	15,000,000
Pledged loans						
– RMB (iv)	-	-	411,700,000	-	-	-
Trust receipt loans						
– USD	581,715,857	6.3009	3,197,216,672	31,196,186	6.6227	206,602,979
Total			<b>6,202,785,816</b>			<b>977,093,278</b>

(i): As at 31 December 2011, certain bank loans of RMB10,000,000 (2010: RMB10,000,000) in aggregate were lent by Holding (in addition to the MASTEEL-Financial) through entrusted loan arrangements with Industrial and Commercial Bank of China, with terms of one year and annual interest rates at 7.34% (2010: The interest rates of the above short term loans ranged from 4.779% per annum). As at 31 December 2011, certain bank loans of RMB379,000,000 (2010: RMB0) in aggregate were lent by MASTEEL-Financial through entrusted loan arrangements with Bank of China, Industrial and Commercial Bank of China and China Construction Bank, with annual interest rates ranging from 6.232% to 6.56%.

(ii): As at 31 December 2011, certain of the Group's short-term guaranteed loans were secured by the Anhui Changjiang Mining Co., Ltd., an independent third party.

(iii): As at 31 December 2011, certain of the Group's short-term secured loans were pledged by manufacturing equipment and land use rights. Details are disclosed in notes V.12 and V.14.

(iv): As at 31 December 2011, certain of the Group's short-term pledge loans were pledged by bills and bank time deposits. Details are disclosed in notes V.1 and V.3.

As at 31 December 2011, the interest rates of the above short-term loans ranged from 1.28% to 8.64% (31 December 2010: 1.1%- 5.6%).

As at 31 December 2011, the Group had no expired outstanding short term loans.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. BILLS PAYABLE

	2011	2010
Bank acceptance bills	<b>5,542,687,963</b>	5,269,342,225

As at 31 December 2011 and 31 December 2010, the ageing of the Group's bills payable were all within six months.

The bills payable amounting to RMB5,542,687,963 (2010: RMB5,269,342,225) are due in the next accounting year.

As at the balance sheet date, certain amounts of the Group's bills payable were secured by certain amounts of the other balances with financial institutions. Please refer to note V. 1.

As at 31 December 2011 and 31 December 2010, the balance of bills payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or related parties.

### 19. ACCOUNTS PAYABLE

\* The ageing analysis of accounts payable as follows:

	2011	2010
Within one year	<b>6,867,603,440</b>	5,383,401,146
One to two years	<b>96,479,369</b>	77,985,351
Two to three years	<b>27,701,072</b>	45,395,611
Over three years	<b>38,498,136</b>	43,454,684
	<b>7,030,282,017</b>	5,550,236,792

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19. ACCOUNTS PAYABLE (CONTINUED)

The following balances were denominated in foreign currencies:

	2011			2010		
	Original currency	Year end rate	RMB equivalents	Original currency	Year end rate	RMB equivalents
USD	2,361,085	6.3009	14,876,960	4,657,494	6.6227	30,845,187
EUR	2,834,114	8.1625	23,133,459	2,347,048	8.8065	20,669,277
AUD	18,723	6.4093	120,001	27,899	6.7139	187,308
JPY	62,110,400	0.0811	5,037,153	71,930,000	0.0813	5,845,032
Total			<b>43,167,573</b>			<b>57,546,804</b>

The accounts payable are interest-free and are normally settled within three months.

As at 31 December 2011 and 31 December 2010, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in note VI.6 to the financial statements.

At 31 December 2011, the accounts payable with material amounts aged more than one year (over RMB 2 million) are as follows:

Name of the company	Amount due	Unpaid reason
Company 1	19,000,000	(i)
Company 2	13,893,485	(i)
Company 3	7,917,784	(i)
Company 4	5,166,909	(i)
Company 5	5,090,561	(i)
Others	49,788,868	(i)

The above accounts payable with material amounts aged over one year had been repaid by RMB39,153,419 after the balance sheet date.

- (i) The Group's accounts payable aged over one year are mainly attributable to the balances of purchasing equipment and construction projects whose settlement periods were beyond one year.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 20. DEPOSITS RECEIVED

The following balances were denominated in foreign currencies:

	2011			2010		
	Original currency	Year end rate	RMB equivalents	Original currency	Year end rate	RMB equivalents
USD	35,953,711	6.3009	226,540,738	22,933,576	6.6227	151,882,194
EUR	967,318	8.1625	7,895,733	170,600	8.8065	1,502,389
			<b>234,436,471</b>			<b>153,384,583</b>

The ageing of deposits received is within one year.

As at 31 December 2011 and 31 December 2010, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of deposits received are stated in Note VI.6 to the financial statements.

### 21. PAYROLL AND BENEFITS PAYABLE

#### 2011

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	184,155,884	2,848,944,284	(2,864,336,881)	168,763,287
Welfare (including: employee bonus and welfare fund)	20,712,063	153,995,208	(155,194,882)	19,512,389
Social insurance	47,232,422	953,816,895	(981,113,973)	19,935,344
<i>Include: Pension insurance</i>	12,005,635	575,887,381	(587,772,551)	120,465
<i>Medical insurance</i>	15,901,703	166,944,547	(179,296,610)	3,549,640
<i>Unemployment insurance</i>	-	51,310,108	(51,204,645)	105,463
<i>Work-related injury insurance</i>	4,948,773	39,594,223	(43,950,371)	592,625
<i>Maternity insurance</i>	580,872	8,814,719	(9,208,988)	186,603
<i>Supplementary pension scheme</i>	13,795,439	111,265,917	(109,680,808)	15,380,548
Housing fund	23,261,167	311,105,353	(307,901,418)	26,465,102
Labour union fee and employee education fee	9,159,921	83,750,199	(83,878,600)	9,031,520
Total	<b>284,521,457</b>	<b>4,351,611,939</b>	<b>(4,392,425,754)</b>	<b>243,707,642</b>

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 21. PAYROLL AND BENEFITS PAYABLE (CONTINUED)

2010	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	113,715,751	2,596,579,151	(2,526,139,018)	184,155,884
Welfare (including: employee bonus and welfare fund)	34,207,065	159,741,055	(173,236,057)	20,712,063
Social insurance	104,556,404	960,497,571	(1,017,821,553)	47,232,422
<i>Include: Pension insurance</i>	55,776,661	542,246,966	(586,017,992)	12,005,635
<i>Medical insurance</i>	26,889,148	210,433,744	(221,421,189)	15,901,703
<i>Unemployment insurance</i>	4,685,333	42,871,010	(47,556,343)	–
<i>Work-related injury insurance</i>	4,445,949	56,124,851	(55,622,027)	4,948,773
<i>Maternity insurance</i>	1,048,719	10,774,227	(11,242,074)	580,872
<i>Supplementary pension scheme</i>	11,710,594	98,046,773	(95,961,928)	13,795,439
Housing fund	16,818,384	248,524,971	(242,082,188)	23,261,167
Labour union fee and employee education fee	6,192,169	82,042,586	(79,074,834)	9,159,921
Total	<u>275,489,773</u>	<u>4,047,385,334</u>	<u>(4,038,353,650)</u>	<u>284,521,457</u>

As at 31 December 2011 and 31 December 2010, the balance of payroll and benefits payable had not included performance-based wages.

As at 31 December 2011 and 31 December 2010, the Group had no defaulted payroll and benefits payable.

As at 31 December 2011, the balance of labour union fee and employee education fee was RMB9,031,520 (31 December 2010: RMB9,159,921). In 2011 and 2010, the Group had no payment for non-currency welfare or compensation for terminating the labor relationship.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 22. TAXES PAYABLE

	2011	2010
Value added tax	<b>(198,382,338)</b>	(214,827,743)
Corporate income tax	<b>(161,331,936)</b>	(247,822,255)
City construction and maintenance tax	<b>12,995,684</b>	9,693,285
Other taxes	<b>20,564,021</b>	41,776,112
	<hr/>	<hr/>
Total	<b>(326,154,569)</b>	(411,180,601)
	<hr/> <hr/>	<hr/> <hr/>

The basis of calculation and the applicable tax rates are disclosed in note III to the financial statements.

### 23. DIVIDENDS PAYABLE

	2011	2010	Unpaid reason for over one year
Holding	-	501,402,557	N/A
Other shareholders	<b>80,281,968</b>	5,593,163	Unpaid dividend
	<hr/>	<hr/>	
Total	<b>80,281,968</b>	506,995,720	
	<hr/> <hr/>	<hr/> <hr/>	

As at 31 December 2011 and 31 December 2010, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of dividends payable are stated in note VI.6 to the financial statements.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24. OTHER PAYABLES

	2011	2010
Sales incentive	<b>84,457,823</b>	409,858,637
Payable to construction, maintenance and inspection fee	<b>237,995,451</b>	171,071,179
Service fees payable	<b>52,797,978</b>	44,288,229
Technology project fees received	<b>38,320,711</b>	47,683,429
Relocation compensation	–	42,546,153
Others	<b>318,221,386</b>	230,818,734
Total	<b>731,793,349</b>	946,266,361

As at 31 December 2011 and 31 December 2010, the balance of other payables does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

As at 31 December 2011, certain of the Group's other payables amounting to RMB162,339,869 (31 December 2010: RMB241,247,756) were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amount aged over one year, there was no payment made after the balance sheet date.

### 25. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2011	2010
Non-current liabilities due within one year	<b>2,681,045,000</b>	2,511,135,000
Bonds payable (note V.27)	–	5,346,476,313
	<b>2,681,045,000</b>	7,857,611,313

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 25. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR (CONTINUED)

	2011	2010
Non-current liabilities due within one year:		
Secured loans (i)	–	14,000,000
Guaranteed loans (ii)	<b>1,381,045,000</b>	1,316,000,000
Unsecured loans	<b>1,300,000,000</b>	1,181,135,000
	<b>2,681,045,000</b>	2,511,135,000

(i) As at 31 December 2010, non-current liabilities due within one year amounting to RMB14,000,000 had been pledged by land use rights. Please refer to note V.14.

(ii) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by Holding.

As at 31 December 2011, the Group had no expired outstanding long term loans.

As at 31 December 2011, the top five non-current liabilities due within one year are the following:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	2011 Balance RMB	2010 Balance RMB
Export-Import Bank of China	2010/3/23	2012/3/23	RMB	Note1	<b>350,000,000</b>	350,000,000
Export-Import Bank of China	2011/6/13	2011/11/9	USD	Note2	<b>315,045,000</b>	324,460,000
China Construction Bank	2009/4/21	2012/4/20	RMB	Note3	<b>200,000,000</b>	200,000,000
China Construction Bank	2009/4/21	2012/4/20	RMB	Note3	<b>200,000,000</b>	200,000,000
China Construction Bank	2009/4/21	2012/4/20	RMB	Note3	<b>200,000,000</b>	200,000,000
					<b>1,265,045,000</b>	1,274,460,000

Note1: The above borrowing rates of long term loans were within the central bank export seller's credit interest rate.

Note2: The above borrowing rates of long term loans due within one year were 400 basis points above the London Inter-Bank interbank offered rate

Note3: The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. LONG TERM LOANS

	2011	2010
Entrusted loan (i)	<b>400,000,000</b>	–
Guaranteed loans (ii)	<b>1,530,180,000</b>	3,021,675,000
Unsecured loans	<b>10,976,592,000</b>	8,347,056,100
	<b>12,906,772,000</b>	11,368,731,100

(i) As at 31 December 2011, certain bank loans of RMB400,000,000 were lent by MASTEEL-Financial through entrusted loan arrangements with Bank of China, with an annual interest rate at 6.232%.

(ii) As at the balance sheet date, guaranteed loans were all guaranteed by the Holding.

As at 31 December 2011, the top five long term loans:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	2011 Balance RMB equivalent	2010 Balance RMB equivalent
Export-Import Bank of China	2011/2/25	2013/2/25	USD	Note1	<b>630,090,000</b>	–
Export-Import Bank of China	2011/2/24	2013/2/24	USD	Note2	<b>630,090,000</b>	–
China Development Bank	2011/9/29	2013/9/29	RMB	Note3	<b>630,090,000</b>	–
Export-Import Bank of China	2011/8/25	2013/8/24	RMB	Note3	<b>315,045,000</b>	–
China Development Bank	2011/1/11	2013/1/11	RMB	Note4	<b>286,690,950</b>	–
					<b>2,492,005,950</b>	–

Note1: The above borrowing rates of long term loans were the London Interbank Offered Rate plus 100 basis points.

Note2: The above borrowing rates of long term loans were the London Interbank Offered Rate plus 400 basis points.

Note3: The above borrowing rates of long term loans were the London Interbank Offered Rate plus 480 basis points.

Note4: The above borrowing rates of long term loans were the London Interbank Offered Rate plus 461 basis points.

As at 31 December 2011, the Group has no expired outstanding long term loans.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. LONG TERM LOANS (CONTINUED)

\*Analysis on the expiry date of long term loans is as follows:

	2011	2010
One to two years	<b>12,138,172,000</b>	10,308,731,100
Two to five years	<b>768,600,000</b>	1,060,000,000
	<b>12,906,772,000</b>	11,368,731,100

### 27. BONDS PAYABLE

	Opening balance	Increase	Decrease	Closing balance
Bonds with warrants	5,346,476,313	230,523,687	(5,577,000,000)	-
Medium-term note payable -2010 first issue	997,833,200	45,499,600	(44,500,000)	998,832,800
Medium-term note payable -2011 second issue	-	2,814,940,300	(23,107,000)	2,791,833,300
Corporate bond -3 Years	-	3,196,295,595	(62,705,279)	3,133,590,316
Corporate bond -5 Years	-	2,366,806,520	(47,340,885)	2,319,465,635
Total	6,344,309,513	8,654,065,702	(5,754,653,164)	9,243,722,051
Less: Transfer into non-current liabilities due within one year (note V.25)	5,346,476,313			-
	<b>997,833,200</b>			<b>9,243,722,051</b>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. BONDS PAYABLE (CONTINUED)

As at 31 December 2011, bonds payable balance:

	Issuing date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Bonds with warrants	2006/11	5,500,000,000	13,050,950	63,949,050	77,000,000	-	-
Medium-term note payable – 2010 first issue	2010/2	1,000,000,000	40,232,877	44,500,000	44,500,000	40,232,877	998,832,800
Medium-term note payable – 2011 second issue	2011/11	2,800,000,000	-	14,707,000	-	14,707,000	2,791,833,300
Corporate bond -3 Years	2011/8	3,160,000,000	-	62,705,279	-	62,705,279	3,133,590,316
Corporate bond -5 Years	2011/8	2,340,000,000	-	47,340,885	-	47,340,885	2,319,465,635
		<u>14,800,000,000</u>	<u>53,283,827</u>	<u>233,202,214</u>	<u>121,500,000</u>	<u>164,986,041</u>	<u>9,243,722,051</u>

As at 31 December 2010, bonds payable balance:

	Issuing date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Bonds with warrants	2006/11	5,500,000,000	13,050,950	63,949,050	77,000,000	13,050,950	5,346,476,313
Medium-term note payable– 2010 first issue	2010/2	1,000,000,000	-	40,232,877	-	40,232,877	997,833,200
		<u>6,500,000,000</u>	<u>13,050,950</u>	<u>117,232,877</u>	<u>77,000,000</u>	<u>53,283,827</u>	<u>6,344,309,513</u>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. BONDS PAYABLE (CONTINUED)

#### Bonds with warrants

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a five-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since dividends were declared on 13 July 2007 and 10 July 2008, the conversion price has been adjusted to RMB3.33 and RMB3.26 each.

During the first exercise period of the warrants from 15 November 2007 to 28 November 2007, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33. During the second exercise period of the warrants from 17 November 2008 to 28 November 2008, a total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.26. Since then, the exercise of these warrants was entirely completed.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable of RMB77 million in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants.

The bonds with warrants expired on November 13, and the par value and related interest has been repaid by the Company.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. BONDS PAYABLE (CONTINUED)

#### Medium-term note payable

In November 2009, the Company obtained the approval of the National Association of Financial Market Institutional Investors regarding the issuance of medium-term notes with a registration amount of RMB3.8 billion, which will expire within two years. The medium-term notes are allowed to be issued by stages in its registration period of validity.

As at 4 February 2010, the Company issued the first stage medium-term note of RMB 1 billion (abbreviated as 10馬鋼MTN1). The issuance price is RMB100/note, and has a fixed rate of interest at 4.45% per annum. As at 4 November 2011, the Company issued the second stage medium-term note of RMB2.8 billion (abbreviated as 11馬鋼MTN1). The issuance price is RMB100/note, and has a fixed rate of interest at 5.73% per annum. The RMB3.8 billion is circulating in the Chinese Inter-bank Bond Market. This medium-term note is repayable in three years.

#### Corporate bonds

Upon the approval of the China securities supervision and management committee, [2011] no. 1177, the Company issued corporate bonds amounted to RMB5.5 billion with a issue price of RMB100/note in August 2011, including RMB3.16 billion (abbreviated as 11馬鋼01) due within three years with a interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11馬鋼02) due within five years with a interest rate of 5.74%. These corporate bonds were secured by the Group. The net amount the Company received from this corporate bonds is RMB5,453,788,000.

The interest for the year of above bonds with warrants, medium-term notes and corporate bonds was included in interest payable.

### 28. OTHER NON-CURRENT LIABILITIES

The deferred income represents the government subsidies received for specific projects, its movement is as follows:

Deferred income	2011	2010
Opening balance	573,288,652	579,926,538
Increase during the year	62,009,300	74,889,566
Amortisation during the year (note V.40)	(82,109,482)	(79,527,452)
Other decrease	(409,946)	(2,000,000)
Closing balance	552,778,524	573,288,652

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. SHARE CAPITAL

2011	At 1 January 2011		Increase/(decrease) during the year			At 31 December 2011	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. SHARE CAPITAL (CONTINUED)

2010	At 1 January 2010		Increase/(decrease) during the year			At 31 December 2010	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

\* Other than H share dividends, which are paid in Hong Kong dollars, all shares, including A shares and H shares, have the same right to the Company's operating results and voting rights. The par value for each A share or H share is RMB1.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 30. CAPITAL RESERVE

2011	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	<b>8,338,358,399</b>	-	-	<b>8,338,358,399</b>
2010	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	-	-	8,338,358,399

### 31. SURPLUS RESERVES

2011	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	<b>3,078,907,513</b>	<b>27,528,438</b>	-	<b>3,106,435,951</b>
Discretionary surplus reserve (iii)	-	<b>190,420,420</b>	-	<b>190,420,420</b>
Reserve fund (ii)	<b>73,545,143</b>	<b>11,794,059</b>	-	<b>85,339,202</b>
Enterprise expansion fund (ii)	<b>53,748,158</b>	<b>6,922,617</b>	-	<b>60,670,775</b>
Total	<b>3,206,200,814</b>	<b>236,665,534</b>	-	<b>3,442,866,348</b>
2010	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	2,956,281,977	122,625,536	-	3,078,907,513
Reserve fund (ii)	58,836,380	14,708,763	-	73,545,143
Enterprise expansion fund (ii)	42,802,292	10,945,866	-	53,748,158
Total	3,057,920,649	148,280,165	-	3,206,200,814

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 31. SURPLUS RESERVES (CONTINUED)

- (i) In accordance with the Company Law of the PRC and the articles of association, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with CAS and related regulations applicable to these companies, to the statutory reserve (the "SR") until such reserve reaches 50% of the registered capital of these companies. Part of the SR may be capitalised as these companies' share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of these companies.

In 2010, the board of directors of Holly Industrial approved to transfer employee pension and benefits which were accrued in prior years of RMB17,377,180 to surplus reserves. The amount attributable to the Group was RMB12,337,798.

- (ii) Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and their respective articles of association, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.
- (iii) The Company and certain of its subsidiaries are authorised to allocate discretionary surplus reserve from profit after tax after the allocation of statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

Subsequent to the balance sheet date, the directors determined that the Company does not need to transfer any amount to the SR (2010: RMB90,571,657).

During the year, the share of subsidiaries' current year appropriations to each of the SR, the discretionary surplus reserve, the reserve fund and the enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB27,528,438 (2010: RMB19,716,081), RMB190,420,420 (2010: RMB0), RMB11,794,059 (2010: RMB14,708,763) and RMB6,922,617 (2010: RMB10,945,866), respectively.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 32. RETAINED PROFITS

	2011	2010
Retained profits at beginning of year	<b>8,008,142,354</b>	7,350,273,452
Add: Net profit attributable to equity holders of the parent	<b>69,578,129</b>	1,101,838,516
Less: Transfer to surplus reserves	<b>27,528,438</b>	110,287,738
Transfer to discretionary surplus reserve	<b>190,420,420</b>	–
Transfer to reserve fund	<b>11,794,059</b>	14,708,763
Transfer to enterprise expansion fund	<b>6,922,617</b>	10,945,866
Ordinary share dividend payable (i)	<b>385,034,059</b>	308,027,247
	<hr/>	<hr/>
Retained profits at end of year	<b>7,456,020,890</b>	8,008,142,354
	<hr/> <hr/>	<hr/> <hr/>

- (i) Final dividend in respect of 2010 was approved by the Company's shareholders at the annual general meeting held on 15 June 2011. Based on the number of shares of 7,700,681,186 in issue as at 31 December 2010, a final dividend of RMB0.05 (including tax) per share and in aggregate, a total of RMB385,034,059 payable to shareholders was recognised as a liability.

### 33. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2011	2010
Principal operating income	<b>81,418,565,576</b>	63,040,969,770
Other operating income	<b>5,423,636,673</b>	1,940,142,724
	<hr/>	<hr/>
Total	<b>86,842,202,249</b>	64,981,112,494
	<hr/> <hr/>	<hr/> <hr/>

- \* Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. REVENUE AND COST OF SALES (CONTINUED)

Cost of sales is stated as follows:

	2011	2010
Principal cost of sales	<b>78,519,315,485</b>	59,662,062,798
Other cost of sales	<b>4,844,235,410</b>	1,511,024,528
	<hr/>	<hr/>
Total	<b>83,363,550,895</b>	61,173,087,326
	<hr/> <hr/>	<hr/> <hr/>

Principal operating income is stated as follows:

	2011	2010
Sale of steel products	<b>72,111,502,937</b>	60,566,803,980
Sale of steel billets and pig iron	<b>723,246,296</b>	473,444,596
Sale of coke by-products	<b>1,040,176,521</b>	923,140,461
Others	<b>7,543,639,822</b>	1,077,580,733
	<hr/>	<hr/>
Total	<b>81,418,565,576</b>	63,040,969,770
	<hr/> <hr/>	<hr/> <hr/>

During 2011, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue(%)
Company 1	<b>4,857,613,219</b>	<b>6</b>
Company 2	<b>1,531,203,753</b>	<b>2</b>
Company 3	<b>1,201,103,961</b>	<b>1</b>
Company 4	<b>1,187,213,803</b>	<b>1</b>
Company 5	<b>1,056,956,726</b>	<b>1</b>
	<hr/>	<hr/>
Total	<b>9,834,091,462</b>	<b>11</b>
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. REVENUE AND COST OF SALES (CONTINUED)

During 2010, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue(%)
Company 1	4,912,443,602	7
Company 2	1,312,390,210	2
Company 3	1,209,375,700	2
Company 4	1,163,988,677	2
Company 5	670,905,718	1
Total	<u>9,269,103,907</u>	<u>14</u>

### 34. BUSINESS TAXES AND SURCHARGES

	2011	2010
City construction and maintenance tax	<b>124,821,875</b>	161,886,249
Education surcharges	<b>53,840,329</b>	69,332,094
Local education surcharges	<b>35,023,088</b>	22,989,381
Other taxes	<b>13,260,535</b>	11,744,797
Total	<b><u>226,945,827</u></b>	<u>265,952,521</u>

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in note III to the financial statements.

### 35. SELLING EXPENSES

	2011	2010
Employee benefits	<b>32,816,590</b>	28,411,989
Transportation fees	<b>185,615,448</b>	142,257,860
Insurance premium	<b>22,107,898</b>	19,605,610
Others	<b>45,281,993</b>	48,165,301
Total	<b><u>285,821,929</u></b>	<u>238,440,760</u>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 36. ADMINISTRATIVE EXPENSES

	2011	2010
Depreciation	<b>44,201,616</b>	38,054,812
Employee benefits	<b>523,601,646</b>	399,582,372
Office expenses	<b>274,206,451</b>	347,098,771
*Auditors' remuneration	<b>4,965,000</b>	4,535,000
Other taxes	<b>200,621,381</b>	130,867,169
Rental fee	<b>48,540,000</b>	48,540,000
Others	<b>195,357,606</b>	238,911,865
Total	<b>1,291,493,700</b>	1,207,589,989

### 37. FINANCIAL EXPENSES

	2011	2010
Interest expenses (i)	<b>1,471,633,860</b>	913,552,574
Less: Interest income	<b>169,217,051</b>	72,045,467
Exchange gain or loss, net	<b>(347,612,964)</b>	(134,173,840)
Others	<b>34,806,257</b>	25,067,490
Total	<b>989,610,102</b>	732,400,757

\* (i) The Group's interest expenses include interest on bank loans, other loans and bonds with warrants which will expire within five years.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38. ASSETS IMPAIRMENT LOSS

	2011	2010
Provision/(reversal of provision) for bad debts	-	(112,552)
Including: Trade receivables	-	(112,552)
Other receivables	-	-
Provision for inventories	<b>676,714,989</b>	13,906,462
Provision of long term equity investments	-	3,738,814
Provision of investment properties	-	-
Provision of fixed assets	-	-
Provision of construction in progress	-	-
Provision of intangible assets	-	-
	<hr/>	<hr/>
Total	<b>676,714,989</b>	17,532,724
	<hr/> <hr/>	<hr/> <hr/>

### 39. INVESTMENT INCOME

	2011	2010
Long term equity investments income under the equity method	<b>128,871,481</b>	204,748,955
Long term equity investments income under the cost method	<b>21,114,188</b>	14,398,789
Other investment income	<b>466,006</b>	403,033
	<hr/>	<hr/>
Total	<b>150,451,675</b>	219,550,777
	<hr/> <hr/>	<hr/> <hr/>

\* During the current year, the Group's investment income from listed companies and unlisted companies are RMB17,796 and RMB150,433,879, respectively (2010: the investment income from listed companies and unlisted companies were RMB17,250 and RMB219,533,527, respectively).

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 39. INVESTMENT INCOME (CONTINUED)

Among the long term equity investments income under the equity method, the top six largest items are as follows:

	2011	2010	Variation reason
BOC-Ma Steel	<b>87,174,414</b>	84,103,476	(i)
Jiyuan Jinma Coke Making	<b>35,851,763</b>	59,521,839	(i)
Shanghai DaZhong Steel	<b>10,365,248</b>	26,402,728	(i)
Shenglong Chemical	–	25,154,230	(ii)
Maanshan Harbour	<b>11,128,386</b>	13,372,286	(ii)
MASTEEL-Financial	<b>6,844,061</b>	–	(iii)

(i): In this year, the increase of investment income from the above entities under the equity method is mainly due to the increase in net profits of the above invested entities.

(ii): In this year, the decrease of investment income from the above entities under the equity method is mainly due to the decrease in net profits of the above invested entities.

(iii): MASTEEL-Financial joint enterprise which was set up in this year.

As at 31 December 2011, there was no significant restriction imposed upon the realisation of the Group's investment income.

# Notes to Financial Statements (Continued)

31 December 2011  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 40. NON-OPERATING INCOME

	2011	2010
Amortisation of deferred income (note V.28)	<b>82,109,482</b>	79,527,452
Subsidies income (note)	<b>84,455,658</b>	78,449,439
Others	<b>414,411</b>	1,071,039
Total	<b>166,979,551</b>	159,047,930

Note: Details of subsidies income are stated as follows:

	2011	2010
Subsidies granted by government (i)	<b>64,855,490</b>	40,906,100
Others	<b>19,600,168</b>	37,543,339
Total	<b>84,455,658</b>	78,449,439

(i) Specific subsidies granted by government refers to the local government encouraging the Group in business development, importing products and overseas technical cooperation.

### 41. NON-OPERATING EXPENSES

	2011	2010
Loss on the disposal of non-current assets	<b>18,753,548</b>	6,513,280
Public relief donation	<b>1,865,000</b>	1,500,000
Government subsidies returned	<b>–</b>	3,404,202
Others	<b>3,559,457</b>	1,967,202
Total	<b>24,178,005</b>	13,384,684

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 42. INCOME TAX

	2011	2010
*Mainland China:		
Current income tax expense	<b>151,730,236</b>	121,621,479
Adjustments in respect of current tax of previous periods	<b>396,113</b>	80,086,310
Deferred tax income	<b>(114,480,746)</b>	285,712,986
*Hong Kong current income tax expense (ii)	<b>2,836,237</b>	976,481
*Overseas current income tax expense	<b>71,120,605</b>	31,105,151
	<hr/>	<hr/>
Total	<b>111,602,445</b>	519,502,407
	<hr/> <hr/>	<hr/> <hr/>

Relationship between income tax and profit before tax:

	2011	2010
Profit before tax	<b>301,099,368</b>	1,711,111,720
Tax at the applicable tax rate of 25% (i)	<b>75,274,843</b>	427,777,930
Effect of different tax rates of subsidiaries	<b>10,382,413</b>	(12,507,536)
Expenses not deductible for tax	<b>69,032,508</b>	122,980,853
Adjustments in respect of current tax of previous periods	<b>396,113</b>	80,086,310
Other tax concessions	<b>(59,537,586)</b>	(53,146,368)
Income not subject to tax	<b>(9,033,961)</b>	(6,736,090)
Tax losses not recognised	<b>58,893,745</b>	14,285,337
Tax losses utilised	<b>(1,383,061)</b>	(2,146,331)
Profits and losses attributable to jointly-controlled entities and associates	<b>(32,422,569)</b>	(51,187,239)
Withholding income tax of dividends received from associate in the mainland of the PRC	-	95,541
	<hr/>	<hr/>
Tax charge at the Group's effective rate	<b>111,602,445</b>	519,502,407
	<hr/> <hr/>	<hr/> <hr/>

(i) The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(ii) Income tax for a subsidiary in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the year.

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 43. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing income statement attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

For the purpose of calculating diluted earnings per share, an entity shall adjust the net income attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	2011	2010
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<b>69,578,129</b>	1,101,838,516

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 43. EARNINGS PER SHARE (CONTINUED)

	Number of shares	Number of shares
Number of Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<b>7,700,681,186</b>	7,700,681,186
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	<b>N/A</b>	N/A
Weighted average number of ordinary shares in issue after adjustment	<b>N/A</b>	N/A

During 2011 and 2010, there was no dilutive item to adjust the Group's basic earnings per share.

### 44. OTHER COMPREHENSIVE INCOME

	2011	2010
Exchange fluctuation reserve	<b>(24,221,088)</b>	23,284,819

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 45. NOTES TO CASH FLOW STATEMENT

	2011	2010
Cash received relating to other operating activities		
Specific subsidies granted by government	<b>64,855,490</b>	40,906,100
Others	<b>414,411</b>	37,686,486
	<hr/>	<hr/>
Total	<b>65,269,901</b>	78,592,586
	<hr/> <hr/>	<hr/> <hr/>
Cash paid relating to other operating activities		
Supporting services	<b>235,642,799</b>	308,016,548
Security expenses	<b>80,419,379</b>	73,852,634
Packing fee	<b>24,240,976</b>	17,284,879
Flood prevention fund	<b>15,501,455</b>	30,877,135
Environmental improvement fee	<b>40,139,448</b>	41,380,553
Research and development fee	<b>32,899,365</b>	42,300,843
Bank fee	<b>34,806,257</b>	25,067,490
Others	<b>99,280,753</b>	17,272,485
	<hr/>	<hr/>
Total	<b>562,930,432</b>	556,052,567
	<hr/> <hr/>	<hr/> <hr/>
Cash received relating to other investing activities		
Government special project funding	<b>62,009,300</b>	74,889,566
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 46. SUPPLEMENTS TO CASH FLOW

(1) Cash flows from operating activities:

	2011	2010
Net profit	<b>189,496,923</b>	1,191,609,313
Add: Provision/(reversal of provision) for bad debts	-	(112,552)
Provision for inventories	<b>676,714,989</b>	13,906,462
Provision for long-term equity investment	-	3,738,814
Depreciation of fixed assets	<b>4,332,787,747</b>	4,810,646,159
Amortisation of investment properties	<b>184,111</b>	157,673
Amortisation of intangible assets	<b>53,348,502</b>	47,143,955
Amortisation of deferred income	<b>(82,109,482)</b>	(79,527,452)
Loss on disposal of non-current assets	<b>18,753,548</b>	6,513,280
Gain on disposal of land user right	-	(927,892)
Financial expenses	<b>954,803,845</b>	707,333,267
Investment income	<b>(150,451,675)</b>	(219,550,777)
Loss on fair value changes	<b>218,660</b>	210,720
Decrease/(increase) in deferred tax assets	<b>(112,840,557)</b>	285,712,986
Decrease in deferred tax liabilities	<b>(1,640,189)</b>	-
Increase in inventories	<b>(1,618,445,002)</b>	(3,476,907,429)
Increase in receivables from operating activities	<b>(2,260,032,297)</b>	(5,260,548,816)
Increase in payables from operating activities	<b>(1,018,109,573)</b>	2,370,609,660
Net cash flows from operating activities	<b>982,679,550</b>	400,007,371

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 46. SUPPLEMENTS TO CASH FLOW (CONTINUED)

(2) Information of the subsidiaries acquired

	2011
Price paid to acquire the subsidiary	<b>1,234,444,444</b>
Cash and cash equivalents paid to acquire the subsidiary	<b>1,234,444,444</b>
Less: Cash and cash equivalents of subsidiaries acquired	<b>(1,617,705,837)</b>
Net cash received from acquisition of subsidiaries	<b>383,261,393</b>
The net assets of subsidiaries acquired	<b>2,244,444,444</b>
Current assets	<b>3,092,101,181</b>
Non-current assets	<b>2,555,636,712</b>
Current liabilities	<b>2,547,289,065</b>
Non-current liabilities	<b>856,004,384</b>

### 47. CASH AND CASH EQUIVALENTS

Net movement of cash and cash equivalents:

	2011	2010
Cash closing balance	<b>8,993,539,995</b>	5,385,065,613
Less: Cash opening balance	<b>5,385,065,613</b>	5,502,947,835
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
Net increase of cash and cash equivalents	<b>3,608,474,382</b>	(117,882,222)

	2011	2010
Cash		
Including: Cash on hand	<b>379,595</b>	155,208
Balances with financial institutions without restriction	<b>8,993,160,400</b>	5,384,910,405
Other balances without restriction	-	-
Cash equivalents	<b>8,993,539,995</b>	5,385,065,613

# Notes to Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### \*48. DIVIDEND

	2011	2010
Proposed final – Nil (2010: RMB5 cents per ordinary share)	<u>–</u>	<u>385,034,059</u>

The board of directors do not recommend the payment of any dividends for the year ended 31 December 2011.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. PARENT COMPANY

Name of Parent Name	Business type	Registered place	Legal representative	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)	Organisation code
Holding	limited liability	Anhui, PRC	Gu Jianguo	Manufacturing	6,298,290,000	50.47	50.47	150509144

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

### 2. SUBSIDIARIES

The details of the subsidiaries of the Group are stated in Note IV to the financial statements.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 3. ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES OF THE GROUP

Further details on balances with associates and jointly-controlled entities of the Group are set out in note V.9 to the financial statement.

### 4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP

Name	Relationship with the Company	Organisation code
Maanshan Steel Construction(Group) Co., Ltd. (i)	Controlled by Holding	733002281
An Hui Tian Kai Lu Qiao Co., Ltd (ii).	Controlled by Holding	733002273
Masteel (Group) Li Sheng Co., Ltd.	Controlled by Holding	711703722
Masteel (Group) Industry Development Company	Controlled by Holding	70492034x
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding	72850552x
Masteel Group Kang Tei Land Development Co., Ltd.	Controlled by Holding	850512838
Maanshan Yu tai Property Management Co., Ltd. (iii)	Controlled by Holding	777366319
Masteel Group Kang Cheng Building and Installing Co., Ltd. (iv)	Controlled by Holding	750993301
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding	150509160
Anhui BOC & Masteel Weldmesh Co., Ltd.	Controlled by Holding	754875970
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by Holding	750960780
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	Controlled by Holding	733020252
Maanshan Shi Fa Metal Industry and Trading Co., Ltd.	Controlled by Holding	713957507
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding	728509803
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by Holding	711716304
Masteel Group Power and Machinery Installation Co., Ltd.	Controlled by Holding	150510858
Masteel Group Mapping Co., Ltd.	Controlled by Holding	677570144
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by Holding	150518286
Masteel Group Chu Jiang Holiday Tour Co., Ltd.	Controlled by Holding	734975296
Huang Shan Tai Bai Shan Zhuang	Controlled by Holding	704953862
Anhui Masteel Advanced Technician Institute	Controlled by Holding	485409479
Anhui Metal Technology Institute	Controlled by Holding	F10441773
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by Holding	783071808
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by Holding	192443796
Maanshan Iron & Steel Group Mining Co., Ltd. (v)	Controlled by Holding	573045716
MASTEEL-Financial (vi)	Controlled by Holding	583045103

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP (CONTINUED)

- (i) During this period the company changed its name, formerly known as Maanshan Iron & Steel Group Construction Co., Ltd., and it has restructured during the period, and is no longer considered as a related party after August 18, 2011
- (ii) During this period the company changed its name, formerly known as Masteel Group Building Road & Bridge Co., Ltd, and it has restructured during the period, and is no longer considered as a related party after August 18, 2011
- (iii) The name of the company was changed in the current period, and its original name was Masteel Group Kang Tei Property Co., Ltd.
- (iv) The name of the company was changed in the current period; its original name was Masteel Group Kang Tei Building and Installing Industry Co., Ltd.
- (v) The company was established on April 27, 2011.
- (vi) The company is a joint venture of the Group which was established on October 9, 2011.

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

#### (1) Purchases of iron ore from related party

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(i)	<b>2,295,360,672</b>	<b>10</b>	2,144,494,650	14
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	<b>101,799,834</b>	<b>1</b>	57,877,977	–
<b>Total</b>		<b>2,397,160,506</b>	<b>11</b>	2,202,372,627	14

- (i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 15 October 2009 entered into between the Company and Holding. A subsidiary of the Group purchase iron ore from Luo He Mining, and the price terms are negotiated.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (2) Fees paid for welfare, support services and other services

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(ii)	<b>112,292,896</b>	<b>44</b>	118,672,004	52
Masteel (Group)					
Li Sheng Co., Ltd.	(ii)	<b>39,800,288</b>	<b>16</b>	29,300,042	13
Masteel (Group) Industry					
Development Co., Ltd.	(ii)	<b>46,290,847</b>	<b>18</b>	27,159,946	12
Masteel (Group)					
Construction Co., Ltd.	(ii)	<b>13,994,740</b>	<b>6</b>	26,065,883	11
Masteel (Group)					
Steel Scrap					
Intergrated Utilisation					
Co., Ltd.	(ii)	<b>7,089,913</b>	<b>3</b>	7,884,959	3
Others	(ii)	<b>34,206,338</b>	<b>13</b>	18,558,806	9
Total		<b>253,675,022</b>	<b>100</b>	227,641,640	100

- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement between the Company and Holding.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (3) Agency fees paid to related parties

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(iii)	158,021	1	4,965,670	62
Masteel Shen Ma Metal Co., Ltd.	(iii)	1,451,894	10	1,411,885	18
Masteel (Group) Industry Development Co., Ltd.	(iii)	12,358,138	89	1,647,703	20
<b>Total</b>		<b>13,968,053</b>	<b>100</b>	<b>8,025,258</b>	<b>100</b>

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (4) Rental expenses

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(iii)	48,540,000	100	48,540,000	100

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (5) Purchases of fixed assets and construction services

		2011		2010	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
Masteel (Group) Power and Machinery Installation Co., Ltd.	(iii)	226,128	–	2,405,642	–
Masteel (Group) Industry Development Co., Ltd.	(iii)	13,324,706	–	8,202,717	1
Masteel (Group) Li Sheng Co., Ltd.	(iii)	4,674,028	–	1,983,498	–
Masteel (Group) Kang Tei Building and Installing Industry Co., Ltd.	(iii)	31,400	–	–	–
Masteel (Group) Road and Bridge Construction Co., Ltd.	(iii)	1,320,000	–	10,017,167	1
Masteel (Group) Construction Co., Ltd.	(iii)	156,695,860	3	87,540,935	10
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	–	–	813,301	–
Others	(iii)	356,500	–	257,050	–
Total		<b>176,628,622</b>	<b>3</b>	<b>111,220,310</b>	<b>12</b>

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (6) Fees received for the supply of utilities, services and other consumable goods

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(iii)	<b>14,505,913</b>	<b>1</b>	57,297,439	6
Masteel (Group) Construction Co., Ltd.	(iii)	<b>29,755,296</b>	<b>3</b>	304,112	–
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	<b>419,803</b>	<b>–</b>	1,559,306	–
Masteel (Group) Steel Scrap Integrated Utilization Co., Ltd.	(iii)	<b>35,345,396</b>	<b>2</b>	–	–
Others	(iii)	<b>6,359,936</b>	<b>1</b>	5,302,253	1
<b>Total</b>	<b>(iii)</b>	<b>86,386,344</b>	<b>7</b>	<b>64,463,110</b>	<b>7</b>

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (7) Sale of steel products and related by products

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	<b>297,981</b>	<b>–</b>	990,641	–
Masteel (Group) Construction Co., Ltd.	(iii)	<b>1,482,309</b>	<b>–</b>	1,404,553	–
<b>Total</b>		<b>1,780,290</b>	<b>–</b>	<b>2,395,194</b>	<b>–</b>

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (8) Interest expense

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(iv)	555,269	–	1,148,270	0.1
MASTEEL-Financial	(iv)	22,259,269	2	–	–
<b>Total</b>		<b>22,814,538</b>	<b>2</b>	<b>1,148,270</b>	<b>0.1</b>

(iv) Certain bank loans of RMB10,000,000 in aggregate (2010: RMB10,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and annual interest rates of 7.340% (2010: 4.779%). Certain bank loans of RMB379,000,000 (2010: RMB0) in aggregate were lent by MASTEEL-Financial through entrusted loan arrangements with the Bank of China, Industrial and Commercial Bank of China and China Construction Bank, with annual interest rates of 6.232%-6.56%.

#### (9) Interest on deposit

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
MASTEEL-Financial	(v)	967,730	0.6	–	–

(v) The current year, the Group received interest on deposits to MASTEEL-Financial at annual interest rates of 0.5% -1.31%.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (10) Purchases of coke from associates

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Jiyuan Shi Jin Ma Coke	(vi)	-	-	40,012,535	1
Shenglong Chemical	(vi)	<b>188,760,578</b>	<b>5</b>	331,997,201	11
<b>Total</b>		<b>188,760,578</b>	<b>5</b>	<b>372,009,736</b>	<b>12</b>

(vi) These transactions were made between the Group and Jiyuan JinMa Coke, Shenglong Chemical, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

#### (11) Loading expenses paid to associates

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Maanshan Harbour Co., Ltd.	(v)	<b>158,863,916</b>	<b>14</b>	154,483,720	14

(vi) These transactions were made between the Group and Jiyuan JinMa Coke, Shenglong Chemical, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

# Notes to Financial Statements (Continued)

31 December 2011  
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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (12) Rental income from a jointly-controlled entity

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
BOC-Ma Steel	(vii)	<b>1,250,000</b>	<b>100</b>	1,250,000	100

(vii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (13) Fee received for the supply of electricity from a jointly-controlled entity

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
BOC-Ma Steel	(vii)	<b>274,517,034</b>	<b>66</b>	257,836,037	73

(vii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (14) Fee received for utilities and facilities from a jointly-controlled entity

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
BOC-Ma Steel	(vii)	<b>5,524,576</b>	<b>100</b>	4,635,023	100

(vii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (15) Purchase of gas products from a jointly-controlled entity

	Note	2011		2010	
		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
BOC-Ma Steel	(vii)	<b>536,961,147</b>	<b>100</b>	489,190,513	100

(vii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (16) Guarantee for related party

2011	Note	Guarantee name	Guarantee amount	Started date	End date	Has guarantee matured
Holding	(viii)	the Company	7.345 billion	2010.2	2016.8	Not yet as at the signing date of the report
2010	Note	Guarantee name	Guarantee amount	Started date	End date	Has guarantee matured
Holding	(viii)	the Company	2.106 billion	2010.2	2012.3	Not yet as at the signing date of the report

(viii) Holding has guaranteed certain bank loans of the Group amounting additional to RMB7.345 billion (2010: approximately RMB2.106billion) in 2011 at nil consideration. Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB8.411 billion (2010: part of of the Group's bank loans bonds with warrants approximately RMB9.838billion) as at 31 December 2011.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### (17) Salary of key management paid to of related party

The total amount of key management salary paid to related party (including in the form of monetary, practicality and other form) was RMB3,982,722 during the current year (2010: RMB6,402,020).

#### \*(18) Directors' and supervisors' emoluments

	2011	2010
Fees	<b>487,500</b>	525,000
Other emoluments:		
Salaries, allowances and benefits in kind	<b>682,479</b>	624,939
Performance-related bonuses	<b>1,876,439</b>	3,592,451
Pension scheme contributions	<b>39,873</b>	29,646
	<b>2,598,791</b>	4,247,036
	<b>3,086,291</b>	4,772,036

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### \*(18) Directors' and supervisors' emoluments (Continued)

##### (i) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2011	2010
Independent directors		
Mr. Wong Chun Wa (i)	50,000	100,000
Mr. Su Yong (i)	50,000	100,000
Mr. Hui Leung Wah (i)	50,000	100,000
Mr. Han Yi (i)	50,000	100,000
Mr. Qin Tongzhou (ii)	50,000	–
Ms. Yang Yada (ii)	50,000	–
Mr. Wu Tat Man Damon Albert (ii)	50,000	–
	<b>350,000</b>	400,000
Independent supervisors		
Ms. Cheng Shaoxiu (iii)	31,250	62,500
Ms. An Qun (iii)	31,250	62,500
Mr. Wong Chun Wa (iv)	37,500	–
Mr. Su Yong (iv)	37,500	–
	<b>137,500</b>	125,000
	<b>487,500</b>	525,000

There were no other emoluments payable to the independent directors and independent supervisors during the year (2010: Nil).

- (i) Resigned his directorship on August 31, 2011
- (ii) Appointment to the board on August 31, 2011
- (iii) Resigned from the supervisors position on August 31, 2011
- (iv) Appointment to the supervisors position on August 31, 2011

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### \*(18) Directors' and supervisors' emoluments (Continued)

##### (ii) Executive directors and supervisors

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
<b>2011</b>					
<i>Executive directors</i>					
Mr. Gu Jianguo (i)	-	63,165	301,802	5,592	370,559
Mr. Su Jianguo	-	72,188	344,917	5,507	422,612
Mr. Gao Haijian (i)	-	57,750	275,934	5,202	338,886
Mr. Hui Zhigang (i)	-	57,750	275,934	5,238	338,922
Mr. Zhao Jianming	-	-	-	-	-
Mr. Qian haifan (ii)	-	100,000	100,000	4,597	204,597
Mr. Ren tianbao (ii)	-	80,000	80,000	4,061	164,061
	-	430,853	1,378,587	30,197	1,839,637
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	86,626	413,900	4,750	505,276
Mr. Liu Xianli	-	165,000	83,952	4,926	253,878
Mr. Fang Jinrong	-	-	-	-	-
	-	251,626	497,852	9,676	759,154
	-	682,479	1,876,439	39,873	2,598,791

(i) Resigned his directorship on August 31, 2011

(ii) Appointment to the board on August 31, 2011

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2010: Nil).

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### \*(18) Directors' and supervisors' emoluments (Continued)

##### (ii) Executive directors and supervisors (Continued)

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2010					
<i>Executive directors</i>					
Mr. Gu Jianguo	-	108,282	784,066	5,714	898,062
Mr. Su Jianguo	-	108,282	784,066	5,541	897,889
Mr. Gao Haijian	-	86,625	627,253	4,931	718,809
Mr. Hui Zhigang	-	86,625	627,253	5,003	718,881
Mr. Zhao Jianming	-	-	-	-	-
	-	389,814	2,822,638	21,189	3,233,641
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	86,625	627,253	4,078	717,956
Mr. Liu Xianli	-	148,500	142,560	4,379	295,439
Mr. Fang Jinrong	-	-	-	-	-
	-	235,125	769,813	8,457	1,013,395
	-	624,939	3,592,451	29,646	4,247,036

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR (CONTINUED)

#### \* (19) Five highest paid individuals

The five highest paid employees during the year were all directors and supervisors (2010: four), details of whose remuneration are set out in note VI.5 (18) above. Details of the remuneration of the remaining one non-director, non-supervisor, highest paid employee in 2010 are as follows:

	2011	2010
Group		
Salaries, allowances and benefits in kind	-	86,625
Performance-related bonuses	-	627,253
Pension scheme contributions	-	5,168
	<hr/>	<hr/>
	-	719,046
	<hr/> <hr/>	<hr/> <hr/>

In 2010, the remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to HKD1,000,000.

- (20) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in note VI.6 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.
- (21) The Group has obtained entrusted loans amounting to RMB779,000,000 (2010: RMB0) in 2011. As at 31 December 2011, the amount of loan borrowed from MASTEEL-Financial is RMB779,000,000 (2010: RMB0), and no amount is deposited in MASTEEL-Financial (2010: RMB0).

The directors believe that the above transactions (1) to (9), (16) and (21) are in the ordinary course of business of the Group.

- \* The above (1) to (9) and (21) related party transactions constitute connected transactions or continuing connected transactions which are defined in Chapter 14A of the Hong Kong Stock Exchange's Listing Rules to be disclosed.

# Notes to Financial Statements (Continued)

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2011	2010
<b>Prepayments:</b>		
Holding and its subsidiaries		
Masteel Group Design and Research Institute Co., Ltd.	<b>1,760,000</b>	–
Others entities controlled by Holding	–	81,500
Total	<b>1,760,000</b>	81,500
<b>Accounts payable:</b>		
Holding and its subsidiaries		
Holding	<b>1,718,318</b>	19,340,667
Maanshan Iron & Steel Construction (Group) Co., Ltd.	–	12,903,085
Anhui Tian Kai Lu Qiao Co., Ltd.	–	2,736,282
Li Sheng company	<b>6,956,604</b>	2,453,025
Masteel Group Power and Machinery Installation Co., Ltd.	<b>466,010</b>	251,915
Masteel Group Steel Scrap Integrated Utilisation Co., Ltd.	<b>3,066,029</b>	8,526,355
Masteel Group Industry Development Co., Ltd.	<b>5,253,282</b>	10,641,763
Others entities controlled by Holding	<b>3,861,199</b>	19,706,895
Total	<b>21,321,442</b>	76,559,987
Associates and jointly-controlled entities of the Group		
BOC-Ma Steel	<b>19,935,867</b>	18,889,363
Jiyuan JinMa Coke	<b>223,791</b>	223,791
Maanshan Harbour	<b>17,053,499</b>	13,892,441
Shenglong Chemical	<b>23,540,223</b>	3,505,120
Total	<b>60,753,380</b>	36,510,715
<b>Dividends payable:</b>		
Holding	–	501,402,557
<b>Dividends receivable:</b>		
Associates and jointly-controlled entities of the Group		
Jiyuan JinMa Coke	<b>88,800,000</b>	118,800,000
Total	<b>88,800,000</b>	118,800,000

# Notes to Financial Statements (Continued)

31 December 2011  
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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES (CONTINUED)

	2011	2010
<b>Trade receivables:</b>		
Holding and its subsidiaries		
Holding	<b>23,509,315</b>	53,391,979
Maanshan Iron & Steel Construction (Group) Co., Ltd.	-	25,437,535
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	<b>17,982,919</b>	-
Others entities controlled by Holding	<b>103,056</b>	-
	<hr/>	<hr/>
Total	<b>41,595,290</b>	78,829,514
	<hr/> <hr/>	<hr/> <hr/>
Associates and jointly-controlled enteritis of the Group		
Maanshan Harbour	<b>68,643</b>	435,502
BOC-Ma Steel	<b>268,879</b>	-
	<hr/>	<hr/>
Total	<b>337,522</b>	435,502
	<hr/> <hr/>	<hr/> <hr/>
<b>Deposits received:</b>		
Holding and its subsidiaries		
Anhui BRC & Masteel Weldmesh Co., Ltd.	<b>12,895,660</b>	19,481,523
Holding	-	29,168,967
Masteel Group Industry Development Co., Ltd.	<b>274,943,072</b>	72,181,444
Others entities controlled by Holding	<b>4,036,070</b>	4,745,147
	<hr/>	<hr/>
Total	<b>291,874,802</b>	125,577,081
	<hr/> <hr/>	<hr/> <hr/>
Associates and jointly-controlled enteritis of the Group		
Jiyuan JinMa Coke	<b>35,636</b>	-
Tengzhou Shenglong Coke	-	145,600
	<hr/>	<hr/>
Total	<b>35,636</b>	145,600
	<hr/> <hr/>	<hr/> <hr/>

These balances are unsecured, interest-free and have no fixed terms of repayment. As at 31 December 2011 and 31 December 2010, no provision for impairment was made against the amounts due from related parties.

# Notes to Financial Statements (Continued)

31 December 2011  
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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As at 31 December 2011, the Group did not have significant commitment in relation to related parties.

## VII. CONTINGENT LIABILITIES

### 1. GUARANTEE

As at 31 December 2011, the Company had provided guarantees amounting to approximately RMB347 million (31 December 2010: approximately RMB356 million) to banks for trading facilities granted to certain subsidiaries.

### 2. DIFFERENCE OF CORPORATE INCOME TAX

As detailed in note III.3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

## VIII. COMMITMENTS

### 1. THE COMMITMENTS OF THE GROUP AS AT THE BALANCE SHEET DATE WERE AS FOLLOWS:

	2011 RMB'000	2010 RMB'000
Capital commitments		
Authorised, but not contracted for	<b>2,521,008</b>	5,206,758
Contracted, but not provided for	<b>5,431,956</b>	454,463
	<hr/>	<hr/>
Total	<b>7,952,964</b>	5,661,221
	<hr/> <hr/>	<hr/> <hr/>
Investment commitments		
Contracted, but not fully contributed	<b>153,000</b>	490,000
	<b>67,500</b>	35,000
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements (Continued)

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## VIII. COMMITMENTS (CONTINUED)

### 2. SHARE OF THE COMMITMENTS OF THE JOINTLY-CONTROLLED ENTITY BY THE GROUP (NOT INCLUDED IN NOTE 1 ABOVE) WERE AS FOLLOWS:

	2011 RMB'000	2010 RMB'000
Capital commitments		
Authorised, but not contracted for	<u>111</u>	<u>111</u>

## IX. POST BALANCE SHEET EVENTS

On 9 February 2012, the Company and the Holding entered into a share transfer agreement. The Holding agreed to transfer 42% equity interest in MASTEEL-Financial to the Company, at a price of RMB429,290,000. The price was determined based on ordinary trading terms, with reference to the valuation report made by Anhui Guoxin Asset Valuation Limited Liability Company, an independent valuation agency. The fair value of MASTEEL-Financial's net assets as at 31 December 2011 is valued at RMB1,022,120,000. Upon the completion of the agreement, the share holdings of the Company and the Holding in MASTEEL-Financial will be 91% and 9%, respectively. The account of MASTEEL-Financial will be consolidated in the Group's financial statements. By the report date, the above transaction has not yet been approved by the China Banking Regulatory Commission.

## X. OTHER SIGNIFICANT EVENTS

### 1. LEASES

#### As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rent is fixed during the operating lease periods.

	2011	2010
Remaining lease period		
Within 1 year, inclusive	<b>1,750,000</b>	1,900,000
1 to 2 years, inclusive	<b>1,750,000</b>	1,750,000
2 to 3 years, inclusive	<b>1,250,000</b>	1,750,000
Over 3 years	<b>10,157,534</b>	11,407,534
Total	<u><b>14,907,534</b></u>	<u>16,807,534</u>

# Notes to Financial Statements (Continued)

31 December 2011  
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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. ASSETS MEASURED AT FAIR VALUE

2011

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Financial assets at fair value through profit or loss	<b>826,640</b>	<b>(218,660)</b>	-	-	<b>607,980</b>

2010

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Financial assets at fair value through profit or loss	1,037,360	(210,720)	-	-	826,640

# Notes to Financial Statements (Continued)

31 December 2011  
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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 3. FINANCIAL ASSETS AND LIABILITIES AT FOREIGN CURRENCY

2011

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Cash and bank balances	707,636,029	-	-	-	2,840,304,266
Loans and trade receivables	340,383,976	-	-	-	441,856,745
<b>Financial liabilities</b>					
Borrowings	5,392,177,078	-	-	-	11,439,598,316
Trade payables	57,546,804	-	-	-	43,167,573

2010

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Cash and bank balances	2,451,586,939	-	-	-	707,636,029
Loans and trade receivables	126,848,334	-	-	-	340,383,976
<b>Financial liabilities</b>					
Borrowings	5,735,688,000	-	-	-	5,392,177,078
Trade payables	165,525,098	-	-	-	57,546,804

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a single business unit focusing on the manufacture and sale of iron and steel products and related by-products, and, therefore, has no separable operating segment.

#### The Group's information

##### Products and service information

##### External principal operation income

	2011	2010
Sale of steel products	<b>72,111,502,937</b>	60,566,803,980
Sale of steel billets and pig iron	<b>723,246,296</b>	473,444,596
Sale of coke by-products	<b>1,040,176,521</b>	923,140,461
Others	<b>7,543,639,822</b>	1,077,580,733
Total	<b>81,418,565,576</b>	63,040,969,770

##### Geographical information

##### External principal operation income

	2011	2010
The PRC	<b>79,861,669,032</b>	61,492,459,698
Overseas	<b>1,556,896,544</b>	1,548,510,072
Total	<b>81,418,565,576</b>	63,040,969,770

##### Non-current assets

	2011	2010
The PRC	<b>40,773,047,876</b>	38,893,484,379
Overseas	<b>197,388,457</b>	202,121,717
Total	<b>40,970,436,333</b>	39,095,606,096

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. OPERATING SEGMENT INFORMATION (CONTINUED)

#### The Group's information (Continued)

##### *Major customer information*

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

### 5. FINANCIAL INSTRUMENTS AND RISKS

The Group's principal financial instruments comprise interest-bearing bank borrowings, bonds with warrants, other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade receivables and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (1) Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2011

#### Financial assets

	Financial assets at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
Cash and bank balances	-	-	10,302,925,888	-	10,302,925,888
Financial assets held for trading	607,980	-	-	-	607,980
Bills receivable	-	-	8,750,705,282	-	8,750,705,282
Trade receivables	-	-	1,883,404,218	-	1,883,404,218
Other receivables	-	-	694,493,241	-	694,493,241
Dividends receivable	-	-	99,902,452	-	99,902,452
<b>Total</b>	<b>607,980</b>	<b>-</b>	<b>21,731,431,081</b>	<b>-</b>	<b>21,732,039,061</b>

#### Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	-	6,202,785,816	6,202,785,816
Bills payable	-	5,542,687,963	5,542,687,963
Accounts payable	-	7,030,282,017	7,030,282,017
Interest payable	-	218,132,515	218,132,515
Dividends payable	-	80,281,968	80,281,968
Other payables	-	731,793,349	731,793,349
Non-current liabilities due within one year	-	2,681,045,000	2,681,045,000
Long term loans	-	12,906,772,000	12,906,772,000
Bonds payable	-	9,243,722,051	9,243,722,051
<b>Total</b>	<b>-</b>	<b>44,637,502,679</b>	<b>44,637,502,679</b>

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (1) Classification of financial instruments (Continued)

2010

Financial assets

	Financial assets at at fair value through profit or loss	Held-to maturity investments	Loans and receivables	Available- for-sale financial assets	Total
Cash and bank balances	-	-	6,382,691,015	-	6,382,691,015
Financial assets					
held for trading	826,640	-	-	-	826,640
Bills receivable	-	-	8,374,602,622	-	8,374,602,622
Trade receivables	-	-	1,097,779,220	-	1,097,779,220
Other receivables	-	-	711,812,863	-	711,812,863
Dividends receivable	-	-	118,800,000	-	118,800,000
<b>Total</b>	<b>826,640</b>	<b>-</b>	<b>16,685,685,720</b>	<b>-</b>	<b>16,686,512,360</b>

Financial Liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	-	977,093,278	977,093,278
Bills payable	-	5,269,342,225	5,269,342,225
Accounts payable	-	5,550,236,792	5,550,236,792
Interest payable	-	58,185,998	58,185,998
Dividends payable	-	506,995,720	506,995,720
Other payables	-	946,266,361	946,266,361
Non-current liabilities			
due within one year		7,857,611,313	7,857,611,313
Long term loans	-	11,368,731,100	11,368,731,100
Bonds payable	-	997,833,200	997,833,200
<b>Total</b>	<b>-</b>	<b>33,532,295,987</b>	<b>33,532,295,987</b>

# Notes to Financial Statements (Continued)

31 December 2011  
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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (2) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk mainly arises from default or delinquency in principal payment trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in Note VII to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 16% (2009: 28%) and 44% (2009: 47%) of the Group's trade receivables were due from the Group's largest customer and five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes V.4 and V.7 to the financial statement.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (2) Credit risk (Continued)

As at 31 December, the ageing analysis of the Group's financial assets that are not considered to be impaired is as follows:

2011

	Total	Not overdue	Overdue	
			Less than six months	Over six months
Trade receivables	1,883,404,218	1,816,006,458	44,180,709	23,217,051
Bills receivable	8,750,705,282	8,750,705,282	-	-
Dividends receivable	99,902,452	99,902,452	-	-
Other receivables	694,493,241	690,041,475	3,256,829	1,194,937
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

2010

	Total	Not overdue	Overdue	
			Less than six months	Over six months
Trade receivables	1,097,779,220	1,036,151,858	40,132,657	21,494,705
Bills receivable	8,374,602,622	8,374,602,622	-	-
Dividends receivable	118,800,000	118,800,000	-	-
Other receivables	711,812,863	708,503,516	2,266,071	1,043,276
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

As at 31 December 2010, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flow of the Group into consideration.

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

#### 2011

##### Financial assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and bank balances	10,302,925,888	-	-	-	-	10,302,925,888
Financial assets held for trading	607,980	-	-	-	-	607,980
Bills receivable	8,750,705,282	-	-	-	-	8,750,705,282
Trade receivables	1,883,404,218	-	-	-	-	1,883,404,218
Dividend receivables	99,902,452	-	-	-	-	99,902,452
Other receivables	694,493,241	-	-	-	-	694,493,241

##### Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	6,202,785,816	-	-	-	-	6,202,785,816
Bills payable	5,542,687,963	-	-	-	-	5,542,687,963
Trade payables	7,030,282,017	-	-	-	-	7,030,282,017
Interest payable	218,132,515	-	-	-	-	218,132,515
Dividends payable	80,281,968	-	-	-	-	80,281,968
Other payables	731,793,349	-	-	-	-	731,793,349
Non-current liabilities due within one year	2,681,045,000	-	-	-	-	2,681,045,000
Long term loans	698,618,863	12,138,172,000	759,000,000	9,600,000	-	13,605,390,863
Bonds payable	517,164,000	1,476,372,333	6,354,206,633	2,560,502,100	-	10,908,245,066

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (3) Liquidity risk (CONTINUED)

2010

Financial assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and bank balances	6,382,691,015	-	-	-	-	6,382,691,015
Financial assets held for trading	826,640	-	-	-	-	826,640
Bills receivable	8,374,602,622	-	-	-	-	8,374,602,622
Trade receivables	1,097,779,220	-	-	-	-	1,097,779,220
Dividend receivables	118,800,000	-	-	-	-	118,800,000
Other receivables	711,812,863	-	-	-	-	711,812,863

Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	993,170,550	-	-	-	-	993,170,550
Bills payable	5,269,342,225	-	-	-	-	5,269,342,225
Trade payables	5,550,236,792	-	-	-	-	5,550,236,792
Interest payable	58,185,998	-	-	-	-	58,185,998
Dividends payable	506,995,720	-	-	-	-	506,995,720
Other payables	946,266,361	-	-	-	-	946,266,361
Non-current liabilities due within one year	8,162,053,122	-	-	-	-	8,162,053,122
Long term loans	206,000,636	10,490,538,044	1,093,268,685	-	-	11,789,807,365
Bonds payable	4,267,123	44,500,000	1,044,500,000	-	-	1,093,267,123

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (4) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The market risk mainly included interest rate risk and foreign currency risk.

##### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligations with a floating interest rate.

Change in market interest rates could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in net profit</b>
<b>2010</b>		
RMB	<b>50</b>	<b>(29,603,000)</b>
USD	<b>50</b>	<b>(6,877,749)</b>
RMB	<b>(50)</b>	<b>29,603,000</b>
USD	<b>(50)</b>	<b>6,877,749</b>
<b>2010</b>		
RMB	50	(34,895,000)
USD	50	(20,960,846)
RMB	(50)	34,895,000
USD	(50)	20,960,846

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (4) Market risk (Continued)

##### *Foreign currency risk*

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency) and its net investment arising from overseas subsidiaries.

The Group faces transactional foreign currency risk. This risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has 1% (2009: 1%) of the sales amount which were generated from sales of the operating units which transacted in currencies other than their functional currencies.

The businesses of the Group are principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings were denominated in United States dollar, Euros and Japanese yen. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

The carrying amount and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in note V.1, 4, 17, 19 and 26 to the financial statements, respectively.

The aforesaid foreign currencies could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese yen, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities).

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (4) Market risk (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit
<b>2011</b>		
Depreciation of RMB to USD	1%	(92,344,396)
Depreciation of RMB to Euro	1%	4,419,877
Depreciation of RMB to Japanese Yen	1%	(7,349)
Appreciation of RMB to USD	1%	92,344,396
Appreciation of RMB to Euro	1%	(4,419,877)
Appreciation of RMB to Japanese Yen	1%	7,349
<b>2010</b>		
Depreciation of RMB to USD	1%	(50,360,772)
Depreciation of RMB to Euro	1%	310,279
Depreciation of RMB to Japanese Yen	1%	(58,082)
Appreciation of RMB to USD	1%	50,360,772
Appreciation of RMB to Euro	1%	(310,279)
Appreciation of RMB to Japanese Yen	1%	58,082

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 6. FAIR VALUE

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions are used in estimating fair value.

The fair value of cash and bank balances, bills receivable, trade receivables, dividends receivable, other receivables, bills payable, accounts payable, interest payable, dividends payable and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the long term and short term loans, medium-term notes payable, non-current liabilities due within one year and bonds payable have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted market prices.

The carrying amount and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2011	2010	2011	2010
<b>Financial liabilities</b>				
Long term loans	<b>12,906,772,000</b>	11,368,731,100	<b>12,906,772,000</b>	11,368,731,100
Bonds payable	<b>9,243,722,051</b>	997,833,200	<b>9,438,448,000</b>	1,000,000,000

The Group uses the following hierarchy for determining the fair value of financial instruments:

Level 1 refers to the use of quoted prices for identical assets and liabilities existing on active markets available to entities that have access on the measurement date. The fair value is determined based on these quoted prices. Level 2 refers to the use of quoted prices for similar assets and liabilities existing on active markets, or quoted prices for identical or similar assets and liabilities existing on non-active markets, available to entities that have access on the measurement date. The fair value is determined based on these quoted prices with necessary adjustment. Level 3 refers to the determination of fair value based on other parameters which reflects the parameters adopted by the market participants in respect of pricing the asset or liability, when the enterprise is unable to have access to the comparable market price of identical or similar asset.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 6. FAIR VALUE (CONTINUED)

Financial instruments measured at fair value:

2011

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	<u>607,980</u>	<u>-</u>	<u>-</u>	<u>607,980</u>

2010

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	<u>826,640</u>	<u>-</u>	<u>-</u>	<u>826,640</u>

During the year ended 31 December 2011 and 31 December 2010, there was no significant transfer into or out of Level 3.

# Notes to Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### \*7. OTHER FINANCIAL INFORMATION

	Group		Company	
	2011	2010	2011	2010
Current assets	<b>39,516,166,270</b>	30,515,450,995	<b>27,757,450,810</b>	25,047,202,788
Less: Current liabilities	<b>29,432,677,640</b>	29,166,308,995	<b>18,707,771,692</b>	23,735,484,088
Net current assets	<b>10,083,488,630</b>	1,349,142,000	<b>9,049,679,118</b>	1,311,718,700

	Group		Company	
	2011	2010	2011	2010
Total assets	<b>81,113,028,919</b>	70,104,925,186	<b>66,825,015,545</b>	62,727,462,683
Less: Current liabilities	<b>29,432,677,640</b>	29,166,308,995	<b>18,707,771,692</b>	23,735,484,088
Net total assets minus liabilities	<b>51,680,351,279</b>	40,938,616,191	<b>48,117,243,853</b>	38,991,978,595

### \*8. EMPLOYEE COSTS (EXCLUDING DIRECTORS AND SUPERVISORS' REMUNERATION (NOTE VI.10))

	2011	2010
Wages and salaries	<b>2,714,899,208</b>	2,552,097,364
Welfare	<b>907,709,086</b>	820,557,587
Pension scheme contributions (i)	<b>665,903,915</b>	594,420,006
Total	<b>4,288,512,209</b>	3,967,074,957

(i) As at 31 December 2011 and 31 December 2010, no contribution was capitalised or waived, to reduce the Group's liability to pay pension scheme contributions in the future.

### 9. COMPARATIVE DATA

Certain comparative figures have been restated to conform to the current year's disclosure requirements.

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

### 1. TRADE RECEIVABLES

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days.

An aged analysis of trade receivables is as follows:

	2011	2010
Within one year	<b>2,205,528,263</b>	2,274,689,449
One to two years	<b>155,444,562</b>	40,161,435
Two to three years	<b>22,491,689</b>	40,367,325
Over three years	<b>42,841,419</b>	8,999,801
	<b>2,426,305,933</b>	2,364,218,010
Less: Provisions for bad debts	<b>13,382,203</b>	13,382,203
Total	<b>2,412,923,730</b>	2,350,835,807

Trade receivables balance is analysed as follows:

	2011				2010			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed impairment individually	<b>1,424,379,952</b>	<b>59</b>	<b>(6,927,040)</b>	-	856,832,212	36	(6,927,040)	1
Other insignificant but assessed impairment individually	<b>1,001,925,981</b>	<b>41</b>	<b>(6,455,163)</b>	-	1,507,385,798	64	(6,455,163)	-
Total	<b>2,426,305,933</b>	<b>100</b>	<b>(13,382,203)</b>		2,364,218,010	100	(13,382,203)	

The movement of provision for bad debts against trade receivables for the year is disclosed in note XI.5.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. TRADE RECEIVABLES (CONTINUED)

The following balances are denominated in foreign currencies:

	2011			2010		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	1,687,901	6.3009	10,635,294	47,603,264	6.6227	315,262,136
EUR	49,837,142	8.1625	406,795,668	80,318	8.8065	707,321
			<b>417,430,962</b>			<b>315,969,457</b>

An analysis of the amount of provision for bad debts being written off in the current year:

Reason	2011	2010
Bankrupt or liquidated debtors	-	4,638,129
Debtors with age over three years and demonstrated by sufficient evidence that they were irrecoverable	-	-
Less: Reversal of bad debts provisions written-off in prior year	-	-
Total	<b>-</b>	<b>4,638,129</b>

As at 31 December 2011, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	637,463,994	Within one year	26
Company 2	Subsidiary	348,923,986	Within one year	14
Company 3	Subsidiary	91,943,154	Within one year	4
Company 4	Independent third party	91,774,515	Within one year	4
Company 5	Subsidiary	61,980,439	Within one year	3
		<b>1,232,086,088</b>		<b>51</b>

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2010, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Subsidiary	1,046,963,539	Within one year	44
Company 2	Independent third party	176,221,549	Within one year	7
Company 3	Independent third party	174,252,178	Within one year	7
Company 4	Independent third party	100,964,605	Within one year	4
Company 5	Independent third party	99,402,907	Within one year	4
		<b>1,597,804,778</b>		<b>66</b>

### 2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2011	2010
Within one year	<b>53,878,811</b>	70,384,692
One to two years	<b>33,348,070</b>	1,611,993
Two to three years	<b>226,710</b>	3,317,229
Over three years	<b>6,687,408</b>	5,403,133
	<b>94,140,999</b>	80,717,047
Less: Provisions for bad debts	<b>6,930,913</b>	6,930,913
Total	<b>87,210,086</b>	73,786,134

The movement of provision for bad debts against other receivables for the year is disclosed in note XI.5.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. OTHER RECEIVABLES

Other receivables balance is analysed as follows:

	2011				2010			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Rate (%)	Amount	Rate (%)	Balance	Rate (%)	Amount	Rate (%)
Individually significant and assessed impairment								
Individually	41,538,083	44	(2,400,000)	6	37,441,143	46	(2,400,000)	6
Other insignificant but assessed impairment								
Individually	52,602,916	56	(4,530,913)	9	43,275,904	54	(4,530,913)	10
Total	<b>94,140,999</b>	<b>100</b>	<b>(6,930,913)</b>		<b>80,717,047</b>	<b>100</b>	<b>(6,930,913)</b>	

During the year, there was no provision for bad debts against other receivables being written off.

As at 31 December 2011, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	32,407,410	One to two years	34
Company 2	Independent third party	6,730,673	Within one year	7
Company 3	Independent third party	2,400,000	Over three years	3
Company 4	Independent third party	1,288,268	Over three years	1
Company 5	Independent third party	960,000	Over three years	1
		<b>43,786,351</b>		<b>46</b>

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. OTHER RECEIVABLES (CONTINUED)

As at 31 December 2010, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	31,535,253	Within one year	39
Company 2	Independent third party	3,503,840	One to two years	4
Company 3	Independent third party	2,400,000	Over three years	3
Company 4	Independent third party	1,790,200	Within one year	2
Company 5	Subsidiary	1,489,877	Two to three years	2
		40,719,170		50

### 3. INVENTORIES

	2011			2010		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	6,581,517,319	(526,707,239)	6,054,810,080	6,970,398,323	-	6,970,398,323
Spare parts	2,078,696,861	(61,226,316)	2,017,470,545	1,712,853,023	(61,875,468)	1,650,977,555
Finished goods	968,403,969	(61,316,046)	907,087,923	420,467,782	-	420,467,782
Work in progress	1,541,059,619	(86,456,715)	1,454,602,904	1,428,625,947	-	1,428,625,947
Construction contract	-	-	-	131,230,300	-	131,230,300
Total	11,169,677,768	(735,706,316)	10,433,971,452	10,663,575,375	(61,875,468)	10,601,699,907

The movement of impairment provision against inventories for the year is disclosed in note XI.5.

At each balance sheet date, inventories were measured at the lower of cost and net realisable value, and provision for impairment was made for items whose cost was higher than their net realisable value. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2011 and 2010, there was no reversal of impairment provision against inventories.

# Notes to Financial Statements (Continued)

31 December 2011  
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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS

	2011	2010
Long term investments under the equity method		
Jointly-controlled entities (i)	<b>330,435,137</b>	326,392,771
Associates (ii)	<b>1,119,609,961</b>	583,643,250
Long term investments under the cost method		
Subsidiaries (iii)	<b>3,834,997,239</b>	1,200,552,795
Other equity investments (iv)	<b>123,772,160</b>	108,772,160
	<b>5,408,814,497</b>	2,219,360,976
Less: Provision for impairment	-	-
Total	<b>5,408,814,497</b>	2,219,360,976

According to the directors' opinion, there was no material restriction on the realisation of investments as at the balance sheet date.

\* The above investments in jointly-controlled entities and associates under the equity method and the investments in subsidiaries and other entities under cost method are all unlisted equity investments.

The movement of impairment provision for long term investment for the year is disclosed in note XI.5.

# Notes to Financial Statements (Continued)

31 December 2011  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (i) Jointly-controlled entities

2011						
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including:	Closing balance
					Cash dividend received during the year	
BOC-Ma Steel	234,000,000	325,807,282	87,174,414	(83,109,394)	(83,109,394)	329,872,302
MASTEEL-CMI	500,000	585,489	-	(22,654)	-	562,835
		<u>326,392,771</u>	<u>87,174,414</u>	<u>(83,132,048)</u>		<u>330,435,137</u>
Less: Impairment		<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
		<u><u>326,392,771</u></u>	<u><u>87,174,414</u></u>	<u><u>(83,132,048)</u></u>		<u><u>330,435,137</u></u>
2010						
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including:	Closing balance
					Cash dividend received during the year	
BOC-Ma Steel	234,000,000	308,822,884	84,103,476	(67,119,078)	(67,119,078)	325,807,282
MASTEEL-CMI	500,000	849,620	64,512	(328,643)	(328,643)	585,489
		<u>309,672,504</u>	<u>84,167,988</u>	<u>(67,447,721)</u>		<u>326,392,771</u>
Less: Impairment		<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
		<u><u>309,672,504</u></u>	<u><u>84,167,988</u></u>	<u><u>(67,447,721)</u></u>		<u><u>326,392,771</u></u>

Major financial information of the jointly-controlled entities is disclosed in note V.9

# Notes to Financial Statements (Continued)

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Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (ii) Associates

Name of investee	2011					Closing balance
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	
Jiyuan JinMa Coke	80,000,000	125,091,931	35,851,764	-	-	160,943,695
Shenglong Chemical	66,776,000	205,852,171	-	(20,320,012)	-	185,532,159
Shanghai Iron and Steel Electronic	4,000,000	35,281,697	10,365,248	(6,000,000)	(6,000,000)	39,646,945
Maanshan Harbour	112,500,000	182,417,451	11,128,386	(1,800,000)	(1,800,000)	191,745,837
Zhengpu Harbour	35,000,000	35,000,000	-	(4,516)	-	34,995,484
MASTEEL-Financial	490,000,000	-	496,844,061	-	-	496,844,061
Xin Chuang Economize Resource	17,500,000	-	10,000,000	(98,220)	-	9,901,780
		583,643,250	564,189,459	(28,222,748)		1,119,609,961
Less: Impairment		-	-	-		-
		583,643,250	564,189,459	(28,222,748)		1,119,609,961

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (ii) Associates

Name of investee	2010					
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
Jiyuan Jinma Coke	80,000,000	202,370,092	59,521,839	(136,800,000)	(136,800,000)	125,091,931
Tengzhou Shenglong Coke	66,776,000	180,697,941	25,154,230	-	-	205,852,171
Shanghai Iron and Steel Electronic	4,000,000	8,878,969	26,402,728	-	-	35,281,697
Maanshan Harbour	112,500,000	170,620,165	13,372,286	(1,575,000)	(1,575,000)	182,417,451
Zhengpu Harbour	35,000,000	-	35,000,000	-	-	35,000,000
		<u>562,567,167</u>	<u>159,451,083</u>	<u>(138,375,000)</u>		<u>583,643,250</u>
Less: Impairment		-	-	-		-
		<u>562,567,167</u>	<u>159,451,083</u>	<u>(138,375,000)</u>		<u>583,643,250</u>

Major financial information of associates is disclosed in note V.9

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (iii) Subsidiaries

Name of investee	2011				
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Ma Steel International Trade Corp	50,000,000	50,000,000	-	-	50,000,000
Design & Research Institute	7,500,000	7,500,000	-	-	7,500,000
MG Control Technique	7,500,000	7,500,000	-	-	7,500,000
Anhui Masteel K. Wah	24,854,930	44,443,067	-	-	44,443,067
Ma Steel (Wuhu)	8,225,885	8,225,885	-	-	8,225,885
Ma Steel (Guangzhou)	80,000,000	80,000,000	-	-	80,000,000
Ma Steel (HK)	4,101,688	4,101,688	-	-	4,101,688
MG Trading	1,573,766	1,573,766	-	-	1,573,766
Holly Industrial	21,478,316	21,478,316	-	-	21,478,316
Huayang Equipment	900,000	900,000	-	-	900,000
Ma Steel (Jinhua)	90,000,000	90,000,000	-	-	90,000,000
Ma Steel (Australia)	126,312,415	126,312,415	-	-	126,312,415
Ma Steel (Hefei)	355,000,000	355,000,000	-	-	355,000,000
Ma Steel (Hefei) Processing	73,200,000	73,200,000	-	-	73,200,000
Ma Steel (Yangzhou) Processing	61,651,010	116,462,300	-	-	116,462,300
Ma Steel Roller	22,720,806	106,855,358	-	-	106,855,358
Used Vehicle Trading	500,000	500,000	-	-	500,000
Wuhu Technique	26,625,000	106,500,000	-	-	106,500,000
Ma Steel Electrical Repair	10,000,000	-	10,000,000	-	10,000,000
Ma Steel Steel Structure	530,000,000	-	530,000,000	-	530,000,000
Ma Steel Surface Engineering	275,000,000	-	275,000,000	-	275,000,000
Ma Steel Equipment Installation	100,000,000	-	100,000,000	-	100,000,000
Ma Steel Resource Regeneration	50,000,000	-	50,000,000	-	50,000,000
Shanghai Trading	60,000,000	-	60,000,000	-	60,000,000
Ma Steel Chongqing Material	175,000,000	-	175,000,000	-	175,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	1,234,444,444	-	1,234,444,444
Ma Steel Yuyuan Logistics	200,000,000	-	20,000,000	-	20,000,000
		1,200,552,795	2,634,444,444	-	3,834,997,239
Less: Impairment		-	-	-	-
Total		1,200,552,795	2,634,444,444	-	3,834,997,239

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (iii) Subsidiaries (Continued)

Name of investee	2010				
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Ma Steel International Trade Corp	50,000,000	50,000,000	-	-	50,000,000
Design & Research Institute	7,500,000	7,500,000	-	-	7,500,000
MG Control Technique	7,500,000	7,500,000	-	-	7,500,000
Anhui Masteel K. Wah	24,854,930	44,443,067	-	-	44,443,067
Ma Steel (Wuhu)	8,225,885	8,225,885	-	-	8,225,885
Ma Steel (Guangzhou)	80,000,000	80,000,000	-	-	80,000,000
Ma Steel (HK)	4,101,688	4,101,688	-	-	4,101,688
MG Trading	1,573,766	1,573,766	-	-	1,573,766
Holly Industrial	21,478,316	21,478,316	-	-	21,478,316
Huayang Equipment	900,000	900,000	-	-	900,000
Ma Steel (Jinhua)	90,000,000	90,000,000	-	-	90,000,000
Ma Steel (Australia)	126,312,415	126,312,415	-	-	126,312,415
Ma Steel (Hefei)	355,000,000	355,000,000	-	-	355,000,000
Ma Steel (Hefei) Processing	73,200,000	73,200,000	-	-	73,200,000
Ma Steel (Yangzhou) Processing	61,651,010	116,462,300	-	-	116,462,300
Ma Steel Roller	22,720,806	106,855,358	-	-	106,855,358
Used Vehicle Trading	500,000	500,000	-	-	500,000
Wuhu Technique	26,625,000	106,500,000	-	-	106,500,000
		1,200,552,795	-	-	1,200,552,795
Less: Impairment		-	-	-	-
Total		1,200,552,795	-	-	1,200,552,795

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

#### (iv) Other equity investments

Name of investee	2011				
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	-	-	10,000,000
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360
China First Heavy Industries Ma'anshan heavy Industry Co., Ltd.	15,000,000	-	15,000,000	-	15,000,000
Others	1,450,000	1,450,000	-	-	1,450,000
		108,772,160	15,000,000	-	123,772,160
Less: Impairment		-	-	-	-
Total		108,772,160	15,000,000	-	123,772,160

Name of investee	2010				
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	-	-	10,000,000
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360
Others	1,450,000	1,450,000	-	-	1,450,000
		108,772,160	-	-	108,772,160
Less: Impairment		-	-	-	-
Total		108,772,160	-	-	108,772,160

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. ASSETS IMPAIRMENT PROVISIONS

	2011					Closing balance
	Opening Balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	20,313,116	-	-	-	-	20,313,116
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	6,930,913	-	-	-	-	6,930,913
Provisions for inventories	61,875,468	674,480,000	-	(649,152)	-	735,706,316
Including: Raw Materials	-	526,707,239	-	-	-	526,707,239
Semi-finished products	-	86,456,715	-	-	-	86,456,715
Finished products	-	61,316,046	-	-	-	61,316,046
Spare parts	61,875,468	-	-	(649,152)	-	61,226,316
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
<b>Total</b>	<b>170,043,320</b>	<b>674,480,000</b>	<b>-</b>	<b>(649,152)</b>	<b>-</b>	<b>843,874,168</b>

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. ASSETS IMPAIRMENT PROVISIONS

	2010					
	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	24,951,245	-	-	-	(4,638,129)	20,313,116
Including: Trade receivables	18,020,332	-	-	-	(4,638,129)	13,382,203
Other receivables	6,930,913	-	-	-	-	6,930,913
Provisions for inventories	82,043,978	13,906,462	-	(34,074,972)	-	61,875,468
Including: Raw Materials	33,417,210	-	-	(33,417,210)	-	-
Spare parts	48,626,768	13,906,462	-	(657,762)	-	61,875,468
Impairment of fixed assets	90,675,644	-	-	-	(2,820,908)	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	(2,820,908)	82,602,336
Total	197,670,867	13,906,462	-	(34,074,972)	(7,459,037)	170,043,320

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2011	2010
Principal operating income	<b>71,370,701,130</b>	60,102,222,139
Other operating income	<b>6,696,420,095</b>	5,271,739,336
Total	<b>78,067,121,225</b>	65,373,961,475

Cost of sales is stated as follows:

	2011	2010
Principal cost of sales	<b>70,096,935,250</b>	57,744,021,527
Other cost of sales	<b>6,187,184,796</b>	4,911,146,151
Total	<b>76,284,120,046</b>	62,655,167,678

Principal operating income is stated as follows:

	2011	2010
Sale of steel products	<b>62,945,297,567</b>	57,941,244,287
Sale of steel billets and pig iron	<b>544,402,209</b>	473,336,336
Sale of coke by-products	<b>948,850,444</b>	861,552,652
Others	<b>6,932,150,910</b>	826,088,864
Total	<b>71,370,701,130</b>	60,102,222,139

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND COST OF SALES (CONTINUED)

In 2011, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue(%)
Company 1	4,857,613,219	6
Company 2	2,646,322,746	3
Company 3	2,286,558,425	3
Company 4	2,147,473,122	3
Company 5	1,610,452,973	2
Total	<u>13,548,420,485</u>	<u>17</u>

In 2010, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue(%)
Company 1	4,912,443,602	8
Company 2	3,011,059,382	5
Company 3	2,938,812,064	4
Company 4	2,096,276,110	3
Company 5	1,872,832,051	3
Total	<u>14,831,423,209</u>	<u>23</u>

# Notes to Financial Statements (Continued)

31 December 2011  
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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 7. ASSETS IMPAIRMENT LOSS

	2011	2010
Reversal of provision for bad debts	-	-
Including: Trade receivables	-	-
Other receivables	-	-
Provision for inventories	<b>674,480,000</b>	13,906,462
Provision of held-to-maturity investments	-	-
Provision of long term equity investments	-	-
Provision of investment properties	-	-
Provision of fixed assets	-	-
Provision of construction in progress	-	-
Provision of intangible assets	-	-
Total	<b>674,480,000</b>	13,906,462

### 8. INVESTMENT INCOME

	2011	2010
Long term equity investments income under the equity method	<b>130,918,471</b>	208,619,071
Long term equity investments income under the cost method	<b>75,411,319</b>	192,768,726
Gain on disposal of financial assets held for trading	<b>282,605</b>	375,837
Other investment income	-	-
Total	<b>206,612,395</b>	401,763,634

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

# Notes to Financial Statements (Continued)

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## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 9. CASH FLOWS FROM OPERATING ACTIVITIES

	2011	2010
Net profit	<b>(278,171,955)</b>	905,716,559
Add: Provision for inventories	<b>674,480,000</b>	13,906,462
Depreciation of fixed assets	<b>3,973,189,378</b>	4,596,267,526
Amortisation of investment properties	<b>405,049</b>	405,049
Amortisation of intangible assets	<b>32,079,116</b>	31,864,512
Amortisation of deferred income	<b>(78,457,832)</b>	(77,399,981)
Loss on disposal of non-current assets	<b>5,261,751</b>	5,987,267
Financial expenses	<b>517,006,869</b>	502,642,126
Investment income	<b>(206,612,395)</b>	(401,763,634)
Loss on fair value changes of financial assets held for trading	<b>218,660</b>	210,720
(Increase)/decrease in deferred tax assets	<b>(117,425,843)</b>	288,270,297
Increase in inventories	<b>(506,751,545)</b>	(2,886,165,748)
Increase in receivables from operating activities	<b>(681,503,616)</b>	(5,327,606,805)
Increase in payables from operating activities	<b>663,458,379</b>	1,336,433,670
Net cash flows from operating activities	<b><u>3,997,176,016</u></b>	<b><u>(1,011,231,980)</u></b>

# Appendix Supplementary Information

31 December 2011  
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## 1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

	2011	2010
<b>Non-recurring gains or losses items</b>		
Loss on disposal of non-current assets	<b>(18,753,548)</b>	(6,513,280)
Subsidies income	<b>84,455,658</b>	78,449,439
Amortisation of deferred income	<b>82,109,482</b>	79,527,452
Other non-operating income and expense items	<b>(5,010,046)</b>	(5,800,365)
Loss on fair value changes of financial assets held for trading	<b>(218,660)</b>	(210,720)
Other investment income	<b>466,006</b>	403,033
	<b>143,048,892</b>	145,855,559
Less: Income tax effect of non-recurring gains or losses	<b>34,795,494</b>	34,163,178
Non-recurring gains or losses attributable to minority shareholders	<b>7,699,403</b>	9,531,220
Net effect of non-recurring gains or losses	<b>100,553,995</b>	102,161,161
<b>Net profit attributable to equity holders of the parent excluding non-recurring gains or losses</b>		
Net profit attributable to equity holders of the parent	<b>69,578,129</b>	1,101,838,516
Less: Net effect of non-recurring gains or losses	<b>100,553,995</b>	102,161,161
Net (loss)/profit attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(30,975,866)</b>	999,677,355

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) issued by CSRC.

# Appendix Supplementary Information (Continued)

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## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2011

	<u>Return on net assets</u>	<u>Earnings per share (RMB)</u>	
	(%)	Basic	Diluted
Net profit attributable to equity holders of the parent	<b>0.26</b>	<b>0.009</b>	<b>N/A</b>
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(0.11)</b>	<b>(0.004)</b>	<b>N/A</b>

2010

	<u>Return on net assets</u>	<u>Earnings per share (RMB)</u>	
	(%)	Basic	Diluted
Net profit attributable to equity holders of the parent	4.08	0.143	N/A
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	3.70	0.130	N/A

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by CSRC.

# Appendix Supplementary Information (Continued)

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## 3. VARIANCE ANALYSIS

According to the requirement of Information Disclosure Rules of Companies which Publicly Issue Securities No. 15-General Rules on Financial Statements (amended in 2010), an analysis for the financial statement items either with fluctuation over 30% compared with the comparative period, or with the amount over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

- (1) Cash and bank balances amounted to RMB10,302,925,888, a decrease of 61% over the previous year, which was mainly attributable to the increase in the net cash inflow from operating activities and loans.
- (2) Trade receivables amounted to RMB1,883,404,218, an increase of 72% over the previous year, which was mainly attributable to the fact that sales revenue generated in 2011 is higher than that of 2010.
- (3) Prepayments amounted to RMB3,651,999,532, an increase of 165% over the previous year, which was mainly attributable to the increase in the purchase of steel that should be settled by prepayments, and the acquisition of Anhui Chang Jiang Iron and Steel.
- (4) Long-term equity investments amounted to RMB1,610,793,100, an increase of 56% over the previous year, which was mainly attributable to the setting up of an associate, MASTEEL-Financial.
- (5) Investment property amounted to RMB4,540,409, a decrease of 33% over the previous year, which was mainly attributable to the fact that the operating lease contract of land use right of one subsidiary expired in 2011 and transferred to intangible assets.
- (6) Construction in progress amounted to RMB4,672,053,374, an increase of 211% over the previous year, which was mainly attributable to the construction of certain quality-improve projects with large amount and the acquisition of Anhui Chang Jiang Iron and Steel.
- (7) Short term loans amounted to RMB6,202,785,816, an increase of 535% over the previous year, which was mainly attributable to the increase in imports settled with inward documentary bills over the previous year, and the acquisition of Anhui Chang Jiang Iron and Steel.
- (8) Interests payable amounted to RMB218,132,515, an increase of 275% over the previous year, which was mainly attributable to the increase of loans.
- (9) Dividends payable amounted to RMB80,281,968, a decrease of 84% over the previous year, which was mainly attributable to payment of dividends announced in previous years.

# Appendix Supplementary Information (Continued)

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## 3. VARIANCE ANALYSIS (CONTINUED)

- (10) Non-current liabilities due within one year amounted to RMB2,681,045,000, a decrease of 66% over the previous year, which was mainly attributable to the repayment of bonds with warrants in the current year.
- (11) Bonds payable amounted to RMB9,243,722,051, an increase of 826% over the previous year, which was mainly attributable to the issuance of medium-term notes and corporate bonds.
- (12) Deferred tax liability amounted to RMB44,328,987, an increase of 100% over the previous year, which was mainly attributable to the fact that the fair value of net assets of the newly acquired subsidiary, Anhui Chang Jiang Iron and Steel, is higher than its book value.
- (13) Exchange fluctuation reserve amounted to RMB16,483,680, a decrease of 60% which was mainly attributable to the depreciation of certain overseas subsidiaries' functional currency against Renminbi.
- (14) Minority interests amounted to RMB1,978,339,214, an increase of 181% which was mainly attributable to the acquisition of two non-wholly-owned subsidiaries in the current year.
- (15) Revenue amounted to RMB86,842,202,249, an increase of 34% over the previous year which was mainly attributable to the increase in steel selling prices and the acquisition of Anhui Chang Jiang Iron and Steel.
- (16) Cost of sales amounted to RMB83,363,550,895, an increase of 36% over the previous year which was mainly attributable to the rising price of raw materials and the acquisition of Anhui Chang Jiang Iron and Steel.
- (17) Business taxes and surcharges amounted to RMB226,163,162, a decrease of 15% over the previous year, which was mainly attributable to the decrease in value added tax generated in 2011 as a result of the descending gross profit ratio of steel products, leading to the decrease in city maintenance and construction tax and educational surcharges.
- (18) Selling expenses amounted to RMB285,821,929 an increase of 20% over the previous year, which was mainly attributable to the acquisition of Anhui Chang Jiang Iron and Steel.
- (19) Administrative expenses amounted to RMB1,291,493,700, an increase of 7% over the previous year, which was mainly attributable to the acquisition of Anhui Chang Jiang Iron and Steel.
- (20) Financial expenses amounted to RMB989,610,102, a decrease of 35% over the previous year, which was mainly attributable to the increase of the average balance of loans in the current year.

# Appendix Supplementary Information (Continued)

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## 3. VARIANCE ANALYSIS (CONTINUED)

- (21) Asset impairment losses amounted to RMB676,714,989, an increase of 3760% over the previous year which was mainly attributable to accrual of impairment provision against inventory.
- (22) Investment income amounted to RMB150,451,675, a decrease of 31% over the previous year, which was mainly attributable to the decrease in profits of associates.
- (23) Non-operating expenses amounted to RMB24,178,005, an increase of 81% over the previous year which was mainly attributable to the increase in non-current assets disposal losses.
- (24) Income tax amounted to RMB111,602,445, a decrease of 79% over the previous year, which was mainly attributable to the decrease in profit for the current year.
- (25) Share of profit or loss of minority interests amounted to RMB119,918,794, an increase of 34% over the previous year, which was mainly attributable to the acquisition of the non-wholly-owned subsidiary, Anhui Chang Jiang Iron and Steel.



## XIII. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.
2. Original copy of the audited accounts prepared under the China Accounting Standards, sealed by Ernst & Young Hua Ming and signed by Ms. Zhong Li and Ms. Wu Guoxin, certified public accountants in the PRC.
3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.
4. Annual report announced on the website of the Hong Kong Stock Exchange.
5. The Articles of Association of the Company.