

# 2012 Annual Report

H Share Code: 323

A Share Code: 600808



**MAANSHAN IRON & STEEL COMPANY LIMITED**

## Contents

I.	Definitions and Warning of Significant Risks	2
II.	Company Introduction	4
III.	Summary of Accounting and Financial Data	8
IV.	Report of the Directors	11
V.	Significant Matters	40
VI.	Movements in Share Capital and Shareholders	48
VII.	Directors, Supervisors, Senior Management and Employees	54
VIII.	Corporate Governance	64
IX.	Internal Control	82
X.	Financial Statements	84
XI.	Documents Available for Inspection	272

### IMPORTANT NOTICE

- I. The board of directors, the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
- II. All directors of the Company attended the Board meeting.
- III. Ernst & Young Hua Ming LLP has issued a standard unqualified opinion in its auditor's reports on the Company's financial statements.
- IV. Mr. Su Jiangang, representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Zhang Qianchun, head of Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the annual report.
- V. Given that the Company incurred a substantial loss in 2012, the Board did not recommend the payment of a cash dividend for year 2012, and no capital reserve fund will be transferred to share capital. The retained profit will be carried forward to 2013. This distribution proposal is yet to be submitted to the annual general meeting for consideration.
- VI. There is no occupancy of non-operating funds by the controlling shareholders or related parties.
- VII. There is no violation of regulations, decisions or procedures in relations to provision of external guarantees.
- VIII. Reminbi, in which the financial statements are presented except when otherwise indicated.

# I. Definitions and Warning of Significant Risks

## (1) DEFINITIONS

In this report, unless the context otherwise requires, the following terms have the following meanings:

Definitions of common terms		
The Company or Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	The Company and its subsidiaries
Holding	means	Magang (Group) Holding Company Limited
Board	means	the Board of Directors of the Company
Directors	means	the directors of the Company
Supervisory Committee	means	the Supervisory Committee of the Company
Supervisors	means	the supervisors of the Company
Hong Kong Stock Exchange	means	The Stock Exchange of Hong Kong Limited
SSE	means	Shanghai Stock Exchange
A shares	means	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB.
H shares	means	the foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars.
SD&C Shanghai Branch	means	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi
CSRC	means	China Securities Regulatory Commission
CBRC	means	China Banking Regulatory Commission
MIIT	means	the Ministry of Industry and Information Technology of the People's Republic of China
CISA	means	China Iron and Steel Association
Ernst & Young Hua Ming	means	Ernst & Young Hua Ming LLP
Articles of Association	means	the Articles of Association of Maanshan Iron and Steel Company Limited
MASTEEL-Financial	means	Magang Group Finance Company Limited
Logistics Company	means	Maanshan Masteel Yuyuan Logistics Co., Ltd.
Anhui Xinchuang	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited

## (2) WARNING OF SIGNIFICANT RISKS

An analysis of major risks posed to the Company, such as macro policy risks, risks associated with fluctuations in the prices of raw materials and fuels as well as financial risks, was conducted in the report. See “Major risks in future and countermeasures” under “Management Discussion and Analysis” in Section IV: Report of the Directors for details.



## II. Company Introduction

### (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, Auhui Province, the PRC	No. 8 Jiu Hua Xi Road, Maanshan City, Auhui 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, Auhui Province, the PRC
Postal code of the registered address	243003
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Auhui 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">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) COMPANY REPORT REGISTRATION CHANGES DURING THE PERIOD

### 1. Basic Information

No change in registration of the Company during the reporting period.

### 2. Index of First Registration Information

Further details of information of first registration are included in basic information of 2011 annual report.

### 3. Change of Principal Business after Listed

#### (i) 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.

#### (ii) 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.



## II. Company Introduction (continued)

**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, lowcost 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.

## (7) OTHER RELEVANT INFORMATIONS

The auditors appointed by the Company	Company name	Ernst & Young Hua Ming
	Office address	Level 16, Ernst & Young Tower (E3), Oriental Plaza, No.1 East Chang An Avenue, Dong Cheng District, Beijing 100738, China, China
	Name of the auditor who signed the report	Zhong Li Sun Zhongni



### III. Summary of Accounting and Financial Data

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

##### 1. Major Accounting Data

Magang Group Finance Company Limited ("MASTEEL-Financial") was acquired by the Company under common control in current year. Certain financial figures in the preceding year have been restated in accordance with Accounting Standards for Business Enterprises. The below comparable financial indicator presented both the before and after restated figures separately. Please refer to Section X – "Financial Statements" for details about the acquisition of MASTEEL-Financial.

Unit: RMB'000

Major accounting data	2012	2011		Increase/ (decrease) compared to the previous year (%)	2010
		After restated	Before restated		
Operating revenue	<b>74,404,364</b>	86,854,060	86,842,202	-14.33	64,981,112
Net profit attributable to shareholders of the Company	<b>-3,863,233</b>	82,369	69,578	-4,790.15	1,101,839
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	<b>-3,949,152</b>	-18,183	-30,976	-	999,677
Net cash flows from operating activities	<b>5,592,587</b>	1,110,022	982,680	403.83	400,007
	<b>As at the end of 2012</b>	As at the end of 2011		Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2010
		After restated	Before restated		
Net assets attributable to shareholders of the Company	<b>23,126,644</b>	27,387,202	26,954,411	-15.56	27,294,087
Total assets	<b>76,011,164</b>	81,224,642	81,113,029	-6.42	70,104,925

## 2. Major Financial Data

Major financial indicators	2012	2011		Increase/ (decrease) compared to the previous year (%)	2010
		After restated	Before restated		
Basic earnings per share (RMB/share)	<b>-0.502</b>	0.011	0.009	-4,790.15	0.143
Diluted earnings per share (RMB/share)	<b>-0.502</b>	0.011	0.009	-4,790.15	0.143
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	<b>-0.513</b>	-0.002	-0.004	-	0.130
Return on net assets (weighted average) (%)	<b>-15.30</b>	0.30	0.26	Decreased by 15.60 percentage points	4.08
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	<b>-15.64</b>	-0.07	-0.11	Decreased by 15.57 percentage points	3.70

### III. Summary of Accounting and Financial Data (continued)

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

Unit: RMB'000

Items of non-recurring gains or losses	2012	2011	2010
Gains/(losses) from disposal of non-current assets	9,839	-18,754	-6,514
Government subsidies recognized in current gains and losses	47,578	84,456	78,449
Fair value gains/(losses) of financial assets held for trading	-21	-219	-210
Non-operating income and expenses other than the above items	1,182	-5,012	-5,800
Amortization of deferred income	90,746	82,109	79,527
Other investment income	137	466	403
Effects of minority interests	-255	-7,699	-9,531
Effects of income tax	-63,287	-34,795	-34,163
Total	85,919	100,552	102,161

#### (3) ITEMS MEASURED UNDER THE FAIR VALUE METHOD

Unit: RMB'000

Item	Balance at the beginning of the reporting period	Balance at the end of the reporting period	Changes during the reporting period	Effects on the profit for the reporting period
Financial assets held-for-trading	608	587	-21	-21

## IV. Report of the Directors

### (1) BOARD'S DISCUSSION AND ANALYSIS ON OPERATION DURING THE REPORTING PERIOD

#### 1. Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2012.

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 2012 remained difficult. The pace of recovery in the US economy fell short of expectation while Europe was still mired in the debt crisis. Economic growth of the emerging economies all declined and steel prices were further depressed, the output of steel products maintained growth nonetheless. Global crude steel output increased by 1.2% to 1.55 billion tonnes, hitting a historic high. Affected by the macro-control policies, China's national economy was pacing down in the first three quarters before stabilizing in the fourth quarter. For the whole year, growth in the principal steel-consuming sectors slackened. As a result of weakening demand for steel and an increase in steel production, there has been an oversupply of steel. The profit margin of the iron and steel sector continued to decline. According to statistics from the Ministry of Industry and Information Technology, the sales margin of the iron and steel enterprises in 2012 was 0.04%.



Faced with a challenging and complex market environment, the Company implemented the strategy of "closely monitoring the market and efficiency, speeding up the Company's transformation and development and fully enhancing the Group's competitiveness" to steer its production and operations. The Company regarded reducing losses and enhancing efficiency as the first and foremost priority. By taking a number of measures to address constraints and challenges, the Company ensured normal operations. Through the implementation of all-rounded

and full-process measures, a positive momentum of enhancing cost reductions and improving efficiency was initially formed. The Company's production cost in 2012 decreased significantly compared to last year. Month-on-month losses in the core steel business decreased gradually.

## IV. Report of the Directors (continued)

The Company intensified the adjustment of its product mix and strengthened the linkage of R&D, production and sales. It focused on the development of key products and increased the output of high value added automobile plates by 7 percentage points compared to last year. Various preparations for reviewing high-speed CRH train wheel were completed in line with the requirements of the Ministry of Railways. The

test run of high-power locomotive wheels progressed on schedule. Successful development and production of specialty steel such as wheel steel and axle shaft steel was made with electric furnaces. In 2012, the Group produced 17,370,000 tonnes of pig iron, 17,340,000 tonnes of crude steel and 16,590,000 tonnes of steel products, up 8.22%, 3.96% and 4.27% year on year respectively. Of which, the Company produced 13,340,000 tonnes of pig iron, 13,280,000 tonnes of crude steel and 12,780,000 tonnes of steel products, down 1.24%, 4.56% and 3.21% year-on-year respectively.



Under the PRC Accounting Standards, the Group's operating revenue for 2012 amounted to RMB74.404 billion, representing a decrease of 14.33% over the previous year; net loss attributable to shareholders of the Company in 2012 amounted to RMB3.863 billion; basic losses per share amounted to RMB0.502, compared to a profit from the previous year. As at the end of the reporting period, the Group's total assets amounted to RMB76.011 billion, representing a decrease of 6.42% year-on-year; and net assets attributable to shareholders of the Company amounted to RMB23.127 billion, representing a year-on-year decrease of 15.56%. As at the end of the reporting period, the Group's gearing ratio was 66.44%, an increase of 2.7 percentage points compared to last year.

In view of a sizable loss suffered by the Company in 2012, the Board recommended not to pay any cash dividend for 2012 and no capital reserve fund will be transferred to share capital. Undistributed profits will be transferred to 2013. 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 short-term financing bonds of RMB3.5 billion on 24 October 2012 at coupon rate of 4.71%. Compared with loans at People's Bank of China's benchmark one-year lending rate, this short-term financing bonds could lower the cost of financing by about 20%. The financial expenses during the cost-saving period were about RMB38 million. The money raised through the issue of this short-term financing bonds was used entirely to repay the US dollar loans, improving the currency basket of the Company's liabilities and mitigating exchange rate risk.

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 2012, the Company retained the title of “Metallurgical Greening Advanced Enterprise in China” for years as a result of its vigorous efforts to promote the construction of environmentally-friendly plants with newly built greenbelt of 35,400 square meters. In 2012, the Company continued to deepen the comprehensive utilization of its energy and resources as well as energy conservation and emission reduction. During the reporting period, the Company’s consumption of new water per tonne of steel was 4.3 m<sup>3</sup>; the compliance rate of waste water discharge was 100%; the comprehensive utilization rate of solid waste was 99.3%; and the ratio of self-generated power was 72.7%.

Looking forward to 2013, recovery remains anemic across developed economies and growth is slowing down in developing countries. The International Monetary Fund’s projection of the global economic growth is 3.6% for 2013. Steel demand remains weak in international markets. The general tone of China’s economy will be to seek progress while ensuring stability. The shift in economic development model and economic fundamental adjustment will accelerate. The steel industry might be looking at an improving domestic market environment, but excess capacity and oversupply are unlikely to change any time soon. On the other hand, as import dependency remains high on iron ore, steel companies still find themselves at the mercy of foreign iron ore suppliers, and will have to muddle through difficulties.

In 2013, the Group plans to produce 18.11 million tonnes of pig iron, 18.61 million tonnes of crude steel and 18.15 million tonnes of steel products (of which the Company plans to produce 13.50 million tonnes of pig iron, 13.96 million tonnes of crude steel and 13.53 million tonnes of steel products). The Company’s strategy already is to focus on innovation and transformation to spare no efforts in narrowing losses:

- Promote service process reengineering to support the transformation: The Company continues to adopt a customer-centric and demand-driven approach. It strives to drive more synergy between manufacturing and sales, proactively source new orders, optimize orders sorting and consolidation and resource allocation, increase the proportions of manufacturing on order and direct supply and reduce logistic layers. It aims to build a service-based marketing organization with account managers taking the lead, develop more specialized technical services and customized services with strong points of differentiation, accelerate the nurturing of a service-minded staff and improve the customer service management information system. It will set up an automobile plates promotion office, explore the new integrated model of research, production and sales and improve service system.
- Company-wide recalibration to unlock potential, cost reduction and efficiency operational enhancement. During the pre-iron making period, the Company will optimize burdening, streamline processes and building of economic blast furnaces to save costs of pig iron production. For steel rolling, the Company will implement both cost reduction and product mix reconfiguration to achieve goals for cost saving and efficiency gain. It will also push ahead with centralized tendering to lower the cost of purchasing raw materials, reserve parts and spare components. By integrating such processes as purchasing, loading and unloading, transportation by rail and by motor, and distribution, it will streamline the flow of logistics and lower logistic costs.



## IV. Report of the Directors (continued)

- Intensify the adjustment of variety portfolio in favor of value added products: First, the Company will actively capture opportunities from state-owned infrastructure projects on the back of strong economic growth by offering steel for construction, railway transportation and marine engineering. It will increase the size of orders of shock resistant reinforcing steel and high-strength reinforcing steel and grow the market share of cold heading steel, H-shaped steel and plates and strips in such market segments as railway, marine engineering and aviation. Second, the Company will accelerate product mix readjustment with a focus on increasing the shares of galvanised plates of automobiles and mid to electric steel. Third, the Company will maintain and enhance the existing advantages on high-grade wheel products, develop second-mover advantages around electric furnace products and position color-coated sheets in the mid-to-high range of the market.
- Product quality enhancement: Focusing on the improvement of product performance and surface quality stability, the Company will further enforce total quality management and process controls; develop crowd-based quality control programs; establish internal processes for quality and cost accountability tracing.
- Improve economic operations of equipments and energy momentum: The Company will stick to the principles of “economic inputs and manageable risk”, strengthen the chain of responsibility for equipment maintenance, service and repair and adopt a flexible service and repair model. It will establish a rigorous control system for economic operation of energy and improve economic operation model of energy momentum.
- Energy saving and emissions reduction: The Company will fully implement energy performance contracting to improve energy saving during manufacturing and the recycling and reuse of energy.
- Regulate the operation of the risk management system for existing non-steel business and the alert system in order to monitor risk control.

In the coming year, the Board and senior management of the Company will defy any hardship that comes our way and work strenuously to lead the employees in a collective effort. We hope and believe that with the support of the shareholders and various sectors of society, the Company will be able to make a great progress on various tasks.

### **Su Jiangan**

*Chairman*

26 March 2013

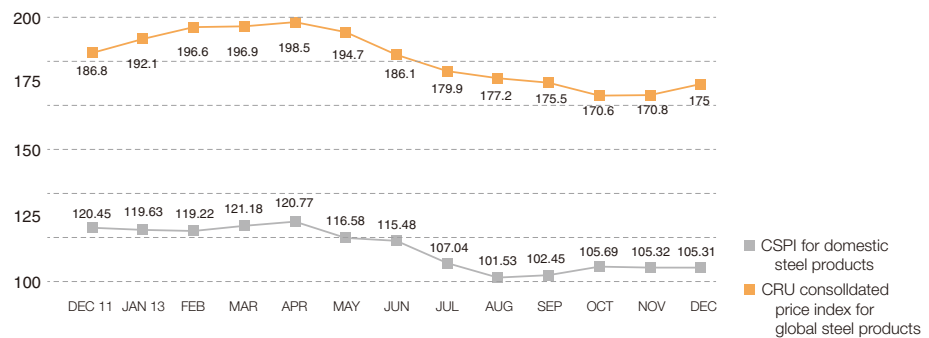
Maanshan City, Anhui Province, the PRC

## 2. Management Discussion and Analysis

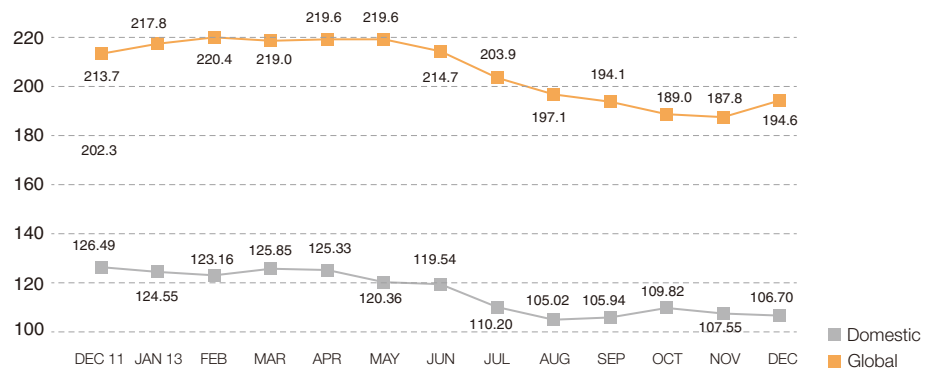
### (i) Business Environment

- **The steel product market**

In 2012, after gradually reaching a year high in the first quarter, the prices of steel products in the global market then declined dramatically, recovering moderately in December. The average consolidated price index for global steel products was 184.6, down 21.3 year-on-year, representing a decrease of 10.3%. In particular, the average price index for long products was 206.2, down 24.6 year-on-year, representing a decrease of 10.7%; the average price index for steel plates was 173.8, down 19.8 year-on-year, representing a decrease of 10.2%. The biggest difference in consolidated price index for steel products was 27.9, a decrease of 22.5% over the previous year.



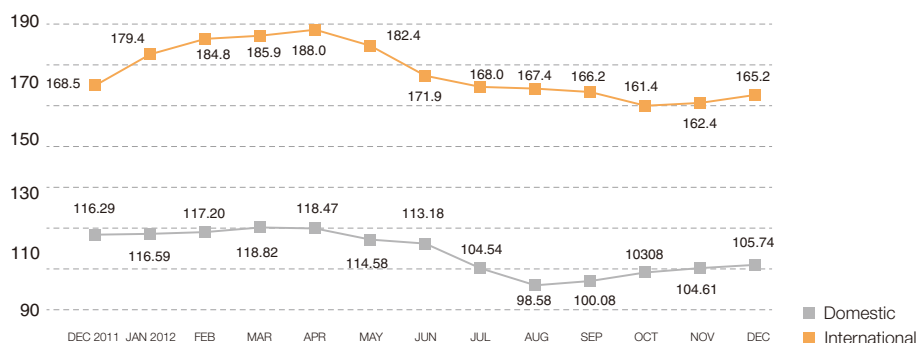
Trend of consolidated price index for global and domestic steel products in 2012



Trend of global and domestic price index for long products in 2012

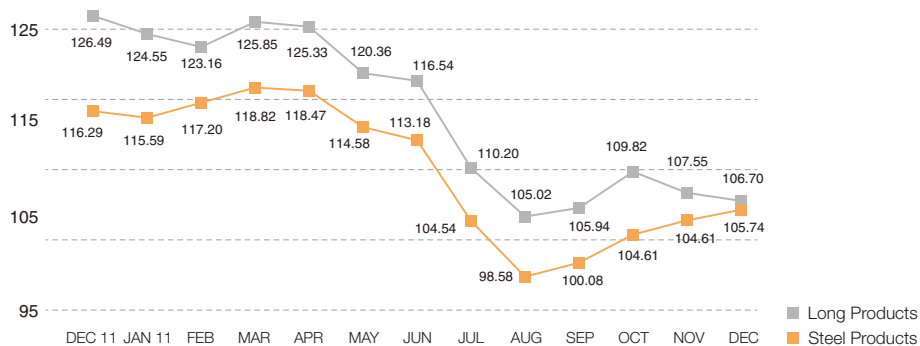


## IV. Report of the Directors (continued)



Trend of price index of steel trend in International and domestic market in 2012

The price of steel products in the domestic market declined significantly year-on-year, after dropped to the year lowest in early September, price of steel slightly rebounded in the fourth quarter. In 2012, the average consolidated price of steel products in the domestic market was 105.31, dropped 15.4 or 12.57% year-on-year. In particular, the average price index for long products was 115.34, dropped 22.25 year-on-year, representing a decrease of 16.17%; the average price index for steel plates was 109.62, dropped 17.51 year-on-year, representing a decrease of 13.77%. The biggest difference in consolidated price index for steel products was 19.65, an increase of 29.27% over the previous year.



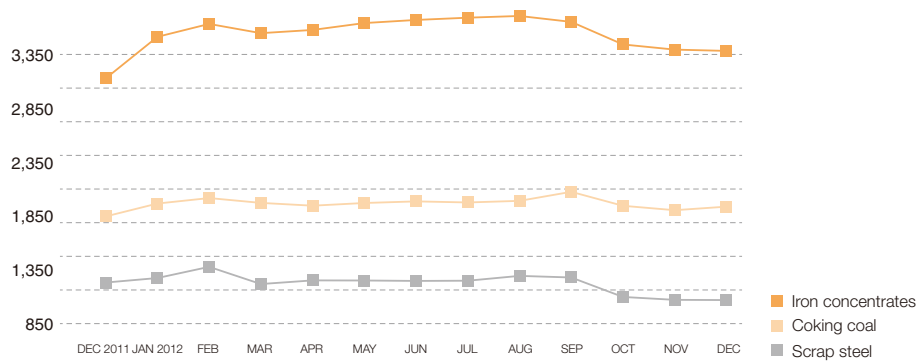
Trend of price of index of long products and steel plates trend in domestic market in 2012

Net exports of steel products in the PRC continued to pick up significantly in 2012. According to customs statistics, exported steel products in aggregate during the year amounted to 55,730,000 tonnes, a year-on-year increase of 14.0%, imported steel products in aggregate during the year amounted to 13,660,000 tonnes, a year-on-year decrease of 12.3%. Net exports of steel products was 42,070,000 tonnes, a year-on-year increase of 26.3%.

Generally speaking, in 2012 the price of steel products in the international and domestic markets were all lower than those in the previous year. The price trends of long products and steel plates were roughly the same in the first three quarters, while price trend of steel plates was better than that of long products in the fourth quarter.

- **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 2012. Price of raw materials such as iron ore has dropped down due to price of steel dropped down but the rate of decline was lower than that of steel. According to the statistics of the CISA, in 2012, the average CIF price of imported iron ores in China was 128.6 USD/t, dropped by 21.5% year-on-year. The average price of domestic iron concentrates, coking coal and scrap steel dropped by 20.41%, 15.89% and 16.97%.



Movement of price on imported raw materials for large and medium-sized Chinese steel companies in 2012



## IV. Report of the Directors (continued)

### (ii) Major Work

In 2012, the Company operated under the theme of “Concentrating on market and profit, accelerating transformation and improving competitiveness”, reacted proactively to serious challenges and maintained uninterrupted operation. For the year as a whole, the Company produced 6.903 million tonnes of steel plates, 2.602 million tonnes of section steel, 6.864 million tonnes of wire rods and 206,000 tonnes of train wheels and rims.

During the reporting period, the Company moved forward on full steam with a turnaround plan for its core steel business, which led to narrowing losses month after month. By better linking production to distribution, improving coal mix and iron ore mix, optimizing the burden composition and flexibly adapting iron ore purchasing plans, the Company was able to lower purchasing costs, keep inventories low and support uninterrupted furnace operations. By improving the mix of cold stock for steelmaking and investing more in scrap recycling, the Company also made progress on iron and steel materials consumption indices. By improving production scheduling, consolidating smaller orders and dynamically balancing resources, the Company was able to make further cost savings in the steel rolling process.

Substantially cutting inventories and expenditure and improving working capital management: In 2012, the Company trimmed cash outlays by RMB2.8 billion by cutting inventories. It also issued RMB3.5 billion short-term financing bonds. By paring down expenditure and overheads and moderately curbing project investment, the Company was able to maintain healthy cash flows from operating activities in the industry, which bolstered the normal running of its manufacturing and operating activities.

Diversifying non-steel businesses and actively expand into strategic emerging industries: MASTEEL-Financial continued to diversify its business activities. Anhui XinChuang Energy Saving and Environmental Protection Technology Co. Ltd. became a state-accredited vendor of energy saving services. The railway transportation equipment project jointly funded with Jinxi Axle Co., Ltd. broke ground. A joint venture specialized in laser tailor-welded blanks, Masteel (Hefei) Advanced Materials Technology Co., Ltd., was founded with JAC Motors.

The Company continued to move ahead on “research, production and sales” and such efforts yielded good results. In 2012, the Company won 14 technology progress awards at and above city level, filed 246 patents and led in the drafting (amendment) of 9 industry standards which successfully passed and took effect. 5 new products including large-power locomotive wheel and high-strength and high weathering-resistance steel for rolling stock received provincial-level new product recognition. The heavy-duty wheel for railway wagons was the recipient of the “Chinese steel industry product development and marketing excellence award”. The Company delivered 1.03 million tonnes of new products for the whole year, which boosted its bottom lines and moved its product portfolio towards higher value-add.

The Company focused its resources on improving quality and enforcing quality process controls. It received the Gold Award of the China Iron and Steel Association for its zinc-plated steel plates, boiler vessel plates and annealing-free cold heading steel, the last of which also received an additional “Exceptional Performance Award”.

**(iii) Operating Results during the Reporting Period under PRC Accounting Standards**

Operating income decreased by 14% over the previous year mainly due to the decline in the selling prices of steel products for the year, while sales volume generally remained the same as that of previous year. Operating costs decreased by 13% over the previous year mainly due to the drop in the purchase prices of raw materials and fuels. Operating profit, total profit and net profit attributable to the parent company dropped substantially over the previous year. The turn from profit to loss was mainly due to the extent of decline in the prices of steel products during 2012 being higher than the extent of decline in the prices of raw materials and fuels as well as an obvious rise in financial expenses, and the impairment of certain assets.



## IV. Report of the Directors (continued)

### (iv) **Group's Cash Flow Analysis during the Reporting Period under PRC Accounting Standards**

In 2012, the Group recorded a net loss of RMB3,863 million attributable to the shareholders of the Company. Compared with the net increase of RMB5,593 million in cash flow generated from operating activities, the difference was RMB9,456 million mainly due to the decrease in working capital caused by changes in receivables from operating activities, payables from operating activities and inventories. Net cash flow generated from operating activities increased by 404% over the same period of the previous year mainly due to the decrease in working capital caused by changes in receivables from operating activities, payables from operating activities and inventories. Net expenditure on cash flow generated from investing activities increased by 52% over the same period of the previous year mainly due to the purchase and establishment of long-term assets and the increase in pledged deposit. Net cash flow generated by financing activities decreased by 132% over the same period of the previous year mainly due to the Company's reduced amount of financing and the increase in cash for the repayment of debt during the reporting period.

### (v) **Major Risks Posed to the Company and Coping Strategies**

- ***Macro policy risks***

Macro policy risks mainly include further housing sector regulation, mandatory phase-out of obsolete capacities in the steel industry and energy-saving and emissions reduction targets. Major downside risks for the steel industry in 2013 also include the updating of standards for next-generation steel products. For example, the mandatory ban on the production and use of HPB235 wires and HRB335 steel bars will likely affect the product mix of certain producers as well as the customers.

How to respond: The Company will build further specialization and strength around its core steel business and make steeper cuts in cost and strong gains in efficiency. It will accelerate product mix adjustment by redefining product development priorities in the high-end segment such as automotive steel sheets, home appliance steel plates, high-grade silicon steel, and high-speed train wheels. It will expedite the construction and production of such projects as 1580 hot-rolled steel and silicon steel Phase II. On cost saving and efficiency gains, the Company will optimize the burden composition, reengineer manufacturing technology, improve equipment management for zero failure and streamline jobs in each manufacturing stage. The Company will also achieve higher cost efficiency by maintaining uninterrupted production and delivering products with reliable quality. It will act in accordance with China's latest industrial policy to work on emission reduction.

- ***Risks Associated with Price Volatility on Raw Materials and Fuels***

As the price of imported iron ore remains at high position, meanwhile futures transactions and indexed pricing models are introduced on coke, iron ore and coking coal, steel companies will see large price volatility on raw materials and fuels, which in turn will lead to large fluctuations in the cost of production, swings in the Company's business performance.

How to respond: The Company will make better projections of the movement of steel, raw material and fuel markets and improve price watch in purchases and sales. The Company monitors and fully accounts for the inventories of its raw materials and fuels such as iron ore and coal, intermediate and finished products, equipment, reserve parts and spare components, and the steel inventories of its subsidiaries and affiliates. While maintaining undisrupted production, the Company will strive to minimize inventories.

- ***Financial Risk***

As profit level dropped significantly in iron and steel industry, pressure is mounting over the availability of cash needed for the production and operations by iron and steel enterprises, including the Company. The Company issued total amount of RMB5,500 million corporate bonds and RMB2,800 million medium-term notes in 2011, the Company has issued RMB3,500 million short-term financing bonds that it will be exposed to greater repayment pressure 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.

How to respond: Enhanced utilization of cash and accelerate the cash flow turnover. The Company will leverage the easy access to financing of MASTEEL-Financial, actively adjust the Company's capital structure, keep cash flows safe and stable and prevent financial risks.

## IV. Report of the Directors (continued)

### 3. Analysis of Principal Operation

#### (i) Analysis of the change in items of the balance sheets and income statement

Unit: RMB'000

Items	Amount of the current period	Amount of the same period of last year	Change (%)
Revenue	74,404,364	86,854,060	-14.33
Cost of sales	72,840,275	83,365,438	-12.63
Operating profit	-3,895,662	177,032	-2300.54
Profit before tax	-3,746,318	319,832	-1,271.34
Net profit attributable to the equity holders of the parent	-3,863,233	82,369	-4,790.15
Selling expenses	349,695	285,822	22.35
Administrative expenses	1,378,086	1,295,362	6.39
Financial expenses	1,463,236	969,175	50.98
Investment income	613,911	143,607	327.49
Income tax	54,206	116,286	-53.39
Minority interests	62,709	121,176	-48.25
Net cash flows from operating activities	5,592,587	1,110,022	403.83
Net cash flows from investing activities	-6,056,635	-3,993,120	51.68
Net cash flows from financing activities	-2,152,926	6,666,352	-132.30
Research and development expenditure	472,726	645,672	-26.79

Analysis of the items which changes over 30%

- Dividends receivable amounted to RMB46,800,000, a decrease of 53% over the previous year, which was mainly attributable to the receipt of prior years' dividends declared, but not yet distributed from an associate, Jiyuan JinMa Coke, and Henan LongYu Energy Co., Ltd, an investment being accounted for under the cost method.
- Prepayments amounted to RMB2,037,721,944, a decrease of 44% over the previous year, which was mainly attributable to the decrease of prepayments of steel trading business.

- Other receivable balances amounted to RMB469,008,747, a decrease of 32%, which was mainly attributable to the direct payment made for import tariff and value-added tax in 2012 rather than prepayment, which was the case in 2011.
- Loans and advances to customers amounted to RMB215,562,806, an increase of 1,597%, which was mainly because MASTEEL-Financial obtained loan qualifications in April 2012, and as a result, it has diversified into lending beyond discounting bills.
- Construction materials, plant and equipment amounted to RMB673,731,960, a 154% increase over FY2011. This is mainly because in FY2012 the Company's subsidiary Ma Steel (Hefei) Iron & Steel Co., Ltd. started a large project to develop high-end products. The expenditure was for the purchase of imported equipment and other construction materials.
- Repurchase agreements is generated from the rediscounting of received discounted notes from the Group and its subsidiaries at the People's Bank of China. It amounted to RMB494,753,998, an increase of 626% over the previous year, which was mainly attributable to the business growth of MASTEEL-Financial.
- Short term loans amounted to RMB9,777,449,423, an increase of 68% over the previous year, which was mainly attributable to the issuance of one-year short-term financing bonds amounting to RMB3.5 billion.
- Other payables amounted to RMB1,058,965,107, an increase of 45% over the previous year, which was mainly attributable to the wider gap between charged prices of steel products and the actual prices, resulting from the decrease in steel price in 2012.
- Non-current liabilities due within one year amounted to RMB1,335,542,400, a decrease of 50% over the previous year, which was mainly attributable to the repayment of bank loans.
- Special reserve amounted to RMB14,768,610, an increase of 100% over the previous year, which was mainly attributable to the accruals of safety production reserve.





## IV. Report of the Directors (continued)

- General reserve amounted to RMB55,650,161, an increase of 43,683% over the previous year, which was mainly attributable to the growth of MASTEEL-Financial's lending and discounted bill businesses.
- Exchange fluctuation reserve amounted to RMB30,510,424, an increase of 85% over the previous year, which was mainly attributable to the appreciation of certain overseas subsidiaries' functional currencies against Renminbi.
- Financial expenses amounted to RMB1,463,236,344, an increase of 51% over the previous year, which was mainly attributable to the increase in the average amounts of loans in the current year.
- Asset impairment losses amounted to RMB2,722,485,738, an increase of 302% over the previous year, which was mainly attributable to the accrual of impairment provision against other receivables and inventories.
- Investment income amounted to RMB613,911,017, an increase of 327% over the previous year, which was mainly attributable to the deemed disposal gain of Logistics Company, one subsidiary of the Company. The Company lost its control over the subsidiary in 2012.
- Non-operating expenses amounted to RMB3,498,367, a decrease of 86% over the previous year, which was mainly attributable to the decrease in the disposal loss of fixed assets.
- Income tax amounted to RMB54,205,870, a decrease of 53% over the previous comparative year, which was mainly attributable to the decrease in profit before tax.
- Profit or loss attributable to minority interests amounted to RMB62,709,119, a decrease of 48% over the previous comparative year, which was mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.

## (ii) Revenue

- Analysis of driving factors behind the change in revenue  
For details, please refer to “Management Discussion and Analysis”.
- Analysis of product revenue by goods sales

Unit: 10,000 tonnes

<b>Product segment</b>	<b>Unit produced during the period</b>	<b>Unit sold during the period</b>	<b>Inventory by the end of the period</b>
Steel plates	690.3	689.3	3.4
Section steels	260.2	248.9	1.3
Wire rods	686.4	681.2	5.9
Train wheels and wheel rims	20.6	20.2	1.7

No significant changes when compared with the same period of last year.

- Major customers  
The Group’s sales to the top five customers totaled RMB9,016 million, representing 12% of the total sales revenue of the Group for the year.

## (iii) Cost

- Analysis of cost

Unit: RMB Million

By industry	Cost structure	% of total		% of total	
		Amount in 2012	cost in 2012	Amount in 2011	cost in 2011
Steel	Raw materials	27,290	50.82	34,242	54.71
	Salary	3,587	6.68	3,630	5.80
	Amortization	3,022	5.63	3,973	6.35
	Fuels	15,792	29.41	17,739	28.35
	Others	4,006	7.46	2,999	4.79

Note: The above are the Company’s figures

## IV. Report of the Directors (continued)

- Major suppliers  
In 2012, the Group's purchase from the top five suppliers totaled RMB11,563 million, accounting for 20% of the Group's total purchase amount for the year. Other than that, in 2012, 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 share) held any beneficial interest in the Group's five largest suppliers or customers.

### (iv) Expenses

For details, please refer to "Analysis of the items which changes over 30%" of Section IV – (1) 3(i).

### (v) Research and development (R&D) expenditure

(1) R&D expenditure breakdown

Unit: RMB10,000

Expensed R&D expenditure in FY2012	47,272.6
Capitalized R&D expenditure in FY2012	–
Total R&D expenditure	47,272.6
Total R&D expenditure as a share of net asset value (%)	2.04
Total R&D expenditure as a share of operating revenue (%)	0.64

### (vi) Cash flow

For details, please refer to "Management Discussion and Analysis" of Chapter IV "Report of the Directors".

#### 4. Analysis by Operation of Industry, Products or Regional

##### (i) Principal operation by industry and products

Unit: RMB Million

Business segment	Operating income	Operating cost	Principal operation by industry			
			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 (%)
Iron and steel	62,343	62,126	0.35	-14.41	-12.15	Decrease by 2.56 percentage points
Product segment	Operating income	Operating cost	Principal operation by products			
			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 (%)
Steel plates	26,676	26,802	-0.47	-19.42	-19.21	Decrease by 0.26 percentage points
Section steels	9,013	9,312	-3.32	-10.75	-6.56	Decrease by 4.63 percentage points
Wire rods	23,340	22,999	1.46	-9.74	-4.42	Decrease by 5.49 percentage points
Train wheels and wheel rims	1,795	1,453	19.05	20.39	7.07	Increase by 10.07 percentage points

During the reporting period, revenue from principal operation was RMB65,853 million, among which revenue from iron and steel operation was RMB62,343 million, accounting for 95% of revenue from principal operation.

## IV. Report of the Directors (continued)

### (ii) Analysis of principal operation by region

Unit: RMB Million

Region	Operating income	Year-on-year increase/ (decrease) of operating income (%)
Anhui	32,172	-25.16
Jiangsu	10,451	-18.71
Shanghai	8,312	-7.24
Zhejiang	4,583	-21.00
Guangdong	2,606	-41.49
Other regions	13,536	34.50
Overseas and Hong Kong	2,744	60.00

### 5. Analysis of Assets and Liabilities

#### (i) Assets, Liabilities

For details, please refer to IV – (1)3(i) “Analysis of the items which changes over 30%”.

#### (ii) Notes on the assets measured at fair value and changes to the measurement of primary assets

In 2012, the Group's financial assets held-for-trading were accounted under the fair value method, using the market prices of stocks as the fair values. For details, please refer to “Securities Investment” of IV – (1)7(i).

### 6. Analysis of core competitiveness

As at 31 December 2012, the Company had 349 valid patents, 3 concessions (3 patents were conceded to external entities) and 513 valid technical secrets. The patented technologies, technical secrets and technical know-how constitute the Company's core technology system. The Company creates its own core technologies in various key products such as wheels (especially high-speed CRH), high-power locomotive wheels, high-strength automobile plates, efficient and resource-conserving construction steel, H-shaped steel for marine engineering, hot rolled high-grade pipeline steel and efficient electrical steel. Compared with other similar enterprises, the Company has a competitive advantage. In particular, the Company assumes a dominant position in terms of technology in efficient and resource-conserving construction steel, wheels, high-speed CRH and high-power locomotive wheels in China.

## 7. Investment Analysis

### (i) General analysis of external equity investment

Unit: RMB10,000

Investment amount as at the end of the reporting period of the Company	670,870
Increase/decrease of investment amount	129,988
Investment amount as at the end of previous year of the Company	540,881
Increase/decrease in investment amount (%)	24

#### Investees

<u>Name of investee</u>	<u>Principal business</u>	<u>Percentage of equity interest</u>
Magang Group Finance Company Limited	Provision of financial and financing advising as well as related advisory and agency business for members; provision of guarantees; handling of bill acceptance and discounting as well as loans and finance lease for members; engaged in inter-bank borrowing; assisting of members in effecting the receipt and payment of transaction amounts; agency for approved insurance business; handling of entrusted loans and internal transfers and settlements between members as well as the designing of related settlement and liquidation plans; and taking of deposits from members.	91.00%
The State Automobile (Beijing) Automotive Lightweight Technology Research Institute Co., Ltd.	Technical testing, development, transfer and advising.	6.89%
Magang Jinxi Railway Transport Equipment Co., Ltd.	R&D, manufacturing, maintenance and sale of axles for railway cargo and passenger trains, general axels for urban rail transport, high-speed EMU axles and locomotive axles as well as R&D, manufacturing and sale of bogies.	50.00%

## IV. Report of the Directors (continued)

<u>Name of investee</u>	<u>Principal business</u>	<u>Percentage of equity interest</u>
Ma Steel (Hefei) Iron & Steel Co., Ltd.	Smelting and calendaring processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power; further processing of iron and steel products as well as production and sales of metallic products; iron and steel technological services and related businesses; dock operation, warehousing, transportation services; and project construction. (If licences are required for the above businesses, production/business will be carried out with a valid license).	71.00%
Anhui Xinchuang Energy Saving and Environmental Protection 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, energy-saving technology research and development, environmental engineering design, construction and general contracting, energy performance contracting, entrusted management and operation of industrial environmental facilities; analysis of environmental monitoring, manufacturing and sale of environmental equipment and water treatment agents.	20.00%
Maanshan Masteel Yuyuan Logistics Co., Ltd.	Freight forwarding agency, shipping agency, logistics warehousing, metal processing, logistics information advising, sale of steel products, agency for engineering and equipment tenders.	100.00%
Masteel (Hefei) Advanced Materials Technology Co., Ltd.	Technology research on materials for automotive, home appliance and machinery related sectors; R&D, production and sale of laser tailor-welded blanks and stamping parts; processing, warehousing and servicing of iron and steel and augmented products.	70.00%

<u>Name of investee</u>	<u>Principal business</u>	<u>Percentage of equity interest</u>
Masteel Powder Metallurgy Co., Ltd.	Production and sale of sponge iron, reduced iron powder, water-atomized iron powder, powder metallurgical products, ferroalloy products and their by-products; manufacturing and installation of machinery and equipment; production and processing of metal products; technical advising.	51.00%
Jiyuan Jinyuan Chemical Co., Ltd.	Development and transfer of related technology in pure benzene, pure toluene and xylene.	36.00%

- **Securities investment**

Item no.	Type of securities	Securities code	Abbreviation	Initial investment amount (RMB)	Numbers of shares held	Book value at the end of the reporting period (RMB)	Proportion	Gains/loss in the reporting period (RMB)
							of securities investments at the end of the reporting period	
1	Stock	601857	PetroChina	584,500	35,000	282,800	48.17	-58,100
2	Stock	601186	China Railway Construction	181,600	20,000	133,200	22.69	57,400
3	Stock	601390	China Railway Group	158,400	33,000	100,320	17.09	17,160
4	Stock	601898	China Coal Energy	201,960	12,000	70,800	12.06	-37,320
		Total		1,126,460	/	587,120	100	-20,860

At the end of the reporting period, the Company held no stock holdings in other listed companies or equity holdings of non-listed financial institutions except for those listed above. In the reporting period, the Company did not trade in the stocks of other listed companies.

**(ii) Entrusted financial management and derivatives investment of non-financial companies**

- The Company had no entrusted financial management during the year.
- The Company had no entrusted loans during the year.





## IV. Report of the Directors (continued)

**(iii)** During the reporting period, the Company had no proceeds raised or proceeds raised in 2011 used in 2012.

**(iv) Analysis of the Group's major subsidiaries and investees**

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB1,700 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 RMB60 million. As at the end of the reporting period, it had total assets amounting to RMB4,021 million and net assets of RMB2,498 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 RMB49 million, total assets of RMB5,946 million and net assets of RMB2,363 million.
- Magang Group Finance Company Limited has a registered capital of RMB1 billion and 91% of its equity is directly owned by the Company. MASTEEL-Financial is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, MASTEEL-Financial posted a net profit of RMB96 million. At the end of the reporting period, its total asset value was RMB9,060 million and net asset value RMB1,110 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 profit for the reporting period amounted to RMB238 million. As at the end of the reporting period, it had total assets amounting to RMB2,622 million and net assets of RMB48 million.
- Anhui Masteel Engineering Technologies Co., Ltd has RMB100 million in registered capital. The Company owns 58.96% direct equity and 7.86% indirect equity in the company. The company is specialized in the planning and design of metallurgical, construction and environmental projects. In the reporting period, it posted a net profit of RMB27 million. At the end of the reporting period, its total asset value was RMB291 million and net asset value RMB183 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 RMB0.1 million. As at the end of the reporting period, it had total assets amounting to RMB187 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 RMB8 million. As at the end of the reporting period, it had total assets amounting to RMB911 million and net assets of RMB102 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 RMB0.09 million. As at the end of the reporting period, it had total assets amounting to RMB1,021 million and net assets of RMB163 million.



## IV. Report of the Directors (continued)

- 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 RMB1.9 million. As at the end of the reporting period, it had total assets amounting to RMB814 million and net assets of RMB133 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 RMB2.7 million. As at the end of the reporting period, it had total assets amounting to RMB619 million and net assets of RMB175 million.
- 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 RMB4.6 million. As at the end of the reporting period, it had total assets amounting to RMB488 million and net assets of RMB155 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 RMB98 million. As at the end of the reporting period, it had total assets amounting to RMB672 million and net assets of RMB655 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 RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB1,037 million and net assets of RMB432 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 RMB153 million. As at the end of the reporting period, it had total assets amounting to RMB686 million and net assets of RMB633 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 RMB7.1 million. As at the end of the reporting period, it had total assets amounting to RMB929 million and net assets of RMB140 million.

**(v) Projects financed by other than fundraising proceeds**

During the reporting period, the Group's investments on construction projects amounted to RMB5,104 million, representing an increase of 33.92% over the previous year.

Unit: RMB Million

<b>Project name</b>	<b>Project amount</b>	<b>Project progress</b>
1,580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment assembling stage
Hot-rolled pickling plate project at No.4 steel & rolling plant	1,008	Equipment foundation work stage
Silicon steel project phase 2	1,494	Equipment assembling stage
Finishing line for alloy steel bars for EAF plants	225	Pre-work preparation stage
<b>Total</b>	<b>5,677</b>	<b>/</b>



## IV. Report of the Directors (continued)

### (2) THE BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT

#### 1. Industry Competition and Development Strategy

Further details are stated in "Report of the Board" and "Management Discussion and Analysis" in section IV.

#### 2. Business Plan

Further details are stated in "Report of the Board" and "Management Discussion and Analysis" in section IV.

#### 3. Operating Plan

Further details are stated in "Report of the Board" and "Management Discussion and Analysis" in section IV.

#### 4. Capital Requirements needed by the Company for Maintaining Current Businesses and Completing Investment Projects under Construction

In 2013, the Company's expenditures on project investment is considered to be RMB3,800 million by investment budget, of which RMB3,200 million will be from depreciation, while the shortfall will be paid by project loans.

To ensure normal cash flow, the funding arrangements in 2013 will be as follows:

- (i) Consider borrowing back the same amount of borrowings after all the borrowings due in 2013 are repaid;
- (ii) Borrow RMB1 billion in bank loans again to maintain the level of financing after the RMB1 billion medium-term notes issued in February 2010 are repaid when due in February 2013;

- (iii) Continue to carry out foreign financing under trade items through Maanshan Iron & Steel (HK) Limited and maintain the size of foreign financing;
- (iv) An additional project loan of RMB600 million is required for investment expenditures;
- (v) Capital expenditure of RMB900 million will be saved by accelerating capital turnover.

The Company aims not to increase the total size of financing for 2013 through the above measures.

#### **5. Possible Risks**

Further details are stated in “Management Discussion and Analysis” of “Report of the Board” in section IV.

### **(3) THE BOARD’S EXPLANATION FOR THE ACCOUNTING FIRM’S “NON-STANDARD AUDIT REPORT”**

#### **1. The Board and the Supervisory Committee’s Explanation for the Accounting Firm’s “Non-Standard Audit Report”**

√ Not applicable

#### **2. Analysis and Explanation of the Board’s Discussions on the Reasons for and the Impact of the Changes to Accounting Policies, Accounting Estimates and Accounting Methods**

√ Not applicable

#### **3. The Board’s Analysis and Explanation on the Reasons for and the Impact of Corrections to Major Errors of Previous Periods**

√ Not applicable



## IV. Report of the Directors (continued)

### (4) THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

#### 1. Formulation, Implementation and Adjustment 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. No cash dividend was declared in 2011 as the company's core business recorded losses.

The Articles of Association of the Company and related reviewing procedures ensure that independent directors can fully express their views during the formulation process of the Company's dividend distribution policy to fully protect the legitimate rights and interests of mid-to-small investors. The distribution standards and profit-sharing ratio of dividend is set out in the Articles of Association of the Company while the conditions and procedures for the adjustment and changes of the dividend distribution policy are in line with regulations and transparent. During the reporting period, the Company implemented the abovementioned regulations effectively.

#### 2. The Profit and the Parent Company's Undistributed Profit for the Reporting Period were Positive, but No Cash Dividend Distribution Plan was Proposed. The Company should Disclose in Detail the Reasons therefore and the Plans for the Purpose and Use of the Undistributed Profit

√ Not applicable

### 3. The Dividend Distribution or Capital Reserves Capitalisation and Bonus Sharing Declared by the Company in the Last Three Years (Reporting Period Inclusive)

Unit: RMB Million

Year of dividend	Bonus shared for each 10 shares (share)	Dividend distributed for each 10 shares (RMB) (tax inclusive)	Transfer of capital reserve to shares for each 10 shares (share)	Total amount of cash dividends (tax inclusive)	Net profits/ (loss) attributed to the shareholders of the Company shown in the consolidated statement for the dividend year	Ratio between the dividends and the net profit/ (loss) attributed to the shareholders of the Company in the consolidated statement (%)
2012	0	0	0	0	-3,863.2	0
2011 (before restated)	0	0	0	0	69.6	0
2010	0	0.50	0	385	1,101.8	34.94

## (5) ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

### Social Responsibility Work

Further details are stated in “Maanshan Iron & Steel Company Limited Social Responsibility Report 2012”. Information source: [www.sse.com.cn](http://www.sse.com.cn), [www.hkexnews.hk](http://www.hkexnews.hk).

## (6) OTHER MATTERS

1. In 2012, the Company did not redeem any of its listed securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.
2. Under the PRC laws and the Articles of Association, the Company is not required to allow existing shareholders to buy new shares first in proportion to their shareholding during the issue of new shares by the Company.
3. The directors of the Company have not entered into any service contract with the Company, which is not terminable within one year without the payment of compensation (other than statutory compensation) by the Company.
4. During 2012, neither the directors nor the supervisors of the Company had any direct or indirect material interest in any contract concluded by the Company, the subsidiaries of the Company, the Group Company or any service company of the Group.



## V. Significant Matters

### (1) MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

#### 1. Major Litigation and Arbitration Cases and Media Controversies already disclosed in the Temporary Announcements and without New Development

<b>Summary of the case and type of controversy</b>	<b>Information source</b>
Board of Directors was noticed litigation brought by Logistics Company over trade dispute with suppliers. To recover the outstanding goods and payment, Logistics Company already raise civil proceeding through intermediate People's Court at Maanshan city on 21 September 2012.	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-09-25/600808_20120925_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-09-25/600808_20120925_1.pdf</a> <a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0924/LTN20120924565.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0924/LTN20120924565.pdf</a>
Board of Directors agreed to accept the application of bankruptcy liquidation filed by Logistics Company to the court and lead by court to consolidation.	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-09/600808_20121009_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-09/600808_20121009_1.pdf</a> <a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1008/LTN20121008930.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1008/LTN20121008930.pdf</a>
The court accepted Logistics Company's case for bankruptcy liquidation.	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-13/600808_20121013_3.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-13/600808_20121013_3.pdf</a> <a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1012/LTN20121012479.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1012/LTN20121012479.pdf</a>

### (2) OCCUPATION OF FUNDS AND REPAYMENT PROGRESS IN THE REPORTING PERIOD

√ Not applicable

### (3) INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Further details are stated in (1) Major Litigation and Arbitration Cases and Media Controversies" in this section.

#### (4) ASSET TRANSACTIONS AND MERGER OF COMPANIES

<b>Brief description and nature of the matter</b>	<b>Information source</b>
Acquisition (acceptance of the transfer) of a 42% equity interest in MASTEEL-Financial	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-02-10/600808_20120210_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-02-10/600808_20120210_1.pdf</a>  <a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0210/LTN20120210034.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0210/LTN20120210034.pdf</a>

#### (5) THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

√ Not applicable

#### (6) MATERIAL CONNECTED TRANSACTIONS

##### 1. Connected Transactions related to Normal Operations

##### (i) Normal businesses 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:

- 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 payment made by the Company to Holding in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2009, from 1 January 2012 to 31 December 2012 was as follows (RMB'000):

	<b>Amount paid</b>	<b>Proportion of transaction of the same category (%)</b>
Purchase of iron ore, limestone and dolomite	2,819,870	21



## V. Significant Matters (continued)

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 RMB3,075.22 million.

The continuing connected transactions between the Company and Holding under the “Sale and Purchase of Ore Agreement” for the year 2012 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.

- Businesses between MASTEEL-Financial and Holding

<b>Business nature</b>	<b>Amount of loan or deposit RMB'000</b>	<b>Interest incomes/ expenses RMB'000</b>
Deposit	Maximum daily deposit	8,520
	Monthly average maximum daily deposit	
Loan	Maximum daily loan	1,580
	Monthly average maximum daily loan	
Other income		
	Net income from handling fee and commission (RMB'000)	769
	Income from discount interest (RMB'000)	1,106

The continuing connected transactions arising under the Finance Services Agreement between MASTEEL-Financial and Holding in 2012 were approved by the Board. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out on normal commercial terms and were in the overall interests of the Company and its shareholders. Such transactions did not exceed the stated cap amounts, i.e. the maximum daily deposit balance plus interest should be no more than RMB700 million, the maximum daily loan balance should be no more than RMB500 million, and the interest, handling fees and service charges should be no more than RMB50 million.

## V. Significant Matters (continued)

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

	<b>Amount paid</b>	<b>Proportion of transaction of the same category (%)</b>
Steel products and other products purchased by Holding from the Company	57,997	–
Water, electricity, telephone and other services acquired by Holding from the Company	41,078	4
Payment by the Company for fixed assets and construction services	166,489	3
Payment by the Company to Holding for other services and products	424,513	100
<b>Total</b>	<b>690,077</b>	

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 in compliance with normal commercial requirements, and the terms of such transactions using market price as the pricing benchmark are at least as favourable to the Company when they are compared with normal commercial terms.

Such transactions have been approved by the Board of Directors of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated have not been exceeded, i.e. RMB749,051,800.

- As at 31 December 2011, except for receivables and payables generated in ordinary business, there was no amount due to or from the Company's connected parties.
- Material contracts with the controlling shareholder  
On 12 October 2012, the Company entered into the Sale and Purchase of Ore Agreement with effect from 2013-2015 with Holding and the Energy Saving and Environmental Protection Agreement with effect from 2013-2015 with Environmental Protection Company, with both approved at the extraordinary general meeting on 12 December 2012. Save for the above, 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 2012.

Ernst & Young Hua Ming, the Company's auditors, were engaged to report on the Group's continuing connected transactions 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 Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming have issued their unqualified 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. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## 2. Connected Transactions Arising from the Acquisition or Disposal of Assets

### (i) Cases already disclosed in the temporary announcements and without new development or changes

Summary of the case	Information source
Acquisition of a 42% equity interest in Magang Group Finance Company Limited.	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-02-10/600808_20120210_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-02-10/600808_20120210_1.pdf</a>
	<a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0210/LTN20120210034.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0210/LTN20120210034.pdf</a>

## (7) MATERIAL CONTRACTS AND PERFORMANCE THEREOF

### 1. Entrustment, Contracting and Leasing

√ Not applicable

## V. Significant Matters (continued)

### 2. Guarantees

Unit: US\$ Million

#### External guarantees provided by the Company

##### (excluding guarantees provided for subsidiaries)

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

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

Total guarantee amount provided for subsidiaries during the reporting period	–
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 subsidiaries)

Total guarantee amount (A+B)	55
Proportion of total guarantee amount to the Company's assets (%)	1.50
Including:	
Guarantee amount provided for shareholders, the de facto controller and connected parties (C)	–
Guarantee amount provided directly or indirectly for entities with gearing ratio exceeding 70% (D)	–
Total guarantee amount exceeding 50% of net assets (E)	–
Total amount of the three guarantees mentioned above (C+D+E)	–

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 RMB346 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.

**(8) PERFORMANCE OF UNDERTAKINGS**

√ Not applicable

**(9) APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM**

Unit: RMB10,000

Whether change of accounting firm:	No
Current Appointment	
Name of accounting firm	Ernst & Young Hua Ming
Remuneration of accounting firm	481.5 (of which the annual audit fee and the fee for executing the interim agreed-upon procedures totalled RMB4.785 million; the fee for providing professional services for the Company's issue of short-term financing bonds amounted to RMB30,000.)
Term of auditing of accounting firm	19
Internal control auditing accounting firm	Ernst & Young Hua Ming

**(10) PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% OF SHAREHOLDING, DE FACTO CONTROLLER AND ACQUIRER**

During the year, none of the Company and its directors, supervisors, senior management, the Company's shareholders with more than 5% of shareholding, the de facto controller, acquirer were investigated by the CSRC, subjected to administrative punishment, published reprimand or publicly reprimanded by securities exchanges.

**(11) OTHER SIGNIFICANT EVENTS**

The Company had no other significant events during the year.



## VI. 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 shares	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.

## (2) ISSUANCE AND LISTING OF SECURITIES

### 1. Issuance of Securities over the Past Three Years as of the End of the Reporting Period

Unit: \$100 million

Currency: RMB

Corporate bonds	Date of issuance	Issue price (or interest rate)	Issue amount	Date of listing	Number of shares approved for listing and trading	Date of termination of trading
11馬鋼01	25 August 2011	100 (5.63)	31.6	13 September 2011	31.6	25 August 2014
11馬鋼02	25 August 2011	100 (5.74)	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 shareholder structure and the Company's assets and liability 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.

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

### (3) SHAREHOLDER AND ACTUAL HOLDERS

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

Total number of shareholders at the end of the reporting period	358,663	Total number of shareholders as at the fifth trading day before publication of the annual report	Unit: Shares 351,459
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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	22.17	1,706,995,898	0	Unknown
中國建設銀行－騰華價值優勢股票型證券投資基金	Others		50,000,000	0	Unknown
王勇	Others		20,840,000	0	Unknown
白計平	Others		8,209,900	0	Unknown
何文華	Others		8,188,110	0	Unknown
張俊英	Others		7,520,000	0	Unknown
北京好石佳燃氣設備有限責任公司	Others		6,900,000	0	Unknown
張武	Others		6,600,000	0	Unknown
中國工商銀行－開元證券投資基金	Others		6,336,156	0	Unknown

### Shareholding of top ten shareholders without selling restrictions

Name of shareholder	Number of shares held	
	without selling restrictions	Type and number of shares
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares 3,886,423,927
HKSCC (Nominees) Limited	1,706,995,898	Overseas-listed foreign shares 1,706,995,898
中國建設銀行－鵬華價值優勢股票型證券投資基金	50,000,000	RMB-denominated ordinary shares 50,000,000
王勇	20,840,000	RMB-denominated ordinary shares 20,840,000
白計平	8,209,900	RMB-denominated ordinary shares 8,209,900
何文華	8,188,110	RMB-denominated ordinary shares 8,188,110
張俊英	7,520,000	RMB-denominated ordinary shares 7,520,000
北京好石佳燃氣設備有限責任公司	6,900,000	RMB-denominated ordinary shares 6,900,000
張武	6,600,000	RMB-denominated ordinary shares 6,600,000
中國工商銀行－開元證券投資基金	6,336,156	RMB-denominated ordinary shares 6,336,156

#### Description of any connected relationships or concerted actions among the abovementioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies. 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 1,706,995,898 H shares (an increase of 448,001 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.

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

As at 31 December 2012 and 28 February 2013, 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 2012 were as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (Shares)	Approximate percentage of the Company’s issued H shares (%)
Deutsche Bank Group	Beneficial owner	98,272,490 (Long position)	5.67
		82,411,300 (Short position)	4.75
		1,620,300 (Lendable)	0.09

### (4) SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS

#### 1. Shareholders

##### (1) Legal Person

Unit: RMB'000

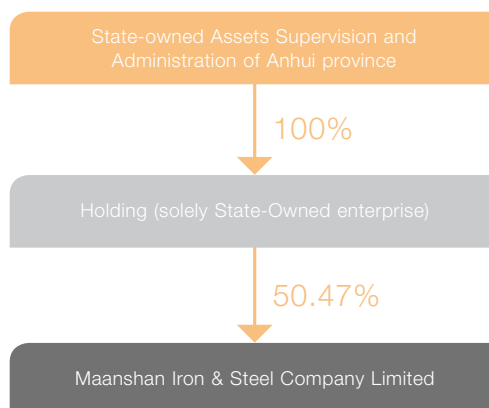
Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gu Jianguo
Date of Incorporation	1 September 1993
Registered capital	6,298,290
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and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

## 2. Actual holders

### (i) Legal Person

Name	State-owned Assets Supervision and Administration of Anhui province
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### (ii) The Proprietorship and Controlling Relationship between the Company and its De Facto Controller



## (5) 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.

## VII. Directors, Supervisors, Senior Management and Employees

### (1) CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS

#### 1. Changes in Shareholding Held by And Emoluments for Incumbent and Resigned Directors, Supervisors and Senior Management During the Reporting Period

Unit: Share

Name	Position	Sex	Age	Date of term commencement	Date of term termination	Annual emoluments (Unit: RMB10,000) (before tax)	Annual emoluments from shareholders (Unit: RMB10,000)
Su Jiangang	Chairman	Male	58	31 August 2011	31 August 2014	-	
Qian Haifan	Director	Male	52	31 August 2011	31 August 2014	30.56	
Su Shihuai	Non-executive director	Male	54	5 February 2013	31 August 2014	-	
Ren Tianbao	Director	Male	49	31 August 2011	31 August 2014	24.56	
Qin Tongzhou	Independent Director	Male	43	31 August 2011	31 August 2014	10.00	
Yang Yada	Independent Director	Female	57	31 August 2011	31 August 2014	10.00	
Liu Fangduan	Independent Director	Male	49	25 October 2012	31 August 2014	3.33	
Zhang Xiaofeng	Supervisor	Male	51	31 August 2011	31 August 2014	30.56	
Fang Jinrong	Supervisor	Male	49	31 August 2011	31 August 2014	-	
Liu Xianli	Supervisor	Male	58	31 August 2011	31 August 2014	23.78	
Wong Chun Wa	Independent Supervisor	Male	39	31 August 2011	31 August 2014	7.37	
Su Yong	Independent Supervisor	Male	58	31 August 2011	31 August 2014	7.37	
Gao Haichao	Senior Management	Male	55	17 February 2013	31 August 2014	-	
Ren Qiang	Senior Management	Male	52	31 August 2011	31 August 2014	24.56	
Yan Hua	Senior Management	Male	47	31 August 2011	31 August 2014	24.56	
Lu Kecong	Senior Management	Male	49	31 August 2011	31 August 2014	24.56	
Zhao Jianming	Non-executive director	Male	59	31 August 2011	20 December 2012	-	
Wu Tat Man Damon Albert	Independent Director	Male	37	31 August 2011	31 August 2012	6.67	

**Mr. Su Jiangang:** Mr. Su 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. Qian Haifan:** Mr. Qian was appointed 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. Su Shihuai:** Mr. Su served as Deputy Chief Engineer of the Company from February 2007 to August 2009. Mr. Su served as Deputy Chief Engineer of the Company and Deputy Director of the Technology Centre from August 2009 till December 2009, and served as Deputy General Manager and Chief Engineer of the Company from December 2009 till July 2011. Mr. Su served as Deputy General Manager and Chief Engineer of Magang (Group) Holding Company Limited from July 2011 to present. Mr. Su was appointed as Director of the Company on 5 February 2013.

**Mr. Ren Tianbao:** Mr. Ren was appointed 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.





## VII. Directors, Supervisors, Senior Management and Employees (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. Liu Fangduan:** Mr. Liu was qualified and practiced as a lawyer in 1991. He currently serves as a supervisor at Anhui Xingwan Law Firm and concurrently holds various positions such as Legal Counsel for the Wuhu Municipal People's Government and Vice-chairman of the Lawyers Association of Wuhu Municipality.

**Mr. Zhang Xiaofeng:** Mr. Zhang was appointed Chairman of the Labour Union of Holding and the Company in August 2008. Mr. Zhang was appointed Chairman of the Supervisory Committee of the Company on 31 August 2008.

**Mr. Fang Jinrong:** Mr. Fang was appointed Deputy Manager of the Finance Department of the Group and the Company since February 2004. Mr. Fang has been Supervisor of the Company since 31 August 2005.

**Mr. Liu Xianli:** Mr. Liu was appointed 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 Deputy Director of the School of Management of Fudan University Eastern Management Research Centre in October 2004. 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. Gao Haichao:** Mr. Gao served as the Company's production manager from January 2002 to July 2008; manager of the Company's Milling Plant No. 1 from July 2008 to April 2010; deputy chief engineer of the Company from April 2010 to July 2011; and assistant to the general manager of Magang (Group) Holding Co., Ltd. from July 2011 to February 2013, during which he concurrently served as manager of the technology innovation department of Magang (Group) Holding Co., Ltd. from August 2011 to July 2012. He has been the Company's deputy general manager and chief engineer since 17 February 2013.

**Mr. Ren Qiang:** Mr. Ren was appointed 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.

**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. Since 21 December 2012, Mr. Zhao has ceased to be Director of the Company.



## VII. Directors, Supervisors, Senior Management and Employees (continued)

**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. On 31 August 2012, Mr. Wu Mr. Wu Tat Man Damon Albert, resigned as Independent Director because of his other work engagements.

Apart from Chairman Mr. Su Jiangang 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.

Save as disclosed above, as at 31 December 2012, 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 OF CURRENT AND OUTGOING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL DURING THE REPORTING PERIOD

### 1. Positions in Shareholders' Unit

<b>Name</b>	<b>Name of shareholder's unit</b>	<b>Position in shareholder's unit</b>
Su Jiangan	Magang (Group) Holding Company Limited	Director, General Manager
Zhang Xiaofeng	Magang (Group) Holding Company Limited	Chairman of the Labour Union
Su Shihuai	Magang (Group) Holding Company Limited	Deputy General Manager, Chief Engineer
Fang Jinrong	Magang (Group) Holding Company Limited	Manager of the Finance Department

### 2. Positions in Other Entities

<b>Name</b>	<b>Name of other entities</b>	<b>Position in other entities</b>
Qin Tongzhou	China Fire & Security Group Inc. ("CFSG")	CFO
Yang Yada	Anhui University of Technology	Dean of School of Management
Liu Fangduan	Anhui Xingwan Law Firm	Director

## VII. Directors, Supervisors, Senior Management and Employees (continued)

### (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

Actual payment to Directors, Supervisors and Senior Management

Please refer to the previous section "Changes in Shareholding Held by and Emoluments".

Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period

During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB2,280,000 (tax inclusive). 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 2012 in accordance with the pension scheme of the Company.

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

Name	Position	Movement	Reasons of movement
Su Shihuai	Director	Appointment	
Liu Fangduan	Independent Director	Appointment	
Gao Haichao	Senior Management	Appointment	
Zhao Jianming	Director	Resignation	Decision made by the shareholders <sup>Note</sup>
Wu Tat Man Damon Albert	Independent Director	Resignation	Resignation

Note: It was resolved that Mr. Zhao Jianming shall cease to be a non-executive director of the Company with effect from 21 December 2012 due to the decision made by Magang (Group) Holding Company Limited, the controlling shareholder of the Company. Mr. Zhao Jianming is under investigation due to his personal financial problems. When Mr. Zhao was serving as a non-executive director of the Company (until 20 December 2012), he neither took up any administrative duties, was in charge of business in the Company nor participated in any specific business management duties of the Company other than serving as a non-executive director. The case is still under investigation. No significant relationship has been identified between his personal financial issues and the business activities of the Company up to the present.

#### (5) THE COMPANY'S CORE TECHNOLOGY TEAM OR KEY TECHNICAL STAFF

During the reporting period, the Company appraised and selected 46 senior technical supervisors and 19 chief technicians. The team was generally stable, except that a senior technical supervisor resigned at the end of December.

## VII. Directors, Supervisors, Senior Management and Employees (continued)

### (6) EMPLOYEES IN THE COMPANY AND ITS MAJOR SUBSIDIARIES

#### 1. Employees

The number of current employees of the parent company	40,050
The number of current employees of the major subsidiaries	9,747
Total number of current employees	49,797
The number of resigned or retired staff for whom the Company and its major subsidiaries was responsible for pensions	23,778

#### Profession constitution

<u>Profession category</u>	<u>Number of staff of profession constitution</u>
Production line	40,962
Sales representative	383
Technician	4,625
Financial staff	288
Administrative Staff	1,723

#### Education

<u>Educational level</u>	<u>Number of staff</u>
Postgraduate	422
Graduate	5,103
Junior college	9,790
Vocational secondary or belows	34,482
Total	49,797



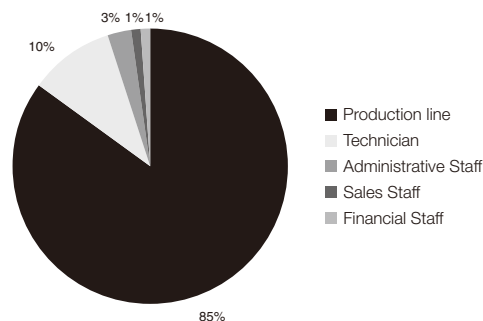
## 2. Remuneration policy

A total salary package system is implemented across the Company, under which salaries, bonuses, allowances, production and processing labour costs are all included into the total wages and directly linked with each unit's performance in cost reduction and efficiency enhancement. Each unit establishes a policy under which indicators are broken down at each level, and conducts a quarterly comprehensive evaluation of positions. For important departments and key positions where cost reduction and efficiency enhancement are carried out, the Company sets up appropriate incentive schemes that are specifically offered to positions and staff scoring significant achievements in cost reduction and efficiency enhancement. For the management of the Company, the turn of the principal iron and steel business from loss to profit is used as a major evaluation indicator in the assessment and evaluation by the Group Company. As to the middle management staff, a quarterly comprehensive evaluation is conducted together with the results of the completion of cost reduction and efficiency enhancement tasks.

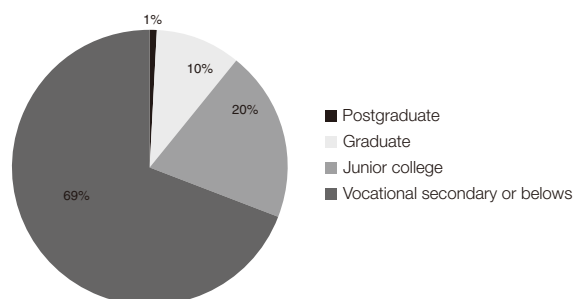
## 3. Training programmes

The Company takes full advantage of external and internal training resources to provide training opportunities for the growth of all types of employees. In 2012, the Company focused on conducting approximately 273 training sessions of various types, in which a total of 20,988 attendants received training.

## 4. Statistical Chart of Profession Constitution:



## 5. Statistical Chart of Educational Level:







## VIII. Corporate Governance

### (1) SITUATIONS OF THE CORPORATE GOVERNANCE AND MANAGEMENT SYSTEM FOR PEOPLE WITH ACCESS TO INSIDER INFORMATION

#### 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 amended "The Administrative Measures of Maanshan Iron & Steel Company Limited Governing Information Disclosures" timely, further regulating the information disclosure of the Company.

#### 1. Corporate Governance Report

In 2012, 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.

##### (i) Directors

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

The seventh session of the Board of the Company 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; Mr. Liu Fangduan is a second-grade lawyer and currently serves as supervisor at Anhui Xingwan Law Firm, with extensive experience in the legal profession. These independent directors have every ability to evaluate internal control and review financial reports. 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.

None of the Directors of the Company holds an interest in the business which competes or may compete with the Company.

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.



## VIII. Corporate Governance (continued)

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

The term of office of the Company's Non-executive Directors (including Independent Directors) is three years. Please refer to Section VII "Directors, Supervisors, Senior Management, Employees" for further details of incumbency.

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.



## VIII. 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.

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

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

The annual aggregate remuneration of all Directors of the seventh session of the Board of the Company 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' approval.

### **(iii) 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.



## VIII. Corporate Governance (continued)

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.

### (iv) 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. Liu Fangduan. 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.

During the reporting period, discharge of duties by the Audit Committee is as follow:

In 2012, the Audit Committee of the Board held four meetings and the present committee members attended each meeting as required. The meetings were chaired by Mr. Qin Tongzhou. Major details of the meetings are as follows:

- Reviewed the Company's audited financial statement of 2011, discussed and communicated with the Company's audit department and external auditors on the 2011 audited financial report and related issues. The committee was of the opinion that the Company complied with the requirements of the Accounting Standards for Business Enterprises in all material respects, and made adequate disclosure without any material omissions.
- Approved the summary report on the Company's auditing work in 2011 conducted by the external auditors.
- Approved the payment of RMB4.785 million to Ernst & Young Hua Ming, which included an annual audit fee of RMB4.2 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the execution of agreed procedures. The audit fee and the fees for agreed-upon procedures were already inclusive of disbursements incurred by the auditors and related taxes on the fees. In addition, meals and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.
- Agreed that Ernst & Young Hua Ming would be re-appointed as the Company's auditors for 2012.
- Reviewed the connected transactions between the Company and Magang (Group) Holding Co., Ltd. during 2011 and was of the opinion that such transactions were concluded between the two parties during the ordinary course of business and conducted under normal business terms or terms which were not less favourable than those provided to independent third parties (terms provided by independent third parties), that such transactions were conducted pursuant to the terms of the relevant agreements for such transactions, and that such terms were fair and reasonable and in the best interests of the Company and its shareholders. The yearly total amounts for the purchase of ore in 2011 pursuant to the "Sale and Purchase of Ore Agreement" did not exceed the cap amounts of RMB2,573,320,000 under the agreement.

The Company's accounts at 2012 have already been reviewed by the Audit Committee.





## VIII. Corporate Governance (continued)

- Acquired an understanding from the Company's management and the external auditors of the Company's provision of guarantees for external parties as at 31 December 2011, reviewed the relevant information and was of the opinion that: (1) as at 31 December 2011, all the procedures for the approval of the Company's external guarantees were legal and compliant; (2) as at 31 December 2011, none of the Company's external guarantees was provided for the controlling shareholder or other connected parties in which the Company holds less than 50% equity interest, unincorporated entities or individuals; and (3) as at 31 December 2011, the total amount of the Company's aggregate and current external guarantees was less than 50% of the net assets in the Company's 2011 consolidated financial statements.
- Considered and approved the Report on the Discharge of Duties by the Audit Committee of the Board of Directors of Maanshan Iron & Steel Co., Ltd. for 2011.
- Reviewed the Company's unaudited first quarterly financial statement of 2012 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
- Reviewed the Company's unaudited interim financial statement of 2012 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
- Reviewed the Company's unaudited third quarterly financial statement of 2012 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.

All the procedures for convening and holding the Committee's meetings as well as voting and resolutions thereat were in compliance with the provisions of relevant laws and regulations, the Articles of Association and the Work Rules of the Audit Committee. In 2012, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

**(v) Remuneration Committee of the Board**

The Remuneration Committee of the seventh session of the Board of the Company comprises Independent Directors Mr. Liu Fangduan, Mr. Qin Tongzhou, and Ms. Yang Yada. Mr. Liu Fangduan 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.

During the reporting period, discharge of duties by the Remuneration Committee is as follow:

In 2012, the Remuneration Committee of the seventh session of the Board held one meeting. The meeting was conducted on 27 March. All members attended the meeting in person.



## VIII. Corporate Governance (continued)

The details of the meeting 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 2011 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 2012 for consideration.
- Reviewed the Report on the “Discharge of Duties by the Remuneration Committee for 2011”.

All the procedures for convening and holding the Remuneration Committee’s meetings as well as voting and resolutions thereat were in compliance with relevant laws and regulations, the Articles of Association and the Work Rules of the Remuneration Committee. When the remuneration of directors and senior management staff were discussed at the meetings, none of the directors was involved in deciding their own remuneration. All the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

### (vi) **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.

During the reporting period, discharge of duties by the Nomination Committee is as follows:

In 2012, the Nomination Committee held three meetings. All members attended the meetings in person. The meetings were chaired by Ms. Yang Yada.

<b>Date of Meeting</b>	<b>Agenda</b>
27 March 2012	Reviewed the Nomination Committee's Report on Discharge of Duties for 2011
7 September 2012	Nominated Mr. Liu Fangduan as a candidate for the independent director of the Board of the Company
21 December 2012	Nominated Mr. Su Shihuai as a candidate for the director of the Board of the Company

The procedures for convening and holding all the meetings of the Committee as well as the voting and resolutions made thereat were in compliance with the requirements of relevant laws and regulations, the Articles of Association and the Work Rules of the Nomination Committee of the Board of Directors. All members of the Committee faithfully fulfilled the obligation of confidentiality in accordance with the relevant rules towards the matters discussed at the meetings of the Committee without any unauthorized disclosure of relevant information.



## VIII. Corporate Governance (continued)

### (vii) 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 RMB4,815,000. Among which, (i) RMB4,200,000 represented annual audit fee, including internal control audit fee of RMB600,000; (ii) RMB585,000 represented fees for agreed-upon procedures; (iii) RMB30,000 represented fees for professional service for the Company's short-term financing bonds issuance. The audit fee and the fees for agreed-upon procedures 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 2012, Ernst & Young Hua Ming has provided auditing services to the Group for 19 consecutive years. Ms. Zhong Li and Ms. Sun Zhongni were the certified public accountants who have signed the Company's 2012 auditors' report. Ms. Zhong Li has provided auditing services to the Company for three consecutive years, while Ms. Sun Zhongni has provided auditing services to the Company for the first time.


In addition, 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 2012 the fee amounted to HK\$35,000.

### (viii) 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 2011 annual general meeting notice and 2012 first, second and third 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 four 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.

### **(ix) 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.



## VIII. Corporate Governance (continued)

### (x) 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 2012. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2011 annual general meeting held on 6 June 2012.

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.

## (2) SHAREHOLDERS' GENERAL MEETING

Session of meeting	Date of meeting	Name of Agenda	Specified website for publishing resolutions	
2011 annual general meeting	6 June 2012	1. Considered the work report of the Board for the year 2011	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-06-07/600808_20120607_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-06-07/600808_20120607_1.pdf</a>	
		2. Considered the work report of the supervisory committee for the year 2011		
		3. Considered the audited financial statements for the year 2011		
		4. Considered the profit distribution plan for the year 2011		<a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0606/LTN20120606458.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0606/LTN20120606458.pdf</a>
		5. Considered and approved the appointment of Ernst & Young Hua Ming as the Company's auditors for the year 2012, and the authorisation to the Board to determine the remuneration of the auditors based on that in 2011		
2011 first extraordinary general meeting	23 August 2012	1. Considered resolution on the Issuance of Short-term Financing Bonds	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-08-24/600808_20120824_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-08-24/600808_20120824_1.pdf</a>	
		2. Considered resolution on the Issuance of short-term Financing Bonds		<a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0823/LTN20120823760.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0823/LTN20120823760.pdf</a>
2012 second extraordinary general meeting	25 October 2012	1. Considered resolution on appointing Mr. Liu Fangduan as Independent Non-executive Director of the Company	<a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-26/600808_20121026_1.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-26/600808_20121026_1.pdf</a>	
			<a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1025/LTN20121025585.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1025/LTN20121025585.pdf</a>	



## VIII. Corporate Governance (continued)

Session of meeting	Date of meeting	Name of Agenda	Specified website for publishing resolutions
2012 third extraordinary general meeting	12 December 2012	<ol style="list-style-type: none"> <li>1. Considered the New Sale and Purchase of Ore Agreement, for a term of three years from 2013 to 2015, entered into between the Company and Magang (Group) Holding Company Limited, the transactions contemplated under the agreement and the annual caps</li> <li>2. Considered the Energy Saving and Environmental Protection Agreement, for a term of three years from 2013 to 2015, entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, the transactions contemplated under the agreement and the annual caps</li> </ol>	<p><a href="http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-12-13/600808_20121213_3.pdf">http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-12-13/600808_20121213_3.pdf</a></p> <p><a href="http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1212/LTN20121212710.pdf">http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1212/LTN20121212710.pdf</a></p>

During the reporting period, the Company held one annual general meeting three extraordinary general meetings in strict accordance with the holding procedures stipulated in relevant laws, regulations and the Articles of Association. Resolutions considered in the four general meetings were all approved and details of the meetings were published in Shanghai Securities News, and on the websites of the SSE and the Hong Kong Stock Exchange.

### (3) PERFORMANCE OF DUTIES BY DIRECTORS

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

Name of Director	Independent Director	Attendance in the Board Meetings					Two consecutive personal absence	Attendance in the General Meetings Attendance
		Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence		
Su Jiangang	No	15	14	1	0	0	No	4
Su Shihuai	No	0	0	0	0	0	No	0
Qian Haifan	No	15	14	1	0	0	No	3
Ren Tianbao	No	15	12	1	1	1	No	4
Qin Tongzhou	Yes	15	14	1	0	0	No	3
Yang Yada	Yes	15	14	1	1	0	No	3
Liu Fangduan	Yes	4	4	0	0	0	No	2
Zhao Jianming	No	14	11	0	1	2	No	3
Wu Tat Man Damon Albert	Yes	7	3	0	0	4	No	0

Board meetings held in the year	15
Including: Physical meetings	8
Meetings by way of correspondence	1
Physical meetings combined with correspondence	6

#### 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.

### (4) SUPERVISORY COMMITTEE'S EXPLANATION ON IDENTIFICATION OF RISKS IN THE COMPANY

The Supervisory Committee did not have any objection to the matters under supervision during the reporting period.



## IX. Internal Control

### (1) **DISCLAIMER OF INTERNAL CONTROL AND ESTABLISHMENT AND IMPROVEMENT OF THE INTERNAL CONTROL SYSTEM**

The Board of the Company declares responsible for the establishment, improvement, and the effectiveness of the internal control system.

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. During the reporting period, The Company established more than 20 policies during the reporting period, such as the Measures Governing Receivables, the Measures Governing the Plans for Raw Materials, Fuels and Auxiliary Materials and the Measures Governing the Supply of Scrap Steel. These policies describe in detail the key control activities in specific business process, and serve as an effective supplement to the Internal Control Manual, having ensured internal control and risk management are operating effectively under such policies.

During the reporting period, the Audit Department took the internal supervision and control lead informing 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 Board for approval. On the other hand, the independent auditors appointed by the Company audited the effectiveness of internal control over financial reporting, and reported the audit findings to the Audit Committee. The Audit Committee monitored the execution of the Company’s internal control and confirmed whether the internal control system of the Company was effective through evaluating the work of the Audit Department and the auditors. The Board listened to the report from the Audit Committee, and approved the internal control evaluation report, confirming that the internal control system of the Company was effective.

On 26 March 2013 the “Self-evaluation Report on Internal Control of the Company for year 2012” was considered and approved at the twenty-sixth meeting of the seventh session of the Board, and it was confirmed thereat that the internal control of the Company was effective in 2012.

The “Self-evaluation Report on Internal Control of the Company for year 2012” states that there were nine internal control deficiencies in the Company in 2012, of which two were significant deficiencies and seven were control deficiencies. There were no material weakness. The two significant deficiencies were reflected in the case over the trading of steel products involving Logistics Company, a subsidiary of the Company, in August 2012 (the supplier failed to deliver the steel products in accordance with the contract, and to return the money for the goods it received in advance from Logistics Company): (1) the Company was unable to effectively manage and control the business activities of Logistics Company, causing operating losses to the company during the trading of steel products; and (2) during the procurement and payment process, some of Logistics Company’s responsibilities and approvals were not clearly defined, the incompatible duties were not effectively separated, and the management staff of Logistics Company had acted beyond the examination and approval authority. However, because the Company has had effectively operating compensatory controls in place, such as the release of a “Notice on Further Strengthening the Management of Receivables and Prepayments, and the Prevention of Capital Risks”, and the establishment of a risk monitoring and control section in the accounting and finance department, as well as the deficiencies were localized ones which would not lead to material financial misstatement, the above two deficiencies were assessed as significant deficiencies in internal control.

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.

## **(2) RELEVANT INFORMATION ON INTERNAL CONTROL AUDIT REPORT**

Ernst & Young Hua Ming issued an auditor’s report containing an unqualified opinion with an emphasis of matter paragraph on the Company’s internal control over financial reporting as at 31 December 2012. Please refer to the website of the Shanghai Stock Exchange for details of the auditor’s report.

## **(3) 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 2012 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. During the reporting period, the Company implemented the abovementioned system effectively.



## X. Financial Statements

REPORT OF THE AUDITORS	85
AUDITED FINANCIAL STATEMENTS	
Consolidated balance sheet	87
Consolidated income statement	89
Consolidated statement of changes in equity	91
Consolidated cash flow statement	93
Company balance sheet	95
Company income statement	97
Company statement of changes in equity	98
Company cash flow statement	100
Notes to financial statements	102
SUPPLEMENTARY INFORMATION	268

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 (2013) Shen Zi No. 60438514\_A01

## 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 2012, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



# Report of the Auditors

## 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 2012 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

**Ernst & Young Hua Ming LLP**

Beijing, the People's Republic of China

**Zhong Li**

Chinese Certified Public Accountant

**Sun Zhongni**

Chinese Certified Public Accountant

26 March 2013

# Consolidated Balance Sheet

31 December 2012

Renminbi Yuan

ASSETS	Note V	2012	2011 (Restated)
<b>CURRENT ASSETS:</b>			
Cash and bank balances	1	<b>9,782,424,115</b>	10,611,862,099
Financial assets held for trading	2	<b>587,120</b>	607,980
Bills receivable	3	<b>8,060,760,260</b>	9,034,711,272
Trade receivables	4	<b>1,411,927,109</b>	1,883,404,218
Dividends receivable	5	<b>46,800,000</b>	99,902,452
Interest receivable		<b>4,846,087</b>	–
Prepayments	6	<b>2,037,721,944</b>	3,651,999,532
Other receivables	7	<b>469,008,747</b>	694,493,241
Inventories	8	<b>11,250,937,262</b>	14,132,127,677
Loans and advances to customers	9	<b>215,562,806</b>	12,699,577
Total current assets		<b>33,280,575,450</b>	40,121,808,048
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments	10,11	<b>1,210,311,409</b>	1,113,949,039
Investment properties	12	<b>4,400,618</b>	4,540,409
Fixed assets	13	<b>32,478,798,396</b>	32,418,075,602
Construction materials		<b>673,731,960</b>	265,351,474
Construction in progress	14	<b>5,697,669,676</b>	4,672,053,374
Intangible assets	15	<b>1,963,421,181</b>	2,002,437,828
Deferred tax assets	16	<b>702,255,349</b>	626,426,316
Total non-current assets		<b>42,730,588,589</b>	41,102,834,042
<b>TOTAL ASSETS</b>		<b>76,011,164,039</b>	81,224,642,090



# Consolidated Balance Sheet (Continued)

31 December 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	2012	2011 (Restated)
<b>CURRENT LIABILITIES:</b>			
Customer deposits	18	<b>565,167,982</b>	697,944,982
Repurchase agreements	19	<b>494,753,998</b>	68,180,659
Short term loans	20	<b>9,777,449,423</b>	5,822,785,816
Bills payable	21	<b>5,096,302,242</b>	5,142,687,963
Accounts payable	22	<b>7,029,326,670</b>	7,030,282,017
Deposits received	23	<b>6,122,954,555</b>	7,028,115,939
Payroll and benefits payable	24	<b>228,107,066</b>	243,707,642
Taxes payable	25	<b>(331,007,320)</b>	(325,437,540)
Interest payable		<b>205,268,222</b>	218,784,755
Dividends payable	26	<b>80,492,522</b>	80,281,968
Other payables	27	<b>1,058,965,107</b>	731,863,459
Non-current liabilities due within one year	28	<b>1,335,542,400</b>	2,681,045,000
Total current liabilities		<b>31,663,322,867</b>	29,420,242,660
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans	29	<b>9,914,180,000</b>	12,506,772,000
Bonds payable	30	<b>8,261,992,704</b>	9,243,722,051
Deferred income	31	<b>618,997,012</b>	552,778,524
Deferred tax liabilities	16	<b>40,614,884</b>	44,328,987
Total non-current liabilities		<b>18,835,784,600</b>	22,347,601,562
Total liabilities		<b>50,499,107,467</b>	51,767,844,222
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	32	<b>7,700,681,186</b>	7,700,681,186
Capital reserve	33	<b>8,329,067,663</b>	8,758,358,399
Special reserve		<b>14,768,610</b>	–
Surplus reserve	34	<b>3,750,928,170</b>	3,444,137,388
General reserve		<b>55,650,161</b>	127,104
Retained profits	35	<b>3,245,037,973</b>	7,467,413,825
Exchange fluctuation reserve		<b>30,510,424</b>	16,483,680
Equity attributable to owners of the parent		<b>23,126,644,187</b>	27,387,201,582
Minority interests		<b>2,385,412,385</b>	2,069,596,286
Total shareholders' equity		<b>25,512,056,572</b>	29,456,797,868
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>76,011,164,039</b>	81,224,642,090

The financial statements are signed by the following persons

Company Representative:

**Su Jiangan**

26 March 2013

Chief Accountant:

**Qian haifan**

26 March 2013

Head of Accounting:

**Zhang Qianchun**

26 March 2013

# Consolidated Income Statement

Year ended 31 December 2012  
Renminbi Yuanan

	Note V	2012	2011 (Restated)
Revenue	36	<b>74,404,364,038</b>	86,854,060,117
Less: Cost of sales	36	<b>72,840,274,575</b>	83,365,438,019
Business taxes and surcharges	37	<b>160,138,327</b>	227,777,606
Selling expenses	38	<b>349,695,028</b>	285,821,929
Administrative expenses	39	<b>1,378,085,886</b>	1,295,361,613
Financial expenses	40	<b>1,463,236,344</b>	969,175,097
Assets impairment losses	41	<b>2,722,485,738</b>	676,843,268
Loss on fair value changes		<b>20,860</b>	218,660
Add: Investment income	42	<b>613,911,017</b>	143,607,614
including: share of profits of associates and jointly-controlled entities		<b>111,905,442</b>	122,027,420
Operating profit/(loss)		<b>(3,895,661,703)</b>	177,031,539
Add: Non-operating income	43	<b>152,842,514</b>	166,979,551
Less: Non-operating expenses	44	<b>3,498,367</b>	24,179,555
including: loss on disposal of non-current assets		<b>-</b>	18,753,548
Profit/(loss) before tax		<b>(3,746,317,556)</b>	319,831,535
Less: Income tax	45	<b>54,205,870</b>	116,286,461
Net profit/(loss)		<b>(3,800,523,426)</b>	203,545,074
Including: Net profit attributable to the acquiree prior to business combination under common control		<b>11,496,935</b>	13,967,471
Less: Minority interests		<b>62,709,119</b>	121,175,866
Net profit/(loss) attributable to the equity holders of the parent		<b>(3,863,232,545)</b>	82,369,208

# Consolidated Income Statement (Continued)

Year ended 31 December 2012  
Renminbi Yuan

	Note V	2012	2011 (Restated)
<b>EARNINGS/(LOSS) PER SHARE:</b>			
Basic	46	<b>(50.17) cents</b>	1.07 cents
Diluted		<b>(50.17) cents</b>	1.07 cents
Other comprehensive income	47	<b>14,026,744</b>	(24,221,088)
Total comprehensive income		<b>(3,786,496,682)</b>	179,323,986
<b>Including:</b>			
Total comprehensive income attributable to owners of the parent		<b>(3,849,205,801)</b>	58,148,120
Total comprehensive income attributable to the minority shareholders		<b>62,709,119</b>	121,175,866

# Consolidated Statement of Changes In Equity

Year ended 31 December 2012

Renminbi Yuan

	Attributable to equity holders of parent							Minority interests	Total shareholders' equity	
	Share capital (Note V 32)	Capital reserve (Note V 33)	Special reserves	Surplus reserves (Note V 34)	General reserve	Retained profits (Note V 35)	Exchange fluctuation reserve			Sub-total
1. 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
Add: Business combination involving entities under common control	-	420,000,000	-	1,271,040	127,104	11,392,935	-	432,791,079	91,257,072	524,048,151
2. At 1 January 2012 (Restated)	7,700,681,186	8,758,358,399	-	3,444,137,388	127,104	7,467,413,825	16,483,680	27,387,201,582	2,069,596,286	29,456,797,868
3. Increase/(decrease) during the year										
1) Net profit/(loss)	-	-	-	-	-	(3,863,232,545)	-	(3,863,232,545)	62,709,119	(3,800,523,426)
2) Other comprehensive income	-	-	-	-	-	-	14,026,744	14,026,744	-	14,026,744
Total comprehensive income	-	-	-	-	-	(3,863,232,545)	14,026,744	(3,849,205,801)	62,709,119	(3,786,496,682)
3) Capital contribution and withdrawal by shareholders										
(i) Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	396,000,000	396,000,000
(ii) Others	-	-	-	3,170,532	-	-	-	3,170,532	(116,318,272)	(113,147,740)
4) Profits appropriation										
(i) Transfer to surplus reserves	-	-	-	303,620,250	-	(303,620,250)	-	-	-	-
(ii) Transfer to general reserves	-	-	-	-	55,523,057	(55,523,057)	-	-	-	-
(iii) Dividend paid	-	-	-	-	-	-	-	-	(26,574,748)	(26,574,748)
(iv) Business combination involving entities not under common control	-	(429,290,736)	-	-	-	-	-	(429,290,736)	-	(429,290,736)
5) Special reserves										
(i) Additions	-	-	85,616,047	-	-	-	-	85,616,047	-	85,616,047
(ii) Used	-	-	(70,847,437)	-	-	-	-	(70,847,437)	-	(70,847,437)
4. At 31 December 2012	7,700,681,186	8,329,067,663	14,768,610	3,750,928,170	55,650,161	3,245,037,973	30,510,424	23,126,644,187	2,385,412,385	25,512,056,572

# 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.32)	Capital reserve (Note V.33)	Surplus reserve (Note V.34)	General reserve	Retained profits (Note V.35)	Exchange fluctuation reserve	Sub-total		
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									
1) Net profit (Restated)	-	-	-	-	82,369,208	-	82,369,208	121,175,866	203,545,074
2) Other comprehensive income	-	-	-	-	-	(24,221,088)	(24,221,088)	-	(24,221,088)
Total comprehensive income (Restated)	-	-	-	-	82,369,208	(24,221,088)	58,148,120	121,175,866	179,323,986
3) Capital contribution and withdrawal by shareholders									
(i) Capital contribution by minority shareholders	-	-	-	-	-	-	-	1,181,266,000	1,181,266,000
(ii) Others (Restated)	-	420,000,000	-	-	-	-	420,000,000	90,000,000	510,000,000
4) Profits appropriation									
(i) Transfer to surplus reserves (Restated)	-	-	237,936,574	-	(237,936,574)	-	-	-	-
(ii) Transfer to general reserves (Restated)	-	-	-	127,104	(127,104)	-	-	-	-
(iii) Dividend paid	-	-	-	-	(385,034,059)	-	(385,034,059)	(27,521,298)	(412,555,357)
3. At 31 December 2011 (Restated)	<u>7,700,681,186</u>	<u>8,758,358,399</u>	<u>3,444,137,388</u>	<u>127,104</u>	<u>7,467,413,825</u>	<u>16,483,680</u>	<u>27,387,201,582</u>	<u>2,069,596,286</u>	<u>29,456,797,868</u>

# Consolidated Cash Flow Statement

Year ended 31 December 2012  
Renminbi Yuan

	Note V	2012	2011 (Restated)
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		<b>94,106,132,710</b>	102,148,046,708
Refunds of taxes		<b>22,597,431</b>	19,600,168
Net increase in repurchase agreements		<b>426,573,339</b>	68,180,659
Net (decrease)/increase in customer deposits		<b>(132,777,000)</b>	697,944,982
Cash received for interest charges, fees and commissions		<b>67,787,162</b>	12,510,108
Cash received relating to other operating activities	48	<b>172,537,666</b>	234,486,952
Sub-total of cash inflows		<b>94,662,851,308</b>	103,180,769,577
Cash paid for goods and services		<b>(80,715,929,570)</b>	(94,734,101,499)
Net increase of balances with central bank		<b>(891,488,602)</b>	(112,454,977)
Net increase in loans and advances to customers		<b>(204,912,353)</b>	(12,827,856)
Cash paid to and on behalf of employees		<b>(4,545,616,367)</b>	(4,392,425,754)
Cash paid for all taxes		<b>(2,216,171,232)</b>	(2,249,584,298)
Cash paid for interest charges, fees and commissions		<b>(12,792,084)</b>	(1,887,124)
Cash paid relating to other operating activities	48	<b>(483,353,982)</b>	(567,465,935)
Sub-total of cash outflows		<b>(89,070,264,190)</b>	(102,070,747,443)
Net cash flows from operating activities	49	<b>5,592,587,118</b>	1,110,022,134
2. Cash flows from investing activities:			
Cash received from retrieval of investments		<b>14,215,534</b>	1,760,000
Cash received from investment income		<b>185,825,918</b>	130,419,405
Net cash received from disposal of fixed assets, intangible assets and other long term assets		<b>22,745,493</b>	4,824,524
Net cash received from acquisition of a subsidiary		<b>–</b>	383,261,393
Cash received relating to other investing activities	48	<b>157,104,000</b>	62,009,300
Sub-total of cash inflows		<b>379,890,945</b>	582,274,622
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		<b>(4,946,800,801)</b>	(4,213,534,239)
Cash paid for acquisitions of investments		<b>(113,500,000)</b>	(50,100,000)
Cash paid for purchasing minority interests		<b>(429,290,736)</b>	–
Cash paid for deemed disposal of subsidiaries	49	<b>(107,636,270)</b>	–
Cash paid due to increase in pledged deposits, net		<b>(839,298,551)</b>	(311,760,491)
Sub-total of cash outflows		<b>(6,436,526,358)</b>	(4,575,394,730)
Net cash flows from investing activities		<b>(6,056,635,413)</b>	(3,993,120,108)

# Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2012

Renminbi Yuan

	Note V	2012	2011 (Restated)
3. Cash flows from financing activities:			
Cash received from borrowings		<b>37,968,551,261</b>	33,762,382,458
Cash received from capital contribution		<b>396,000,000</b>	681,266,000
Including: capital contribution by minority shareholders		<b>396,000,000</b>	681,266,000
Cash received from issuance of corporate bonds and medium-term notes		-	8,239,888,000
Sub-total of cash inflows		<b>38,364,551,261</b>	42,683,536,458
Cash repayments of borrowings		<b>(38,908,876,560)</b>	(34,050,665,899)
Cash paid for distribution of dividend or profits and for interest expenses		<b>(1,608,600,460)</b>	(1,966,518,396)
Including: dividend paid to minority shareholders by subsidiaries		<b>(26,574,748)</b>	(27,521,298)
Sub-total of cash outflows		<b>(40,517,477,020)</b>	(36,017,184,295)
Net cash flows from financing activities		<b>(2,152,925,759)</b>	6,666,352,163
4. Effect of foreign exchange rate changes on cash		<b>56,748,917</b>	21,701,427
5. Net increase/(decrease) in cash and cash equivalents		<b>(2,560,225,137)</b>	3,804,955,616
Add: Balance of cash and cash equivalents at beginning of year		<b>9,190,021,229</b>	5,385,065,613
6. Balance of cash and cash equivalents at end of year	50	<b>6,629,796,092</b>	9,190,021,229

# Balance Sheet

31 December 2012  
Renminbi Yuan

ASSETS	Note XI	2012	2011
<b>CURRENT ASSETS:</b>			
Cash and bank balances		<b>6,359,785,755</b>	4,768,791,715
Financial assets held for trading		<b>587,120</b>	607,980
Bills receivable		<b>5,001,092,227</b>	6,866,227,009
Trade receivables	1	<b>1,785,315,692</b>	2,412,923,730
Dividends receivable		<b>66,475,194</b>	152,701,212
Interest receivable		<b>5,159,705</b>	–
Prepayments		<b>1,044,242,745</b>	3,035,017,626
Other receivables	2	<b>279,377,529</b>	87,210,086
Inventories	3	<b>8,172,351,955</b>	10,433,971,452
Total current assets		<b>22,714,387,922</b>	27,757,450,810
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments	4	<b>6,708,697,609</b>	5,408,814,497
Investment properties		<b>17,188,937</b>	17,593,986
Fixed assets		<b>27,725,274,143</b>	28,163,111,487
Construction materials		<b>350,239,732</b>	282,303,496
Construction in progress		<b>4,115,011,626</b>	3,415,642,243
Intangible assets		<b>1,148,988,370</b>	1,182,953,916
Deferred tax assets		<b>679,495,010</b>	597,145,110
Total non-current assets		<b>40,744,895,427</b>	39,067,564,735
<b>TOTAL ASSETS</b>		<b>63,459,283,349</b>	66,825,015,545



# Balance Sheet (Continued)

31 December 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	2011
<b>CURRENT LIABILITIES:</b>		
Short term loans	<b>4,970,468,532</b>	720,152,772
Bills payable	<b>1,552,887,366</b>	2,219,224,949
Accounts payable	<b>7,982,070,150</b>	6,868,767,357
Deposits received	<b>4,595,208,580</b>	5,644,238,568
Payroll and benefits payable	<b>119,617,400</b>	175,902,146
Taxes payable	<b>(217,257,558)</b>	(388,139,010)
Interest payable	<b>207,613,733</b>	215,949,993
Dividends payable	<b>6,146,772</b>	5,936,218
Other payables	<b>809,058,988</b>	564,693,699
Non-current liabilities due within one year	<b>1,335,542,400</b>	2,681,045,000
<b>Total current liabilities</b>	<b>21,361,356,363</b>	18,707,771,692
<b>NON-CURRENT LIABILITIES:</b>		
Long term loans	<b>11,817,407,500</b>	12,838,172,000
Bonds payable	<b>8,261,992,704</b>	9,243,722,051
Deferred income	<b>592,659,282</b>	523,714,144
<b>Total non-current liabilities</b>	<b>20,672,059,486</b>	22,605,608,195
<b>Total liabilities</b>	<b>42,033,415,849</b>	41,313,379,887
<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 reserve	<b>2,964,168,101</b>	2,964,168,101
Special reserve	-	-
Retained profits	<b>2,422,659,814</b>	6,508,427,972
<b>Total shareholders' equity</b>	<b>21,425,867,500</b>	25,511,635,658
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>63,459,283,349</b>	66,825,015,545

# Income Statement

Year ended 31 December 2012

Renminbi Yuan

	Note XI	2012	2011
Revenue	6	<b>57,733,842,196</b>	78,067,121,225
Less: Cost of sales	6	<b>57,471,075,172</b>	76,284,120,046
Business taxes and surcharges		<b>99,240,696</b>	169,681,572
Selling expenses		<b>249,792,077</b>	235,331,501
Administrative expenses		<b>869,032,366</b>	887,825,688
Financial expenses		<b>1,539,317,048</b>	530,013,425
Asset impairment losses	7	<b>2,077,664,511</b>	674,480,000
Losses on fair value changes		<b>20,860</b>	218,660
Add: Investment income	8	<b>299,279,236</b>	206,612,395
Including: share of profits associates and jointly-controlled entities		<b>119,172,376</b>	130,918,471
Operating loss		<b>(4,273,021,298)</b>	(507,937,272)
Add: Non-operating income		<b>106,573,714</b>	120,142,902
Less: Non-operating expenses		<b>1,559,216</b>	7,755,393
Including: loss on disposal of non-current assets		-	5,261,751
Loss before tax		<b>(4,168,006,800)</b>	(395,549,763)
Less: Income tax expense		<b>(82,238,642)</b>	(117,377,808)
Net loss		<b>(4,085,768,158)</b>	(278,171,955)
Other comprehensive income		-	-
Total comprehensive (loss)/income		<b>(4,085,768,158)</b>	(278,171,955)

# Statement of Changes In Equity

Year ended 31 December 2012

Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Total Retained profits	shareholders' equity
1. At 1 January 2012	7,700,681,186	8,338,358,399	-	2,964,168,101	6,508,427,972	25,511,635,658
2. Increase/(decrease) during the year						
1) Net loss	-	-	-	-	(4,085,768,158)	(4,085,768,158)
2) Other comprehensive income	-	-	-	-	-	-
Sub-total (1) and (2)	-	-	-	-	(4,085,768,158)	(4,085,768,158)
3) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
(ii) Others	-	-	-	-	-	-
4) Profits appropriation						
(i) Transfer to surplus reserves	-	-	-	-	-	-
(ii) Dividends declared	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
5) Special reserve						
(i) Additions	-	-	53,183,561	-	-	53,183,561
(ii) Used	-	-	(53,183,561)	-	-	(53,183,561)
3. At 31 December 2012	<b>7,700,681,186</b>	<b>8,338,358,399</b>	<b>-</b>	<b>2,964,168,101</b>	<b>2,422,659,814</b>	<b>21,425,867,500</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 2011	7,700,681,186	8,338,358,399	2,964,168,101	7,171,633,986	26,174,841,672
2. Increase/(decrease) during the year					
1) Net profit	-	-	-	(278,171,955)	(278,171,955)
2) Other comprehensive income	-	-	-	-	-
Sub-total (1) and (2)	-	-	-	(278,171,955)	(278,171,955)
3) Capital contribution and withdrawal					
(i) Capital contribution by shareholders	-	-	-	-	-
(ii) Others	-	-	-	-	-
4) Profit appropriation					
(i) Transfer to surplus reserves	-	-	-	-	-
(ii) Dividend paid	-	-	-	(385,034,059)	(385,034,059)
(iii) Others	-	-	-	-	-
5) Transfers within shareholders' equity	-	-	-	-	-
3. At 31 December 2011	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>2,964,168,101</u>	<u>6,508,427,972</u>	<u>25,511,635,658</u>

# Cash Flow Statement

Year ended 31 December 2012

Renminbi Yuan

	Note XI	2012	2011
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		<b>69,477,894,149</b>	90,409,877,010
Cash received relating to other operating activities		<b>135,751,904</b>	178,408,853
Sub-total of cash inflows		<b>69,613,646,053</b>	90,588,285,863
Cash paid for goods and services		<b>(58,483,542,214)</b>	(80,588,208,969)
Cash paid to and on behalf of employees		<b>(3,649,309,362)</b>	(3,697,004,367)
Cash paid for all taxes		<b>(809,255,348)</b>	(1,604,273,560)
Cash paid relating to other operating activities		<b>(916,880,110)</b>	(564,899,168)
Sub-total of cash outflows		<b>(63,858,987,034)</b>	(86,454,386,064)
Net cash flows from/(used in) operating activities	9	<b>5,754,659,019</b>	4,133,899,799
<b>2. Cash flows from investing activities:</b>			
Cash received from investment income		<b>383,912,878</b>	211,396,685
Net cash received from disposal of fixed assets, intangible assets and other long term assets		<b>40,488,603</b>	271,057,296
Cash received due to decrease in pledged deposits, net		<b>-</b>	-
Cash received relating to other investing activities		<b>157,264,000</b>	62,009,300
Sub-total of cash inflows		<b>581,665,481</b>	544,463,281
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		<b>(2,375,212,909)</b>	(3,575,042,007)
Cash paid for acquisitions of investments		<b>(1,628,290,736)</b>	(3,149,444,444)
Cash paid from decrease of pledged deposits		<b>(800,000,000)</b>	-
Sub-total of cash outflows		<b>(4,803,503,645)</b>	(6,724,486,451)
Net cash flows from/(used in) investing activities		<b>(4,221,838,164)</b>	(6,180,023,170)

# Cash Flow Statement (Continued)

Year ended 31 December 2012  
Renminbi Yuan

	2012	2011
3. Cash flows from financing activities:		
Cash received from borrowings	<b>26,840,964,892</b>	21,122,536,749
Cash received from issuance of corporate bonds and medium-term notes	<b>—</b>	8,239,888,000
Sub-total of cash inflows	<b>26,840,964,892</b>	29,362,424,749
Cash paid for repayments of borrowings	<b>(25,956,603,581)</b>	(24,190,976,450)
Cash paid for distribution of dividend or profits and for interest expenses	<b>(1,420,217,175)</b>	(1,685,760,546)
Sub-total of cash outflows	<b>(27,376,820,756)</b>	(25,876,736,996)
Net cash flows from/(used in) financing activities	<b>(535,855,864)</b>	3,485,687,753
4. Effect of foreign exchange rate changes on cash	<b>(205,970,951)</b>	242,003,772
5. Net increase in cash and cash equivalents	<b>790,994,040</b>	1,681,568,154
Add: Balance of cash and cash equivalents at beginning of year	<b>4,768,791,715</b>	3,087,223,561
6. Balance of cash and cash equivalents at end of year	<b>5,559,785,755</b>	4,768,791,715

# Notes to Financial Statements

31 December 2012

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 licence 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, 1,245,381,186 were exercised by certain holders in exchange for the Company’s ordinary A shares. After the exercise of the warrants, the Company’s registered capital increased to RMB7,700,681,186.

As at 31 December 2012, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,750,000 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 and 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 certificates); and 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 26 March 2013. According to the Articles of Association of the Company, the financial statements will be submitted to shareholders for approval at a shareholders’ meeting.

# Notes to Financial Statements (Continued)

31 December 2012  
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 Principles” 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 are 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 2012, 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, which are translated 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)

31 December 2012  
Renminbi Yuan

## 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 on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being combined.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the combined entity 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 share premium, which is included in capital reserve. If the balance of share premium reserve is insufficient, any excess is adjusted to retained profits.

#### **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 the date of acquisition.

Any excess of the sum of 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 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 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, 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 2012  
Renminbi Yuan

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

### 6. CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements is determined by the control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2012. A subsidiary is a company or entity that is controlled by the Company.

The financial year of subsidiaries are coterminous and the accounting policies of subsidiaries are applied consistently with those of 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 opening minority interests of beginning equity, the balance offsets minority interests. Any changes in the minority interests without losing control are 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 the consolidated financial statements, adjustments are 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 the combination period. In preparing consolidated financial statements, adjustments are 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 2012  
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 rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined, and 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 fluctuations 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 2012  
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;
- (2) It transfers the contractual rights to receive the cash flows of the financial asset, 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 financial assets purchased or sold in regular way are recognised or derecognised 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 2012  
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 profit or loss 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 the fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

Financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria is 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 contain one or more embedded derivatives, unless the embedded derivatives does not have a substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from the relevant hybrid instruments.
- (4) Hybrid instruments which contain 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 2012  
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 a 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 or loss in initial recognition, it shall not be reclassified to other categories of financial assets. Also, assets from other categories of financial assets shall not be reclassified to financial assets at fair value through profit or loss.

In accordance with the above conditions, the financial assets of this kind designated by the Group are mainly 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 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 interest 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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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.

#### Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when they are 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, transaction costs are charged to the income statement; whereas for other financial liabilities, transaction costs 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 financial liabilities held for trading and those that are designated as at 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 collectively 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 the 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 they do not belong to financial liabilities that are designated at fair value through profit or loss. They are 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 2012  
Renminbi Yuan

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Bonds with warrants

The Group evaluates the terms of bonds with warrants to determine whether it contains both liability and equity components. The bonds with warrants issued contain both liability and equity components. On initial recognition, the bonds are bifurcated into the liability and equity components and are accounted for 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.

If the issued bonds with warrants only contain a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibiting characteristics of an embedded derivative, the embedded derivative 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 a 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 the 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 2012  
Renminbi Yuan

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Impairment of financial assets

The Group assesses the 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 that occurred after the initial recognition of the financial asset and could impact the estimated future cash flows of the financial asset, and 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 are assessed for impairment individually. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, they 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 what the amortised cost would be 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 a 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 2012  
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)*

The objective evidence of the available-for-sale equity instrument investment is impaired, includes a dramatically or non-temporarily decrease in fair value. Professional judgment is involved as to recognize the difference between “dramatically” and “non-temporarily”. “Dramatically” is measured by the extent of fair value under the cost, “Non-temporarily” is measured by the length of duration when fair value was under the cost. 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.

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.

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

If there is objective evidence that an impairment loss on a 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 abovementioned principles.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 9. FINANCIAL INSTRUMENTS (CONTINUED)

#### Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the asset, it shall derecognise the financial assets. Whereas, if it retains substantially all the risks and rewards of ownership 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, the following treatment shall be used: if the control over the financial asset is lost, the Group 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 recognises an associated liability.

### 10. RECEIVABLES LOANS AND ADVANCES TO CUSTOMERS

- (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.
- (3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at 1% of the balance as at the period end.

### 11. INVENTORIES

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

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

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 11. INVENTORIES (CONTINUED)

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 losses) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statements. Provision of impairment for construction contract is assessed at the year 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 on normal business terms 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 the an individual basis for finished goods.

### 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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

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

Long term investments 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 of the acquiree's equity. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for those complete 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 the 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. For long term investment not acquired through business combination: for the transaction 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 transaction paid by 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 the 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, except for the profits or cash dividends that are declared and already included in the consideration paid to acquire the investment. Also, the Group should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

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

When the equity method is adopted, the initial cost of investment 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 results should be based on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. 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, they should be entirely recognised). The recognition should be based 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 long term equity interests that are investment in the investee in substance is reduced to zero, except for which the investor has an extra obligation to assume loss of it. For the changes of equity in an investee other than profit or loss, the investor adjusts the carrying amount of the investment and recorded in shareholders' equity.

When long term equity investments are 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 the 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.24. For the other long term investments which do not have a quoted market price from an active market, and the fair value cannot be reliably measured, further details of the impairment assessment and measurement of provision for impairment are stated in note II.9.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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 leases) 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 the cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over their estimated useful lives, which is the period over which future economic benefits will flow into the Group.

For investment properties accounted for under cost method, please refer to note II.24 for the detail of their impairment assessment and measurement.

### 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, except for fix assets generated by consuming safety production reserves. 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 years	3%	4.9 – 9.7%
Machine equipment	13 years	3%	7.5%
Office equipment	10 years	3%	9.7%
Transportation vehicles and equipment	5 years	3%	19.4%

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 14. FIXED ASSETS (CONTINUED)

Components of fixed assets which have different useful lives and generate different kinds of benefits to the enterprise have different depreciation rates.

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

Further details of the impairment assessment and measurement of provision for impairment of fixed assets are stated in note II.24.

### 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.

Further details of the impairment assessment and measurement of provision for impairment of the construction in progress are stated in note II.24.

### 16. BORROWING COSTS

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

All the borrowing costs that 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)

31 December 2012  
Renminbi Yuan

## 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 had 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 are treated as an expense.

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

- (1) For specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during the current period deducted by any temporary interest or investment income.
- (2) For general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the weighted average of capital expenditure exceeds 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 probable 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 an intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognised and is 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)

31 December 2012  
Renminbi Yuan

## 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

For internally generated plants and other buildings, the land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. 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 if it is difficult to allocate reasonably.

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 them if appropriate, at least at each balance sheet date.

For the intangible assets with indefinite useful lives, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, they should not be amortised and their useful lives are reviewed at least at each financial year end. If there is indication that the useful lives are finite, the Group 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 any 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.

Further details of the impairment assessment and measurement of provision for impairment of the intangible assets are stated in note II.24.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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;
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- (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 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. REPURCHASE AGREEMENTS

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 20. REVENUE

Revenue is recognised when it is probable that the economic benefits associated with a 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 the deferred method and it contains the nature of financing, the revenue should be determined by the fair value of the amount receivable as stated in the contract or agreement.

#### 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 into a contract or agreement with other parties which contains both sale of goods and rendering of services, if the portion of sale of goods and rendering of services can be separately measured, the portions of sale of goods and rendering of services are measured individually. If the portions of sale of goods and rendering of services cannot be separately measured or even if they could be separately measured but cannot be measured individually, it is deemed to be sale of goods.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 20. REVENUE (CONTINUED)

#### Interest income

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

#### Lease income

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

### 21. 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. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period. A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

### 22. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the income statement, except for goodwill generated in a business combination or items that has been recognised directly 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 amounts of some items that have a tax base but are not recognised as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 22. INCOME TAX (CONTINUED)

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.

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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 23. LEASES

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.

#### As lessee in operating lease

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

#### As lessor in operating lease

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

### 24. IMPAIRMENT OF ASSETS

The Group determines the impairment of assets according to the following method, except for inventories, deferred tax assets, financial assets, and long term equity investments measured at cost method which do not have a 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.

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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 24. IMPAIRMENT OF ASSETS (CONTINUED)

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 combinations of asset groups containing goodwill, 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 is 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.

### 25. 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 defined benefit obligations due after one year at discounted amount in the financial statements if the impact of discounting is material.

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



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 25. EMPLOYEE BENEFITS (CONTINUED)

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 contributions 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 the 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.

### 26. PROFIT DISTRIBUTION

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

### 27. 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 controlled or jointly-controlled by the same party.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 28. 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 characteristics.

### 29. SAFETY PRODUCTION RESERVE

Safety production reserve set aside in compliance with relevant regulations, is included in the cost of relevant products or recognized in profit or loss for the period, and credited to special reserve at the same time. When safety production reserve is utilized, it is accounted for based on whether fixed asset is generated or not: if the costs incurred can be categorized as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up fixed assets, the costs should be charged to construction in progress, and reclassified to fixed assets when the projects reach the status ready for intended use. Meantime, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognized at the same amount.

### 30. GENERAL RESERVE

According to the relevant policy of the MOF, MASTEEL-Financial accrues general reserve from after-tax net profit as profit distribution. After July 1 2012, the balance of general reserve should not less than 1.5% of the balance of risk assets (2011:1%).

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 31. 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 the lease contracts.

#### *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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

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

#### *Estimation uncertainty (Continued)*

##### *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 the carrying amount of an asset or assets group is higher than its recoverable amount, that is the higher of fair value less costs to sell and the present value of estimated future cash flows, the related asset or assets group is impaired. The fair value less costs to sell of an asset is determined as the contractual price of similar assets in an arm's length transaction, or the observable market price of similar assets, after deducting the additional costs directly attributable to the disposal of this asset. 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.

##### *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*

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 at each balance sheet date and makes provision accordingly.

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 a similar nature. Management reassesses the estimation on each balance sheet date.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 32. CHANGES IN ACCOUNTING ESTIMATES

Upon the completion of the construction projects carried out in the Eleventh Five-Year Plan, and elimination of certain backward production machinery, 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 10 years to 13 years. The resolution has been approved by the Board of Directors at its fourth meeting in 2011 and by shareholders at the second extraordinary general meeting in 2011.

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 estimate was accounted for prospectively, and its effects to the financial statements are: the amount of fixed asset depreciation was reduced by RMB318.19 million, and the amount of owners' equity and net profit were both reduced by RMB238.64 million.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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.

### 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 at 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.

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## III. TAX (CONTINUED)

### 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 applied 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)

31 December 2012

Renminbi Yuan

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment</b>															
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Public	Anhui, PRC	Ye Yi	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	150509582	RMB 50,000,000	-	100	100	Y	-	-	
Anhui Masteel Engineering Technology Company Limited ("Masteel Engineering Technology")	Limited liability	Anhui, PRC	Fang Zheng-fang	Service industry	RMB 100,000,000	Planning and design of metallurgical construction and environmental protection projects, construction supervision and contract services	732997248	RMB 8,500,000	-	66.82	66.82	Y	60,798,565	-	(i)
MG Control Technique Company Limited ("MG Control Technique")	Limited liability	Anhui, PRC	Liang Yue-yong	Manu-facturing	RMB 12,000,000	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	739900283	RMB 8,000,000	-	97.93	100	Y	1,080,422	-	
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Sino-foreign joint venture	Anhui, PRC	Pu Daojin	Manu-facturing	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	41,235,010	-	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino-HK joint venture	Anhui, PRC	Dai Huaqiang	Manu-facturing	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)	746769078	RMB 35,000,000	-	100	100	Y	-	-	
Ma Steel (Chui) Processing and Distribution Co., Ltd. ("Ma Steel (Chui)")	Limited liability	Anhui, PRC	Dai Huaqiang	Manu-facturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	764791762	RMB 27,600,000	-	92	92	Y	3,550,769	1,606,159	



# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	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	Dai Huaqiang	Manu-facturing	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	54,449,237	6,287,208	
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Wholly-owned subsidiary	Hong Kong, PRC	N/A	Manu-facturing	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 Mastee Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manu-facturing	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	-	-	
Maanshan Mastee Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manu-facturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 900,000	-	90	90	Y	820,589	-	
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Dai Huaqiang	Manu-facturing	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	33,228,102	2,067,063	
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	-	-	

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
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	Manu-facturing	RMB 1,700,000,000	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 materials and electronic equipments	788567175	RMB 1,207,000,000	-	71	71	Y	724,286,495	-	(a)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Masteel (Hefei) Processing")	Limited liability	Anhui, PRC	Dai Huaqiang	Manu-facturing	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	15,407,925	3,968,229	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Dai Huaqiang	Manu-facturing	RMB 150,000,000	Provision of storage and transportation services of automobile related metal components, trading and processing of steel products, provision of related consultancy services	670909619	RMB 106,500,000	-	71	71	Y	44,114,917	3,710,548	

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	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 of after-sale services and technical consultancy services	667902117	USD 15,300,000	-	51	51	Y	81,015,493	11,022,768	
Maanshan Used Vehicle Trading Centre Co. Ltd. ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Qian Shihua	Service industry	RMB 500,000	Trading of used automobiles, sale 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	Tian Jun	Manufacturing	RMB 10,000,000	Technological service in energy saving, environment protection and construction projects; repair of electric facilities and machines	57571955-0	RMB 10,000,000	-	100	100	Y	-	-	
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 structures, bridge steel structure and customised machines, sale of metal and construction materials	57571523-4	RMB 530,000,000	-	100	100	Y	-	-	
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	-	-	

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Maanshan Masteel Equipment Installation Engineering Co., Ltd. ("Masteel Equipment Installation")	Limited liability	Anhui, PRC	Xia Huijing	Manu-facturing	RMB 100,000,000	Production, installation and repair of pressure pipelines, boilers and pressure containers	57571843-5	RMB 100,000,000	-	100	100	Y	-	-	
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap Steel")	Limited liability	Anhui, PRC	Yang Zhen	Manu-facturing	RMB 100,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 100,000,000	-	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	-	-	
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Limited liability	Chongqing, PRC	Dai Huaqiang	Manu-facturing	RMB 250,000,000	Simple processing and delivery of steel products, and provision of related services, storage and sale of metal products	57797492-X	RMB 175,000,000	-	70	70	Y	75.870,139	-	
Maanshan Masteel Yuyuan Logistics Co., Ltd. ("Masteel Yuyuan Logistics")	One-person Limited liability	Anhui, PRC	Yang Junguo	Trading	RMB 270,000,000	Sale of steel, processing of metallic products, storage service, agent of freight shipping and project tender	58723125-3	RMB 270,000,000	-	100	100	N	-	-	(j)
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply")	Limited liability	Anhui, PRC	Qin Chang-rong	Manu-facturing	RMB 50,000,000	Industrial water production and sale	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
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	-	-	
Maanshan Iron& Steel Zhonglian Maritime Co., Ltd. ("Zhonglian Maritime")	Limited liability	Anhui, PRC	Yang Junguo	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	N	-	-	(iv)
Hefei Dianfu River Port Co., Ltd. ("Dianfu River")	Limited liability	Anhui, PRC	Fang Xiaoyun	Service industry	RMB 60,000,000	Cargo handling, warehousing services; land and sea cargo transport transshipment, Provision of comprehensive services to foreign ships	5145082-9	RMB 18,000,000	-	50	50	N	-	-	(iii)
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	One-person Limited liability	Anhui, PRC	Qin Chang-rong	Manu-facturing	RMB 1,200,000,000	Smelting and processing of ferrous metals and sale of the products, by-products and semi-products; processing of iron and steel products and production and sale of metallic products; storage of iron and steel products and metallic products	59428146-X	RMB 1,200,000,000	-	100	100	Y	-	-	(ii)
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Other Limited liability	Anhui, PRC	Zhang Jian	Manu-facturing	RMB 100,000,000	Materials of automobile, home appliance, mechanical or related industry research; Laser welding plate, stamping parts and products research and development, production and sales; steel and product processing, storage and services	5149816-3	RMB 70,000,000	-	70	70	Y	30,000,414	-	(ii)

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY 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 period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solidation Y/N	Minority interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Ma Steel Powder Metallurgy Co., Ltd. ("Masteel Powder Metallurgy")	Limited liability	Anhui, PRC	Huang Chao-wu	Manu-facturing	RMB 100,000,000	Production and marketing sponge iron and reduced iron powder, the water atomized iron powder, powder products and their by-products; mechanical equipment manufacture and installation; metal product production; and processing; technical consultation	5575654-2	RMB 51,000,000	-	51	51	Y	-	-	(ii)
<b>Subsidiaries acquired not under common control</b>															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Dai Huaqiang	Manu-facturing	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 14,200,000	-	71	71	Y	53,037,050	2,002,841	
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Limited liability	Anhui, PRC	Li Jianshe	Manu-facturing	RMB 1,200,000,000	Production and sale of iron and steel products, trading of iron ore and scrap steel, import and export business	71993423-3	RMB 660,000,000	-	55	55	Y	1,066,631,160	-	
<b>Subsidiaries acquired under common control</b>															
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking")	Limited liability	Anhui, PRC	Qiu Xiaogen	Manu-facturing	USD 2,500,000	Development, production, and sale of vehicle automatic transmission products and related spare parts; provision of related design technique, equipment production and transportation services	758545127	USD 2,500,000	-	100	100	Y	-	-	
Magang Group Finance Company Limited. ("MASTEEL-Financial")	Limited liability	Anhui, PRC	Su Jiang-gang	Financial services	RMB 1,000,000,000	Rendering of financing related consultation services, guarantee and bank acceptance bill discounting services, and entrusted loan services to member entities; providing borrowings to member entities and absorbing deposits from entities	583045103	RMB 910,000,000	-	91	91	Y	99,886,098	-	(iv)

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

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

- (i) The two companies were renamed in the current year. The original name of Mastel Engineering Technology was Design & Research Institute of Maanshan Iron & Steel Company Limited, and the original name of Masteel Scrap Steel was Maanshan Masteel Resource Regeneration Company Limited respectively.
- (ii) As at 24 March 2012, the registered capital of Ma steel (Hefei) was increased by RMB1.2 billion, including capital injection of RMB0.852 billion paid in by the Company, and capital injection of RMB0.348 billion paid in by Hefei Industrial Investment Holding Co., Ltd. Upon the completion of the capital injection, the registered capital of Ma steel (Hefei) reached RMB1.7 billion, with the Company's shareholding unchanged.
- (iii) The above subsidiaries were established during the current year.
- (iv) MASTEEL-Financial was established in September 2011 by the Company and the Group, with the shareholding being 49% and 51%, respectively. The investment in MASTEEL-Financial was accounted for as an associate by the Company. As at 9 February 2012, the Company and the Holding entered into a share transfer agreement. The Holding agreed to transfer a 42% equity interest in MASTEEL-Financial to the Company for a price of RMB429,290,736. 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. As at 5 April 2012, the approval for this share transfer from the China Banking Regulatory Commission was received by the Company, resulting in the completion of this share transfer.
- (v) Since the issuance of verdict by the court on 12 October 2012 that accepts the restructuring application of Masteel Yuyuan Logistics, the company had lost the right to decide the financial and operating policies of Masteel Yuyuan Logistics and its subsidiaries (Zhonglian Maritime and Dianfu River). Therefore, Masteel Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation starting from 12 October 2012.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 2. CHANGE IN THE SCOPE OF CONSOLIDATION

Except for the newly established subsidiaries during the current year and the statement in note IV.4 and note IV.6, the scope of financial statements consolidation is consistent with the previous year.

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

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

	Net assets at 31 December 2012	Net profit from the date of incorporation to year end
Hefei Steel Plates	1,200,000,000	-
Hefei Materials	100,001,381	1,381
Masteel Powder Metallurgy	51,666,279	666,279

### 4. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

	The basis of judgement for the business combination under common control	The common controller	Revenue from the beginning of 2012 to the date of acquisition	Net profit from the beginning of 2012 to the date of acquisition
MASTEEL-Financial	Controlled by the same parent company	The Holding	18,933,214	11,496,935
			<u>                    </u>	<u>                    </u>
			Net cash flow from operating activities from the beginning of 2012 to the date of acquisition	Net cash flows from investing activities from the beginning of 2012 to the date of acquisition
			Net cash flows from financing activities from the beginning of 2012 to the date of acquisition	
MASTEEL-Financial		63,631,845	-	-
		<u>                    </u>	<u>                    </u>	<u>                    </u>

MASTEEL-Financial was originally a subsidiary of the Holding and an associate of the Company (with the Company holding 49% of shares). In April 2012, the Company acquired a further 42% of shares in MASTEEL-Financial at a cost of RMB429,290,736, increasing its shareholding to 91%. Since the Company and MASTEEL-Financial are both controlled by the Holding before and after this share transfer, and the control is not transitory, this business combination is a business combination under common control. The acquisition date is determined as 5 April 2012.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 4. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (CONTINUED)

As at the acquisition date, the book values of MASTEEL-Financial's assets and liabilities were as follows:

	Acquisition date	31 December 2012
Cash and bank balances	369,686,789	308,936,211
Other receivables	22,800	–
Other current assets	810,471,500	779,000,000
Loans and advances to customers	577,879,157	690,780,826
Fixed assets	2,956,998	2,815,454
Deferred tax assets	14,021	–
	<hr/>	<hr/>
Total assets	1,761,031,265	1,781,532,491
	<hr/>	<hr/>
Customer deposits	705,116,868	697,944,982
Repurchase agreements	26,012,588	68,180,659
Payroll and benefits payable	50,429	–
Taxes payable	2,847,420	717,029
Interest payable	776,985	652,240
Other payables	762,569	70,110
	<hr/>	<hr/>
Total liabilities	735,566,859	767,565,020
	<hr/>	<hr/>
Total shareholders' equity	1,025,464,406	1,013,967,471
	<hr/>	<hr/>
Minority interests (9%)	92,291,797	91,257,072
Interests in associates (49%) (i)	503,881,873	496,844,061
	<hr/>	<hr/>
Interests of acquisitions (42%)	429,290,736	425,866,338
	<hr/>	<hr/>
Incorporating price difference (recorded in shareholders' equity)	–	–
	<hr/>	<hr/>
Consideration (ii)	429,290,736	–
	<hr/>	<hr/>

- (i) MASTEEL-Financial was an associate of the Company before this business combination.
- (ii) The consideration is a cash payment amounting to RMB429,290,736. Since the consideration is equal to the share of net assets of MASTEEL-Financial attributable to the Company, and this acquisition is a business combination under common control, the capital reserve of the Group decreased by RMB429,290,736. For details please refer to note V.23.
- (iii) The comparative data have been restated under the provision of Accounting Standards for Business Enterprises "business combination involving entities under common control".

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 5. 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 at a cash consideration of RMB1,234,444,444. The consideration of the acquisition had been paid, and the procedures for the transfer of the equity interest had 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
<b>Total assets</b>	<b>5,647,737,893</b>	<b>5,463,861,188</b>
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
<b>Total liabilities</b>	<b>3,403,293,449</b>	<b>3,357,324,273</b>
<b>Net assets</b>	<b>2,244,444,444</b>	<b>2,106,536,915</b>
Minority interests	1,010,000,000	947,941,612
	<u>1,234,444,444</u>	<u>1,158,595,303</u>
Goodwill	-	
	<u>1,234,444,444<sup>(i)</sup></u>	

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

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 5. 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 31 December 2011 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)

### 6. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL

	<b>The date of losing control</b>	<b>The method of profit and loss recognition</b>
Masteel Yuyuan Logistics	12 October 2012	(i)

	<b>Place of registration</b>	<b>Type of business</b>	<b>Total shareholding ratio of the Group</b>	<b>Total voting right ratio of the Group</b>	<b>Reason of not being affiliate</b>
Masteel Yuyuan Logistics	China Anhui	Trading	100%	100%	(i)

- (i) Since the issuance of verdict by the court on 12 October 2012 that accepts the restructuring application of Masteel Yuyuan Logistics, the company had lost the right to decide the financial and operating policies of Masteel Yuyuan Logistics and its subsidiaries (Zhonglian Maritime and Dianfu River). Therefore, Masteel Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation. The relevant information about Masteel Yuyuan Logistics is as follows:

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 6. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL (CONTINUED)

	<b>12 October 2012</b> <b>Book value</b>	<b>31 December 2011</b> <b>Book value</b>
Current assets	178,236,949	225,896,085
Non-current assets	162,550,999	70,680,000
Current liabilities	708,579,325	366,500
Non-current liabilities	-	-
	<u>(367,791,377)</u>	<u>296,209,585</u>
Minority interests	116,318,272	96,266,000
Fair value of residual equity	(484,109,649)	
Gain from regarded as disposal income	484,109,649	
Consideration of deemed disposal income	-	
		<b>From 1 January 2012 to 10 October 2012</b>
Operating revenue		91,170,953
Operating cost		74,481,209
Net loss attributable to parent company		754,053,234

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

	<u>Average rates</u>		<u>Closing rates</u>	
	<b>2012</b>	2011	<b>2012</b>	2011
EUR	<b>8.2401</b>	8.4845	<b>8.3176</b>	8.1625
HKD	<b>0.8108</b>	0.8308	<b>0.8108</b>	0.8107
AUD	<b>6.4728</b>	6.5616	<b>6.5363</b>	6.4093

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CASH AND BANK BALANCES

	2012			2011(Restated)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash on hand						
– RMB	191,349	1	191,349	381,411	1	381,411
Balances with financial institutions						
– RMB	4,506,914,313	1	4,506,914,313	6,323,861,012	1	6,323,861,012
– HKD	423,113	0.8108	343,060	958,695	0.8107	777,214
– USD	244,726,397	6.2855	1,538,227,770	371,044,631	6.3009	2,337,915,113
– EUR	10,311,193	8.3176	85,764,375	6,843,880	8.1625	55,863,168
– JPY	103,329	0.0730	7,543	53,050,702	0.0811	4,302,412
– AUD	77,210,642	6.5363	504,671,922	73,833,617	6.4093	473,221,799
			<u>6,635,928,983</u>			<u>9,195,940,718</u>
Others						
– RMB	2,142,360,204	1	2,142,360,204	1,303,084,993	1	1,303,084,993
Mandatory reserves with central bank						
– RMB	1,003,943,579	1	1,003,943,579	112,454,977	1	112,454,977
Total			<u>9,782,424,115</u>			<u>10,611,862,099</u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 1. CASH AND BANK BALANCES (CONTINUED)

As at 31 December 2012, the Group's cash and bank balances amounting to RMB3,152,628,023 have been pledged to banks as security (31 December 2011: RMB1,421,840,870), including other monetary assets amounting to RMB2,142,360,204 (31 December 2011: RMB1,281,984,993) pledged as security for trade facilities and performance bonds, and no (31 December 2011: RMB21,100,000) other monetary assets certificates of deposit as collateral to obtain the bank borrowings (31 December 2011: RMB20,000,000), and demand deposits amounting to USD1,000,000 (equivalent to RMB6,324,240) (31 December 2011: USD1,000,000, equivalent to RMB6,300,900) have been pledged to banks to issue letters of credit, and Mandatory reserves with central banks RMB1,003,943,579 (31 December 2011: RMB112,454,977).

As at 31 December 2012, the Group had cash and bank balances amounting to RMB624,291,473 that have been deposited outside the PRC (31 December 2011: RMB588,084,729).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months to one year, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

### 2. FINANCIAL ASSETS HELD FOR TRADING

	2012	2011
Equity instruments held for trading	<b>587,120</b>	607,980

The above equity instruments were all listed on the Shanghai or Shenzhen Stock Exchange. There is no material restriction on realisation of these investments as at the balance sheet date.

### 3. BILLS RECEIVABLE

	2012	2011 (Restated)
Bank acceptance bills	<b>8,054,237,399</b>	9,028,311,927
Commercial acceptance bills	<b>6,522,861</b>	6,399,345
Total	<b>8,060,760,260</b>	9,034,711,272

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 3. BILLS RECEIVABLE (CONTINUED)

As at 31 December 2012, no bills receivable of the Group were secured to banks to obtain short-term loans (31 December 2011: RMB440,265,525), which are disclosed in note V.20. Besides, certain of the Group's bank acceptance bills amounting to RMB152,972,397 were secured to banks to issue bank acceptance bills to suppliers (31 December 2011: RMB81,302,740), which are disclosed in note V.21.

As at 31 December 2012 and 31 December 2011, there were no trade receivables transferred from bills receivable because of the drawers' inability to pay, and the top five largest endorsed undue bills receivable were as follows:

#### 2012

Issue entity	Issue date	Maturity date	Amount
Company 1	2012-8-21	2013-2-21	<b>77,477,764</b>
Company 2	2012-11-06	2013-2-9	<b>50,000,000</b>
Company 3	2012-11-06	2013-2-9	<b>50,000,000</b>
Company 4	2012-11-06	2013-2-9	<b>50,000,000</b>
Company 5	2012-11-06	2013-2-9	<b>50,000,000</b>

Total

**277,477,764**

#### 2011

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

Total

291,011,615

As at 31 December 2012, certain of the Group's bills receivable amounting to RMB67,890,000 were discounted to obtain short-term loans (31 December 2011: RMB11,000,000).

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 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 as follows:

	2012	2011
Within one year	<b>1,322,714,407</b>	1,745,317,179
One to two years	<b>66,792,389</b>	101,189,924
Two to three years	<b>7,233,443</b>	21,741,448
Over three years	<b>30,263,476</b>	30,637,752
	<b>1,427,003,715</b>	1,898,886,303
Less: Provisions for bad debts	<b>15,076,606</b>	15,482,085
Total	<b>1,411,927,109</b>	1,883,404,218

The balances of trade receivables are analysed as follows:

	2012				2011			
	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>1,308,181,141</b>	<b>92</b>	<b>(6,927,040)</b>	<b>1</b>	1,694,403,498	89	(6,927,040)	-
Other insignificant but assessed impairment individually	<b>118,822,574</b>	<b>8</b>	<b>(8,149,566)</b>	<b>7</b>	204,482,805	11	(8,555,045)	4
Total	<b>1,427,003,715</b>	<b>100</b>	<b>(15,076,606)</b>		1,898,886,303	100	(15,482,085)	

The movement of provision for bad debts against trade receivables for the year is disclosed in note V.17.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 4. TRADE RECEIVABLES (CONTINUED)

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

Reason	2012	2011
Bankrupt or liquidated debtors	<b>455,560</b>	307,896

As at 31 December 2012, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	117,802,696	Within one year	8
Company 2	Independent third party	90,587,673	Within one year	6
Company 3	Independent third party	85,974,880	Within one year	6
Company 4	Independent third party	51,792,584	Within one year	4
Company 5	Independent third party	43,515,751	Within one year	3
		<b>389,673,584</b>		<b>27</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	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
		896,435,505		45

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 4. TRADE RECEIVABLES (CONTINUED)

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

	2012			2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
USD	21,369,915	6.2855	134,320,599	2,160,613	6.3009	13,613,805
EUR	545,508	8.3176	4,537,314	51,058,590	8.1625	416,765,739
HKD	34,785,722	0.8108	28,204,263	-	0.8107	-
AUD	3,004,417	6.5363	19,637,771	1,790,711	6.4093	11,477,201
Total			<b>186,699,947</b>			<b>441,856,745</b>

As at 31 December 2012 and 31 December 2011, there were no trade receivables being derecognised due to the transfer of financial assets.

Trade receivables due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2012 and 31 December 2011 are stated in note VI.6 to the financial statements.

### 5. DIVIDENDS RECEIVABLE

#### 2012

	Opening balance	Addition	Reduction	Closing balance	Reason of not yet collected	Whether impaired
Within one year						
BOC-Ma Steel	-	90,000,000	90,000,000	-		
Henan Longyu Energy	11,102,452	-	11,102,452	-		
Other	-	23,506,311	23,506,311	-		
More than one year						
Jiyuan JinMa Coke	88,800,000	19,080,000	61,080,000	46,800,000	Not paid	No
Total	<b>99,902,452</b>	<b>132,586,311</b>	<b>185,688,763</b>	<b>46,800,000</b>		

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 5. DIVIDENDS RECEIVABLE (CONTINUED)

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	-		
<b>Total</b>	<b>118,800,000</b>	<b>112,023,582</b>	<b>130,921,130</b>	<b>99,902,452</b>		

### 6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

	2012		2011	
	Balance	Ratio (%)	Balance	Ratio (%)
Within one year	<b>1,680,045,765</b>	<b>83</b>	3,577,858,961	98
One to two years	<b>306,432,163</b>	<b>15</b>	62,936,806	2
Two to three years	<b>42,159,100</b>	<b>2</b>	3,223,018	-
Over three years	<b>9,084,916</b>	<b>-</b>	7,980,747	-
<b>Total</b>	<b>2,037,721,944</b>	<b>100</b>	<b>3,651,999,532</b>	<b>100</b>

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects was 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)

31 December 2012  
Renminbi Yuan

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

### 6. PREPAYMENTS (CONTINUED)

As at 31 December 2012, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for non-settlement
Company 1	<b>Independent third party</b>	<b>333,763,307</b>	<b>2012</b>	<b>(i)</b>
Company 2	<b>Independent third party</b>	<b>183,761,146</b>	<b>2012</b>	<b>(i)</b>
Company 3	<b>Independent third party</b>	<b>176,734,606</b>	<b>2012</b>	<b>(i)</b>
Company 4	<b>Independent third party</b>	<b>168,879,041</b>	<b>2012</b>	<b>(i)</b>
Company 5	<b>Independent third party</b>	<b>155,507,000</b>	<b>2012</b>	<b>(i)</b>
		<b>1,018,645,100</b>		

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

	Relationship with the Group	Balance	Payment date	Reason for non-settlement
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>		

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

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 6. PREPAYMENTS (CONTINUED)

The following balances are denominated in foreign currencies:

	2012			2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
JPY	240,139,644	0.0730	17,530,194	734,591,961	0.0811	59,575,408
EUR	5,892,096	8.3176	49,008,098	9,365,370	8.1625	76,444,833
USD	150,700	6.2855	947,225	576,000	6.3009	3,629,318
Total			<b>67,485,517</b>			<b>139,649,559</b>

Prepayments due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2012 and 31 December 2011 are stated in note VI.6 to the financial statements.

### 7. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

	2012	2011
Within one year	<b>883,993,632</b>	629,236,865
One to two years	<b>131,021,845</b>	65,187,029
Two to three years	<b>711,697</b>	267,210
Over three years	<b>6,890,630</b>	6,872,634
	<b>1,022,617,804</b>	701,563,738
Less: Provisions for bad debts	<b>553,609,057</b>	7,070,497
Total	<b>469,008,747</b>	694,493,241

The movement of provision for bad debts against other receivables for the year is disclosed in note V.17.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 7. OTHER RECEIVABLES (CONTINUED)

Other receivables balance is analysed as follows:

	2012				2011			
	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	979,541,235	96	(548,592,667)	56	591,166,267	84	(2,400,000)	-
Other insignificant but assessed impairment individually	43,076,569	4	(5,016,390)	2	110,397,471	16	(4,670,497)	4
<b>Total</b>	<b>1,022,617,804</b>	<b>100</b>	<b>(553,609,057)</b>		<b>701,563,738</b>	<b>100</b>	<b>(7,070,497)</b>	

As at 31 December 2012, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	Independent third party	153,324,000	Within one year	15
Company 2	Independent third party	141,286,434	Within one year	14
Company 3	Independent third party	127,685,368	Within one year	12
Company 4	Independent third party	76,821,224	Within one year	8
Company 5	Independent third party	72,802,497	One to two years	7
		<b>571,919,523</b>		<b>56</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 7. OTHER RECEIVABLES (CONTINUED)

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

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
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
		543,463,760		76

As at 31 December 2012 and 31 December 2011, the Group did not have any derecognition of other receivables due to transfer of financial assets.

The balances of other receivables as at 31 December 2012 and 31 December 2011 do not contain any amount due from shareholders who held 5% or above of the Company's equity interests or other related parties.

### 8. INVENTORIES

	2012			2011		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	6,069,329,562	(221,378,174)	5,847,951,388	9,264,801,568	(528,942,228)	8,735,859,340
Spare parts	1,804,057,674	(60,651,928)	1,743,405,746	2,127,045,170	(61,226,316)	2,065,818,854
Finished goods	1,581,472,127	(18,434,509)	1,563,037,618	1,333,503,797	(61,316,046)	1,272,187,751
Work in progress	2,140,176,911	(49,634,401)	2,090,542,510	1,972,118,447	(86,456,715)	1,885,661,732
Construction contracts	6,000,000	-	6,000,000	172,600,000	-	172,600,000
Total	11,601,036,274	(350,099,012)	11,250,937,262	14,870,068,982	(737,941,305)	14,132,127,677

The movement of impairment provision against inventories for the year is disclosed in note V.17.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 8. INVENTORIES (CONTINUED)

At the 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 terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2012 and 2011, there was no reversal of impairment provision against inventories.

### 9. LOANS AND ADVANCES TO CUSTOMERS

	2012	2011 (Restated)
Loans	<b>165,000,000</b>	–
Discounted bills	<b>52,740,209</b>	12,827,856
	<b>217,740,209</b>	12,827,856
Less: Bad debt provision for loans and advances	<b>2,177,403</b>	128,279
	<b>215,562,806</b>	12,699,577

The customers of loans and advances to customers are the Group and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 1% of its closing balance. As at 31 December 2012, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2012 and 31 December 2011 are stated in note VI.6 to the financial statements.



# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

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

2012

	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	Jiang Yuxiang	Service industry	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	RMB12,000,000	553276621
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	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 Zhigang	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	Qiu Xiaogen	Manufacturing	RMB50,000,000	786503901

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

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

2012

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Associates (Continued)</b>						
Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour")	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited ("Anhui Xinchuang")	Limited liability	Anhui, PRC	Ding Yi	Service industry	RMB100,000,000	581537534
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563

	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	685,796,670	52,995,654	632,801,016	568,534,729	153,056,413
MASTEEL-CMI	1,113,833	11,442	1,102,391	-	(23,283)
Sino-Japan Resource Regeneration	2,103,829	43,438	2,060,391	171,327	(3,330,625)

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit/(loss) during the year
<b>Associates</b>					
Jiyuan JinMa Coke	1,709,301,960	1,132,844,810	576,457,150	3,638,895,809	56,352,076
Shenglong Chemical	2,677,150,680	2,075,971,285	601,179,395	3,936,653,571	327,494
Shanghai Iron and Steel Electronic	622,715,055	432,881,575	189,833,480	122,940,760	11,511,095
Maanshan Harbour All-monitor	1,037,306,107	604,963,545	432,342,562	203,302,362	14,868,157
Transmission System	-	-	-	285,159	(68,822)
Zhengpu Harbour	111,081,405	11,096,483	99,984,922	-	(2,175)
Anhui Xichuang	315,428,765	205,869,737	109,559,028	350,992,582	10,050,129
Ma Steel Jinxi Rail	179,026,191	10,311,108	168,715,083	1,249,777	18,715,083
Jiyuan Jinyuan Chemical	50,000,000	-	50,000,000	-	-

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

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

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
Maanshan Harbour Group Co., Ltd ("Maanshan Harbour")	Limited liability	Anhui, PRC	Hui Zhigang	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
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited ("Anhui Xichuang")	Limited liability	Anhui, PRC	Ding Yi	Servicing	RMB100,000,000	581537534

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

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

2011

	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	764,993,781	105,249,179	659,744,602	552,457,590	174,348,827
MASTEEL-CMI	1,137,116	11,442	1,125,674	-	(45,304)
Sino-Japan Resource Regeneration	4,455,087	84,071	4,371,016	48,000	(3,679,864)
<b>Associates</b>					
Jiyuan JinMa Coke	1,686,708,063	1,239,642,245	447,065,818	3,810,022,297	102,370,318
Shenglong Chemical	1,964,239,990	1,384,451,996	579,787,994	1,908,129,562	(63,476,445)
Shanghai Iron and Steel Electronic	852,846,068	654,611,338	198,234,730	122,297,147	51,817,472
Maanshan Harbour	991,065,903	564,964,043	426,101,860	226,362,141	26,622,365
All-monitor Transmission System	33,003,362	(547,433)	33,550,795	1,350,903	(541,903)
Zhengpu Harbour	101,156,963	1,169,867	99,987,096	-	(12,904)
Anhui Xichuang	58,124,689	8,615,789	49,508,900	1,489,900	(491,100)

(i) Tengzhou Shenglong Coking Co., Ltd. was renamed to Shenglong Chemical Co.,Ltd. in 2011.

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 11. LONG TERM EQUITY INVESTMENTS

2012

	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	329,872,302	75,179,762	(90,000,000)	315,052,064	50	50	-	-	90,000,000
MASTEEL-CMI	500,000	562,835	-	(11,642)	551,193	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	2,141,798	-	(1,632,006)	509,792	49	(i)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	160,943,695	20,286,749	(19,080,000)	162,150,444	36	36	-	-	19,080,000
Shenglong Chemical	66,776,000	185,532,159	-	(3,680,000)	181,852,159	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	2,302,219	(4,000,000)	37,949,164	20	20	-	-	4,000,000
Maanshan Harbour	112,500,000	191,745,837	6,690,671	(4,500,000)	193,936,508	45	45	-	-	4,500,000
All-monitor Transmission System	13,500,000	11,494,044	-	(11,463,074)	-	(ii)	(ii)	-	-	-
Zhengou Harbour	35,000,000	34,995,484	-	(761)	34,994,723	35	35	-	-	-
Anhui Xichuang	35,000,000	17,401,780	20,943,880	-	38,345,660	35	35	-	-	-
Ma Steel Jinxi Rail	75,000,000	-	84,357,542	-	84,357,542	50	(iii)	-	-	-
Jinyuan Chemical	18,000,000	-	18,000,000	-	18,000,000	36	36	-	-	-
<b>Cost method:</b>										
Henan Longyu Energy Co., Ltd.										
	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	-
China the 17th Metallurgy Construction Co., Ltd.										
	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	1,461,060
Shanghai Luojing Mineral Dock Co., Ltd.										
	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	13,395,251
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	15,840,000	-	-	15,840,000	18	18	-	-	-
National Auto Lightweight Technologies Institute										
	3,000,000	-	3,000,000	-	3,000,000	6.90	6.90	-	-	150,000
Others										
	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
<b>Total</b>	<b>817,693,360</b>	<b>1,113,949,039</b>	<b>230,760,823</b>	<b>(134,398,453)</b>	<b>1,210,311,409</b>			<b>-</b>	<b>-</b>	<b>132,586,311</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

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

2011 (Restated)

	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	i	-	-	-
Associates										
Jiyuan JimMa Coke	80,000,000	125,091,931	35,851,764	-	160,943,695	36	36	-	-	-
Shenglong Chemical	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	-	-	-
Anhui Xichuang	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>704,193,360</b>	<b>1,034,491,013</b>	<b>194,619,812</b>	<b>115,161,786</b>	<b>1,113,949,039</b>			<b>3,738,814</b>	<b>-</b>	<b>112,023,582</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

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

- (i) 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 a jointly-controlled entity under the equity method.
- (ii) 2012 All-monitor Automobile completed the dissolution of liquidation and cancelled its commercial registration.
- (iii) As at the end of the reporting period, the Company holds a 50% equity interest in Jinxi Rail. The chairman of the board of directors was appointed by the Company. Among the board of directors, two of the directors were appointed by the Company and three of the directors were appointed by Jinxi Axle Co., Ltd. According to the articles of association of Jinxi Rail, 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 Company accounted for Jinxi Rail as an investment in an associated entity under the equity method.

There was no material restriction on the realisation of long term investments as at the balance sheet date.

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

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 12. INVESTMENT PROPERTIES

Investment properties subsequently measured under the cost method:

#### 2012

	<b>Buildings and land use rights</b>
Cost:	
At 1 January 2012	5,729,496
At 31 December 2012	5,729,496
Accumulated depreciation:	
At 1 January 2012	1,189,087
Provided during the year	139,791
At 31 December 2012	1,328,878
Impairment:	
At 1 January 2012 and 31 December 2012	–
Net carrying amount:	
At 31 December 2012	4,400,618
At 1 January 2012	4,540,409



# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 12. INVESTMENT PROPERTIES (CONTINUED)

Investment properties subsequently measured under the cost method:

2011

	Buildings and land use rights
Cost:	
At 1 January 2011	8,152,147
Transfer into intangible assets (note V.15)	(2,422,651)
	<hr/>
At 31 December 2011	5,729,496
	<hr/>
Accumulated depreciation:	
At 1 January 2011	1,380,804
Provided during the year	184,111
Transfer into intangible assets (note V.15)	(375,828)
	<hr/>
At 31 December 2011	1,189,087
	<hr/>
Impairment:	
At 1 January 2011 and 31 December 2011	–
	<hr/>
Net carrying amount:	
At 31 December 2011	4,540,409
	<hr/> <hr/>
At 1 January 2011	6,771,343
	<hr/> <hr/>

\* The Group's investment property is located in Mainland China, and is under medium term leases.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 13. FIXED ASSETS

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2012 (Restated)	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
Acquisition	12,484,711	34,544,654	87,439,220	2,024,368	136,492,953
Transfer from construction in progress (note V.14)	1,534,583,650	2,027,947,537	-	17,995,962	3,580,527,149
Reclassifications	(1,243,071,796)	1,241,178,010	741,882	1,151,904	-
Reduction	(87,463,467)	(182,875,712)	(19,165,646)	-	(289,504,825)
Disposal	-	(131,625)	(145,617,532)	(232,095)	(145,981,252)
At 31 December 2012	22,078,823,006	45,627,111,276	476,865,160	256,050,073	68,438,849,515
Accumulated depreciation:					
At 1 January 2012 (Restated)	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Provided during the year	1,148,540,413	2,285,373,140	36,088,919	37,761,379	3,507,763,851
Reclassifications	(328,431,083)	327,517,377	523,940	389,766	-
Reduction	(31,275,967)	(143,939,519)	(17,468,959)	(3,306)	(192,687,751)
Disposal	-	(23,870)	(6,360,062)	(26,201)	(6,410,133)
At 31 December 2012	9,772,176,608	25,627,960,183	405,533,948	154,380,380	35,960,051,119
Impairment:					
At 1 January 2012	5,252,400	82,602,336	-	-	87,854,736
Write-back	(5,252,400)	(82,602,336)	-	-	(87,854,736)
31 December 2012	-	-	-	-	-
Net carrying amount:					
At 31 December 2012	12,306,646,398	19,999,151,093	71,331,212	101,669,693	32,478,798,396
At 1 January 2012 (Restated)	12,873,694,263	19,264,813,021	160,717,126	118,851,192	32,418,075,602

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 13. FIXED ASSETS (CONTINUED)

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 (Restated)	2,836,973	53,252,715	80,799,626	3,343,852	140,233,166
Transfer from construction					
in progress (note V.14)	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	-	-
Reduction	(39,146,976)	(62,712,863)	(5,541,896)	-	(107,401,735)
Other decreases	(692,315,928)	(34,123,440)	-	-	(726,439,368)
At 31 December 2011 (Restated)	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
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 (Restated)	1,115,466,185	3,151,436,256	29,590,551	36,415,139	4,332,908,131
Reclassifications	21,949,933	(21,967,021)	17,088	-	-
Reduction	(22,251,994)	(56,196,415)	(5,375,254)	-	(83,823,663)
At 31 December 2011 (Restated)	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Impairment:					
At 1 January 2011	5,252,400	82,602,336	-	-	87,854,736
Increase/(Decrease)	-	-	-	-	-
31 December 2011 (Restated)	5,252,400	82,602,336	-	-	87,854,736
Net carrying amount:					
At 31 December 2011 (Restated)	12,873,694,263	19,264,813,021	160,717,126	118,851,192	32,418,075,602
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)

31 December 2012  
Renminbi Yuan

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

### 13. FIXED ASSETS (CONTINUED)

As at 31 December 2012, the Group had no intention to dispose of any fixed assets and held no fixed assets that were temporarily idle.

As at 31 December 2012, certificates of ownership in respect of 51 of the Group's buildings in mainland china, with an aggregate cost of RMB1,241.93 million (31 December 2011: approximately RMB880.04 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 this has no significant adverse impact on the Group's operations.

At 31 December 2012, none of the Group's production equipment were pledged as security to acquire bank loans (31 December 2011: RMB195,389,381), the details of which are disclosed in note V.20.

The movement of impairment provision for fixed assets for the year is disclosed in note V.17.

### 14. CONSTRUCTION IN PROGRESS

	2012			2011		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Product quality projects	3,708,314,376	-	3,708,314,376	3,691,218,753	-	3,691,218,753
Energy-saving and environment protection projects	277,581,357	-	277,581,357	133,927,924	-	133,927,924
Equipment advancement and other modification projects	1,219,449,377	-	1,219,449,377	757,806,463	-	757,806,463
Other projects	492,324,566	-	492,324,566	89,100,234	-	89,100,234
<b>Total</b>	<b>5,697,669,676</b>	<b>-</b>	<b>5,697,669,676</b>	<b>4,672,053,374</b>	<b>-</b>	<b>4,672,053,374</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 14. CONSTRUCTION IN PROGRESS (CONTINUED)

2012

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.13)	RMB		completion
			RMB	RMB	RMB		%
1. Product quality projects	11,713,592	3,691,218,753	2,929,710,392	(2,912,614,769)	3,708,314,376	Internally generated funds	57%
2. Energy-saving and environment protection projects	388,200	133,927,924	143,653,433	-	277,581,357	Internally generated funds	73%
3. Equipment advancement and other modification projects	4,049,918	757,806,463	591,837,522	(130,194,608)	1,219,449,377	Internally generated funds	79%
4. Other projects	N/A	89,100,234	940,942,104	(537,717,772)	492,324,566	Internally generated funds	N/A
		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		
Less: Impairment		-	-	-	-		
Total		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 14. CONSTRUCTION IN PROGRESS (CONTINUED)

2011

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (note V.13) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects (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 projects	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): In the year of 2011, products quality project increased RMB1,806,572,096, the detail of which is disclosed in note IV.5.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 15. INTANGIBLE ASSETS

2012

	Back-up roll technology	Land use rights	Mining rights	Total
Cost:				
At 1 January 2012	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Additions	-	5,031,151	18,188,337	23,219,488
Deductions	-	(5,081,989)	-	(5,081,989)
Exchange realignment	-	-	3,140,464	3,140,464
At 31 December 2012	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Accumulated depreciation:				
At 1 January 2012	5,259,664	465,109,845	29,721,522	500,091,031
Provided during the year	4,508,283	51,485,156	4,802,559	60,795,998
Deductions	-	(1,137,433)	-	(1,137,433)
Exchange realignment	-	-	636,045	636,045
At 31 December 2012	9,767,947	515,457,568	35,160,126	560,385,641
Impairment:				
At 1 January 2012 and At 31 December 2012	-	-	-	-
Net carrying amount:				
At 31 December 2012	<u>35,314,889</u>	<u>1,792,453,007</u>	<u>135,653,285</u>	<u>1,963,421,181</u>
At 1 January 2012	<u>39,823,172</u>	<u>1,842,851,568</u>	<u>119,763,088</u>	<u>2,002,437,828</u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 15. INTANGIBLE ASSETS (CONTINUED)

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.12)	–	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.12)	–	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 2011 and At 31 December 2011	–	–	–	–
Net carrying amount:				
At 31 December 2011	<u>39,823,172</u>	<u>1,842,851,568</u>	<u>119,763,088</u>	<u>2,002,437,828</u>
At 1 January 2011	<u>44,331,455</u>	<u>1,694,947,254</u>	<u>124,074,927</u>	<u>1,863,353,636</u>

At 31 December 2012, none of the Group's land use rights were pledged as security to acquire bank loans (31 December 2011: RMB293,900,139). The details of bank loans are disclosed in notes V.20.

\* 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)

31 December 2012  
Renminbi Yuan

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

### 16. DEFERRED TAX ASSETS/LIABILITIES

Recognised deferred tax assets:

	2012	2011
Opening balance	<b>626,426,316</b>	493,868,095
Business combination not under common control	-	19,717,664
Recognised in the income statement during the year	<b>75,829,033</b>	112,840,557
Closing balance	<b>702,255,349</b>	626,426,316

<b>Breakdown</b>	2012	2011
Impairment provisions of assets	<b>86,838,153</b>	214,003,151
Sales incentive	<b>75,024,980</b>	21,114,455
Repair and maintenance expenses	<b>382,189</b>	5,430,750
Salary payable	<b>19,332,640</b>	39,885,987
Unrealised profit	<b>15,320,573</b>	6,204,758
Deductible tax losses	<b>445,970,771</b>	320,682,494
Others	<b>59,386,043</b>	19,104,721
Total	<b>702,255,349</b>	626,426,316

As at 31 December 2012, the Group had unrecognised deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB661.06 million (2011: RMB104.24 million) which will expire in 2017 and tax credits arising from the purchase of domestic produced machinery and equipment and other unused tax credits amounting to RMB0 (2011: RMB86.76 million) and RMB209.13 million (2011: RMB5.08 million), respectively, which have not been recognised.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 16. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Unrecognised deferred tax assets arising from deductible tax losses will expire in the following years:

	2012	2011
Expire in 2017	<b>2,284,525,158</b>	–
Expire in 2016	<b>350,181,039</b>	235,212,127
Expire in 2015	<b>6,964,082</b>	64,092,572
Expire in 2014	<b>1,335,502</b>	9,650,928
Expire in 2013	<b>1,244,806</b>	107,661,488
Expire in 2012	–	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:

	2012	2011
Opening balance	<b>44,328,987</b>	–
Business combination not under common control	–	45,969,176
Recognised in the income statement during the year	<b>(3,714,103)</b>	(1,640,189)
	<b>—————</b>	<b>—————</b>
Closing balance	<b>40,614,884</b>	44,328,987
	<b>—————</b>	<b>—————</b>

	2012	2011
Fair value adjustments relating to business combination not under common control	<b>40,614,884</b>	44,328,987
	<b>—————</b>	<b>—————</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 17. ASSET IMPAIRMENT PROVISIONS

	2012					Closing balance
	Opening balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	22,680,861	1,305,620,921	312,735	756,665,921	460,060	570,863,066
Including: Trade receivables	15,482,085	362,816	312,735	-	455,560	15,076,606
Other receivables (i)	7,070,497	1,302,208,981	-	756,665,921	4,500	553,609,057
Loans and advances to Customers	128,279	2,049,124	-	-	-	2,177,403
Provisions for inventories	737,941,305	1,417,177,552	-	1,805,019,845	-	350,099,012
Including: Raw materials	528,942,228	1,171,366,200	-	1,478,930,254	-	221,378,174
Work in progress	86,456,715	126,770,303	-	163,592,617	-	49,634,401
Finished products	61,316,046	119,041,049	-	161,922,586	-	18,434,509
Spare parts	61,226,316	-	-	574,388	-	60,651,928
Impairment of long term equity investments	3,738,814	-	-	3,738,814	-	-
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	-	-
Total	852,215,716	2,722,798,473	312,735	2,653,279,316	460,060	920,962,078

- (i) The write-off of other receivable provision for bad debt is regarded as the same as the decrease in the disposal of a subsidiary.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 17. ASSET IMPAIRMENT PROVISIONS (CONTINUED)

	2011					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	22,860,478	128,279	-	-	307,896	22,680,861
Including: Trade receivables	15,789,981	-	-	-	307,896	15,482,085
Other receivables	7,070,497	-	-	-	-	7,070,497
Loans and advances to customers (Restated)	-	128,279	-	-	-	128,279
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 long term equity investments	3,738,814	-	-	-	-	3,738,814
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>676,843,268</b>	<b>-</b>	<b>649,152</b>	<b>307,896</b>	<b>852,215,716</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 18. CUSTOMER DEPOSITS

	2012	2011 (Restated)
Demand deposits	<b>369,167,982</b>	647,944,982
Time deposits	<b>196,000,000</b>	50,000,000
Total	<b>565,167,982</b>	697,944,982

The information of customer deposits for shareholders who held 5% or more of voting shares and the related party at 31 December 2012 and 31 December 2011 is disclosed in note IV.6.

### 19. REPURCHASE AGREEMENTS

	2012	2011 (Restated)
Bills	<b>494,753,998</b>	68,180,659

According to the repurchase agreements, MASTEEL-Financial discounted bills to the People's Bank of China.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 20. SHORT TERM LOANS

	2012			2011 (Restated)		
	Original currency	Year end exchange rate	RMB equivalent	Original currency	Year end exchange rate	RMB equivalent
Types of loans						
Entrusted loans						
– RMB (i)	-	-	-	10,000,000	1	10,000,000
Unsecured loans						
– RMB	2,417,172,000	1	2,417,172,000	766,504,300	1	766,504,300
– USD	79,622,708	6.2855	500,468,532	178,127,671	6.3009	1,122,364,644
Short-term financing bonds						
– RMB (ii)	3,500,000,000	1	3,500,000,000	-	-	-
Guaranteed loans						
– RMB (iii)	-	-	-	50,000,000	1	50,000,000
Secured loans						
– RMB (iv)	-	-	-	265,000,000	1	265,000,000
Pledged loans						
– RMB (v)	-	-	-	411,700,000	1	411,700,000
Trust receipt loans						
– USD	522,907,904	6.2855	3,286,737,632	507,422,221	6.3009	3,197,216,672
– EUR	6,529,153	8.3176	54,306,879	-	-	-
– JPY	257,046,301	0.0730	18,764,380	-	-	-
Total			<b>9,777,449,423</b>			<b>5,822,785,816</b>

(i) As at 31 December 2012, no short term bank loans were lent through entrusted loan arrangements (2011: RMB10,000,000 with an interest rates of 4.779% per annum and a maturity of one year).

(ii) As at 23 August 2012, the Group signed the contract with CITIC Securities and Industrial and Commercial Bank of China which arranged to issue short-term financing bonds of RMB10,000,000,000 in the next three years and installment issuance is allowed. The first bond (12 馬鋼CP001) was issued on 25 October 2012, amounting to RMB3,500,000,000 with the interest rates of 4.71% per annum and a maturity of one year.

(iii) As at 31 December 2012, all of the Group's short-term guaranteed loans were secured by two independent third parties.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 20. SHORT TERM LOANS (CONTINUED)

- (iv) As at 31 December 2012, none of the Group's secured loans were pledged by manufacturing equipment and land use rights (31 December 2011: RMB265,000,000). Details are disclosed in notes V.13 and V.15.
- (v) As at 31 December 2012, none of the Group's pledge loans were pledged by bills and bank time deposits (31 December 2011: RMB20,000,000 and RMB391,700,000). Details are disclosed in notes V.1 and V.3.

As at 31 December 2012, the interest rates of the above short-term loans ranged from 1.269% to 8.64% (31 December 2011: 1.97%- 8.64%).

As at 31 December 2012, the Group had no expired outstanding short term loans.

### 21. BILLS PAYABLE

	2012	2011 (Restated)
Bank acceptance bills	<b>4,573,802,242</b>	5,142,687,963
Commercial acceptance bills	<b>522,500,000</b>	–
Total	<b><u>5,096,302,242</u></b>	<b><u>5,142,687,963</u></b>

As at 31 December 2012 and 31 December 2011, the ageing of the Group's bills payable were all within six months.

The bills payable amounting to RMB5,096,302,242 (31 December 2011: RMB5,142,687,963) 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 and bank acceptance bills and securities and collateral. Please refer to note V.1 and V.3.

The balance of bills payable as at 31 December 2012 and 31 December 2011 does not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or related parties.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 22. ACCOUNTS PAYABLE

\* The ageing analysis of accounts payable is as follows:

	2012	2011
Within one year	<b>6,585,456,835</b>	6,867,603,440
One to two years	<b>341,987,841</b>	96,479,369
Two to three years	<b>38,302,737</b>	27,701,072
Over three years	<b>63,579,257</b>	38,498,136
Total	<b>7,029,326,670</b>	7,030,282,017

The following balances were denominated in foreign currencies:

	2012			2011		
	Original currency	Year end rate	RMB equivalent	Original currency	Year end rate	RMB equivalent
USD	2,355,700	6.2855	14,806,752	2,361,085	6.3009	14,876,960
EUR	6,512,649	8.3176	54,169,607	2,834,114	8.1625	23,133,459
AUD	48,514	6.5363	317,100	18,723	6.4093	120,001
JPY	240,139,650	0.0730	17,541,961	62,110,400	0.0811	5,037,153
Total			<b>86,835,420</b>			43,167,573

The accounts payable are interest-free and are normally settled within three months.

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balance of accounts payable as at 31 December 2012 and 31 December 2011 are stated in note VI.6 to the financial statements.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 22. ACCOUNTS PAYABLE (CONTINUED)

At 31 December 2012, the accounts payable with material amounts aged more than one year (over RMB2 million) are as follows:

Name of the company	Amount due	Reason for non-settlement
Company 1	19,000,000	(i)
Company 2	18,510,700	(i)
Company 3	13,170,000	(i)
Company 4	11,647,232	(i)
Company 5	11,059,872	(i)
Others	118,733,055	(i)

After the balance sheet date, RMB151,503,113 of the above accounts payable with material amounts aged over one year was repaid.

- (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 beyond one year.

### 23. DEPOSITS RECEIVED

The following balances were denominated in foreign currencies:

	2012			2011		
	Original currency	Year end rate	RMB equivalent	Original currency	Year end rate	RMB equivalent
USD	10,208,208	6.2855	64,163,691	35,953,711	6.3009	226,540,738
EUR	169,245	8.3176	1,407,712	967,318	8.1625	7,895,733
			<b>65,571,403</b>			<b>234,436,471</b>

The ageing of deposits received is within one year.

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balance of deposits received as at 31 December 2012 and 31 December 2011 are stated in note VI.6 to the financial statements.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 24. PAYROLL AND BENEFITS PAYABLE

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	168,763,287	2,905,052,313	2,932,790,013	141,025,587
Welfare	19,512,389	152,299,969	155,840,358	15,972,000
Social insurance	19,935,344	1,041,872,619	1,030,433,256	31,374,707
Including: Pension insurance	120,465	617,487,878	606,791,275	10,817,068
Medical insurance	3,549,640	206,332,355	202,605,574	7,276,421
Unemployment insurance	105,463	45,065,225	44,533,395	637,293
Work-related injury insurance	592,625	49,033,611	48,227,418	1,398,818
Maternity insurance	186,603	10,741,184	10,434,552	493,235
Supplementary pension scheme	15,380,548	113,212,366	117,841,042	10,751,872
Housing fund	26,465,102	349,977,813	348,848,811	27,594,104
Labour union fee and employee education fee	9,031,520	83,983,609	80,874,461	12,140,668
<b>Total</b>	<b>243,707,642</b>	<b>4,533,186,323</b>	<b>4,548,786,899</b>	<b>228,107,066</b>
2011 (Restated)	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	184,155,884	2,849,259,099	2,864,651,696	168,763,287
Welfare	20,712,063	154,033,744	155,233,418	19,512,389
Social insurance	47,232,422	953,931,381	981,228,459	19,935,344
Including: Pension insurance	12,005,635	575,950,344	587,835,514	120,465
Medical insurance	15,901,703	166,969,732	179,321,795	3,549,640
Unemployment insurance	–	51,316,404	51,210,941	105,463
Work-related injury insurance	4,948,773	39,600,519	43,956,667	592,625
Maternity insurance	580,872	8,815,979	9,210,248	186,603
Supplementary pension scheme	13,795,439	111,278,403	109,693,294	15,380,548
Housing fund	23,261,167	311,144,783	307,940,848	26,465,102
Labour union fee and employee education fee	9,159,921	83,763,574	83,891,975	9,031,520
<b>Total</b>	<b>284,521,457</b>	<b>4,352,132,581</b>	<b>4,392,946,396</b>	<b>243,707,642</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 24. PAYROLL AND BENEFITS PAYABLE (CONTINUED)

As at 31 December 2012 and 31 December 2011, the balance of payroll and benefits payable had not included performance-based wages.

As at 31 December 2012 and 31 December 2011, the Group had no defaulted payroll and benefits payable.

In 2012, the balance of labour union fee and employee education fee was RMB83,983,609 (31 December 2011: RMB83,763,574). In 2012 and 2011, the Group had no payment for non-currency welfare or compensation for terminating the labour relationship.

### 25. TAXES PAYABLE

	2012	2011 (Restated)
Value added tax	<b>(121,923,402)</b>	(198,382,338)
Corporate income tax	<b>(249,003,819)</b>	(161,449,561)
City construction and maintenance tax	<b>5,914,564</b>	13,047,670
Other taxes	<b>34,005,337</b>	21,346,689
Total	<b>(331,007,320)</b>	(325,437,540)

The basis of calculation and the applicable tax rates are disclosed in note III to the financial statements.

### 26. DIVIDENDS PAYABLE

	2012	2011	Reason for Unpayment over one year
Holding	-	-	N/A
Other shareholders	<b>80,492,522</b>	80,281,968	Unpaid dividend
Total	<b>80,492,522</b>	80,281,968	

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 26. DIVIDENDS PAYABLE (CONTINUED)

As at 31 December 2012 and 31 December 2011, the amount due to either shareholders who held 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.

### 27. OTHER PAYABLES

	2012	2011 (Restated)
Sales incentive	<b>300,099,923</b>	84,457,823
Payable to construction, maintenance and inspection fee	<b>248,515,353</b>	237,995,451
Service fees payable	<b>68,097,509</b>	52,797,978
Technology project fees received	<b>37,084,673</b>	38,320,711
Others	<b>405,167,649</b>	318,221,386
Total	<b>1,058,965,107</b>	731,793,349

The balance of other payables as at 31 December 2012 and 31 December 2011 does not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

As at 31 December 2012, certain of the Group's other payables amounting to RMB234,022,631 (31 December 2011: RMB162,339,869) were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amounts aged over one year, there was no payment made after the balance sheet date.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 28. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2012	2011
Non-current liabilities due within one year	<b>335,710,000</b>	2,681,045,000
Bonds payable due within one year (note V.30)	<b>999,832,400</b>	–
	<b>1,335,542,400</b>	2,681,045,000
	2012	2011
Non-current liabilities due within one year:		
Guaranteed loans (i)	<b>135,710,000</b>	1,381,045,000
Unsecured loans	<b>200,000,000</b>	1,300,000,000
	<b>335,710,000</b>	2,681,045,000

(i) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by the Holding.

As at 31 December 2012, the Group had no expired outstanding long term loans.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 28. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR (CONTINUED)

As at 31 December 2012, the non-current liabilities due within one year are as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	2012 balance RMB	2011 balance RMB
China Construction Bank	2010/12/10	2013/12/09	RMB	Note 1	200,000,000	200,000,000
Export-Import Bank of China	2012/09/12	2013/11/15	USD	Note 2	62,855,000	-
Export-Import Bank of China	2012/02/09	2013/10/16	USD	Note 3	62,855,000	-
Export-Import Bank of China	2012/03/21	2013/11/15	RMB	Note 3	10,000,000	-
					<b>335,710,000</b>	<b>200,000,000</b>

Note 1: The above borrowing rates of long term loans due within one to three years were 10% below the central bank export seller's credit interest rate and were readjusted every 12 months. (The first time period rate was 5.04%.)

Note 2: The above borrowing rates of long term loans due within six months were 225 basis points above the London Inter-Bank Offered Rate.

Note 3: The above borrowing rates of long term loans due within one year were 5% below the benchmark rate offered by the central bank.

Note 4: The above borrowing rates of long term loans were export seller's credit interest rates offered by the central bank, which were readjusted every quarter.

### 29. LONG TERM LOANS

	2012	2011 (Restated)
Entrusted loan (i)	10,000,000	-
Guaranteed loans (ii)	3,395,650,000	1,530,180,000
Unsecured loans	6,508,530,000	10,976,592,000
	<b>9,914,180,000</b>	<b>12,506,772,000</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 29. LONG TERM LOANS (CONTINUED)

- (i) As at 31 December 2012, certain bank loans in aggregate of RMB10,000,000 were lent by the Holding through an entrust loan arrangement with the Industrial and Commercial Bank of China, with terms of three years at annual interest rate of 6.42%.
- (ii) As at the balance sheet date, guaranteed loans were all guaranteed by the Holding.

As at 31 December 2012, the top five long term loans are as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Rate Currency	Rate (%)	2012 balance RMB equivalent	2011 balance RMB equivalent
Export-Import Bank of China	2012/02/09	2014/02/08	USD	Note 1	565,695,000	-
Export-Import Bank of China	2012/09/12	2014/09/10	USD	Note 2	565,695,000	-
Export-Import Bank of China	2012/03/21	2014/03/20	RMB	Note 3	440,000,000	-
Export-Import Bank of China	2012/08/23	2014/08/20	USD	Note 4	314,275,000	-
Export-Import Bank of China	2012/10/29	2014/10/24	USD	Note 2	251,420,000	-
					<b>2,137,085,000</b>	-

Note 1: The above borrowing rates of long term loans were 5% below the central bank export seller's credit interest rate.

Note 2: The above borrowing rates of long term loans due within six months were 225 basis points above the London Inter-Bank Offered Rate.

Note 3: The above borrowing rates of long term loans were export seller's credit interest rates offered by the central bank, which were readjusted every quarter.

Note 4: The above borrowing rates of long term loans due within six months were 250 basis points above the London Inter-Bank Offered Rate.

As at 31 December 2012, the Group had no expired outstanding long term loans.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 29. LONG TERM LOANS (CONTINUED)

\* Analysis on the expiry date of long term loans is as follows:

	2012	2011 (Restated)
Within one year	<b>335,710,000</b>	2,681,045,000
One to two years (Including two years)	<b>8,904,180,000</b>	11,738,172,000
Three to five years (Including five years)	<b>1,010,000,000</b>	768,600,000
	<b>10,249,890,000</b>	15,187,817,000

### 30. BONDS PAYABLE

2012	Opening balance	Increase	Decrease	Closing balance
Medium-term note payable – 2010 first issue	998,832,800	45,621,518	44,621,918	999,832,400
Medium-term note payable – 2011 second issue	2,791,833,300	163,239,600	160,440,000	2,794,632,900
Corporate bond – 3 Years	3,133,590,316	187,811,632	177,908,000	3,143,493,948
Corporate bond – 5 Years	2,319,465,635	138,716,221	134,316,000	2,323,865,856
Total	9,243,722,051	535,388,971	517,285,918	9,261,825,104
Less: Transfer into non-current liabilities due within one year (note V.28)	-			999,832,400
	<b>9,243,722,051</b>			<b>8,261,992,704</b>



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 30. BONDS PAYABLE (CONTINUED)

2012	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
<b>Total</b>	<b>6,344,309,513</b>	<b>8,654,065,702</b>	<b>5,754,653,164</b>	<b>9,243,722,051</b>
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>

As at 31 December 2012, bonds payable balance is as follows:

Issue date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Medium-term note payable - 2010 first issue	2010/02 1,000,000,000	40,232,877	44,621,918	44,500,000	40,354,795	999,832,400
Medium-term note payable - 2011 second issue	2011/11 2,800,000,000	14,707,000	160,440,000	160,440,000	14,707,000	2,794,632,900
Corporate bond - 3 Years	2011/08 3,160,000,000	62,705,279	177,908,000	177,908,000	62,705,279	3,143,493,948
Corporate bond - 5 Years	2011/08 2,340,000,000	47,340,885	134,316,000	134,316,000	47,340,885	2,323,865,856
	<b>9,300,000,000</b>	<b>164,986,041</b>	<b>517,285,918</b>	<b>517,164,000</b>	<b>165,107,959</b>	<b>9,261,825,104</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 30. BONDS PAYABLE (CONTINUED)

As at 31 December 2011, bonds payable balance is as follows:

	Issue 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	2010/02	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	2011/08	3,160,000,000	-	62,705,279	-	62,705,279	3,133,590,316
Corporate bond – 5 Years	2011/08	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>

#### 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 RMB1 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 25 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 Sanagement Committee, [2011] no. 1177, the Company issued corporate bonds amounting to RMB5.5 billion with an 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 Holding. The net amount the Company received from this corporate bonds is RMB5,453,788,000.

The interest for the year of the above bonds with warrants, medium-term notes and corporate bonds was included in interest payable.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 31. DEFERRED INCOME

The deferred income represents the government subsidies received for specific projects, The movement is as follows:

	2012	2011
Opening balance	<b>552,778,524</b>	573,288,652
Increase during the year	<b>157,104,000</b>	62,009,300
Amortisation during the year (note V.43)	<b>(90,746,124)</b>	(82,109,482)
Other decrease	<b>(139,388)</b>	(409,946)
Closing balance	<b>618,997,012</b>	552,778,524

### 32. SHARE CAPITAL

#### 2012

	At 1 January 2012		Increase/(decrease) during the year			At 31 December 2012	
	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	1,732,930,100	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100	-	-	-	7,700,681,186	100
C. Total	7,700,681,186	100	-	-	-	7,700,681,186	100

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 32. SHARE CAPITAL (CONTINUED)

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	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100	-	-	-	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 RMB1.00.

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 33. CAPITAL RESERVE

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	-	-	8,338,358,399
Business combination involving entities under common control (Restated)	420,000,000	-	429,290,736	(9,290,736)
<b>Total</b>	<b>8,758,358,399</b>	<b>-</b>	<b>429,290,736</b>	<b>8,329,067,663</b>
2011	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	-	-	8,338,358,399
Business combination involving entities under common control (Restated)	-	420,000,000	-	420,000,000
<b>Total</b>	<b>8,338,358,399</b>	<b>420,000,000</b>	<b>-</b>	<b>8,758,358,399</b>

During 2011 and 2012, the variation of business combination involving entities under common control was due to the acquisition of a subsidiary under common control, MASTEEL-Financial. The details are disclosed in note IV.4.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 34. SURPLUS RESERVES

2012	Opening	Increase	Decrease	Closing
	balance	during the year	during the year	
Statutory reserve (i)	3,107,706,991	20,677,112	-	3,128,384,103
Discretionary surplus reserve (iii)	190,420,420	276,278,554	-	466,698,974
Reserve fund (ii)	85,339,202	7,340,254	-	92,679,456
Enterprise expansion fund (ii)	60,670,775	2,494,862	-	63,165,637
<b>Total</b>	<b>3,444,137,388</b>	<b>306,790,782</b>	<b>-</b>	<b>3,750,928,170</b>
2011 (Restated)	Opening	Increase	Decrease	Closing
	balance	during the year	during the year	balance
Statutory reserve (i)	3,078,907,513	28,799,478	-	3,107,706,991
Discretionary surplus reserve (iii)	-	190,420,420	-	190,420,420
Reserve fund (ii)	73,545,143	11,794,059	-	85,339,202
Enterprise expansion fund (ii)	53,748,158	6,922,617	-	60,670,775
<b>Total</b>	<b>3,206,200,814</b>	<b>237,936,574</b>	<b>-</b>	<b>3,444,137,388</b>

- (i) In accordance with the Company Law of the PRC and the articles of association of the company, 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.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 34. SURPLUS RESERVES (CONTINUED)

- (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 the articles of association of these subsidiaries, 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.

In 2012, the board of directors of Holly Industrial approved to transfer employee pension and benefits which were accrued in prior years of RMB3,170,532 to reserve funds..

- (iii) The Company and certain of its subsidiaries are authorised to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

Due to the reason of loss, the Company does not need to transfer any amount to the SR.

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 the percentage of investment held by the Group, was RMB20,677,112 (2011: RMB28,799,438), RMB276,278,554 (2011: RMB190,420,420), RMB4,169,722 (2011: RMB11,794,059) and RMB2,494,862 (2011: RMB6,922,617), respectively.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 35. RETAINED PROFITS

	2012	2011 (Restated)
Retained profits at the end of prior year	<b>7,456,020,890</b>	8,008,142,354
Restated	<b>11,392,935</b>	-
Retained profits at the beginning of year after restated	<b>7,467,413,825</b>	8,008,142,354
Add: Net profit/(loss) attributable to equity holders of the parent	<b>(3,863,232,545)</b>	82,369,208
Less: Transfer to surplus reserves	<b>20,677,112</b>	28,799,478
Transfer to discretionary surplus reserve	<b>276,278,554</b>	190,420,420
Transfer to reserve fund	<b>4,169,722</b>	11,794,059
Transfer to enterprise expansion fund	<b>2,494,862</b>	6,922,617
Transfer to general reserve	<b>55,523,057</b>	127,104
Ordinary share dividend payable	-	385,034,059
	<hr/>	<hr/>
Retained profits at end of year	<b>3,245,037,973</b>	7,467,413,825

Restated: Due to the reason of business combination under common control, the retained profit changed for RMB11,392,935.

### 36. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2012	2011 (Restated)
Principal operating income	<b>65,852,772,914</b>	81,418,565,576
Other operating income	<b>8,551,591,124</b>	5,435,494,541
	<hr/>	<hr/>
Total	<b>74,404,364,038</b>	86,854,060,117

\* 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)

31 December 2012  
Renminbi Yuan

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

### 36. REVENUE AND COST OF SALES (CONTINUED)

Cost of sales is stated as follows:

	2012	2011 (Restated)
Principal cost of sales	<b>64,683,261,287</b>	78,519,315,485
Other cost of sales	<b>8,157,013,288</b>	4,846,122,534
Total	<b>72,840,274,575</b>	83,365,438,019

Principal operating income is stated as follows:

	2012	2011
Sale of steel products	<b>60,824,244,829</b>	72,111,502,935
Sale of steel billets and pig iron	<b>1,519,072,055</b>	723,246,296
Sale of coke by-products	<b>905,082,877</b>	1,040,176,521
Others	<b>2,604,373,153</b>	7,543,639,824
Total	<b>65,852,772,914</b>	81,418,565,576

During 2012, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	<b>2,494,789,722</b>	<b>3</b>
Company 2	<b>2,448,012,663</b>	<b>3</b>
Company 3	<b>1,604,790,890</b>	<b>2</b>
Company 4	<b>1,330,842,580</b>	<b>2</b>
Company 5	<b>1,137,734,246</b>	<b>2</b>
Total	<b>9,016,170,101</b>	<b>12</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 36. REVENUE AND COST OF SALES (CONTINUED)

During 2011, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	4,857,613,219	6
Company 2	1,531,203,753	2
Company 3	1,201,103,961	1
Company 4	1,187,213,803	1
Company 5	1,056,956,726	1
Total	<u>9,834,091,462</u>	<u>11</u>

### 37. BUSINESS TAXES AND SURCHARGES

	2012	2011 (Restated)
City construction and maintenance tax	<b>84,036,955</b>	124,873,860
Education surcharges	<b>37,167,111</b>	53,877,462
Local education surcharges	<b>17,284,233</b>	35,023,088
Other taxes	<b>21,650,028</b>	14,003,196
Total	<u><b>160,138,327</b></u>	<u>227,777,606</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.

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 38. SELLING EXPENSES

	2012	2011
Employee benefits	<b>38,476,931</b>	32,816,590
Transportation fees	<b>259,918,941</b>	185,615,448
Insurance premium	<b>20,217,336</b>	22,107,898
Others	<b>31,081,820</b>	45,281,993
Total	<b>349,695,028</b>	285,821,929

### 39. ADMINISTRATIVE EXPENSES

	2012	2011 (Restated)
Depreciation	<b>56,918,551</b>	44,322,000
Employee benefits	<b>550,082,566</b>	524,124,183
Office expenses	<b>213,355,530</b>	313,929,431
*Auditors' remuneration	<b>4,815,000</b>	4,965,000
Other taxes	<b>190,603,455</b>	201,165,331
Rental fee	<b>48,540,000</b>	48,540,000
Others	<b>313,770,784</b>	158,315,668
Total	<b>1,378,085,886</b>	1,295,361,613

### 40. FINANCIAL EXPENSES

	2012	2011 (Restated)
Interest expenses (i)	<b>1,586,090,972</b>	1,449,374,591
Less: Interest income	<b>142,877,305</b>	168,249,321
Exchange gain or loss, net	<b>(10,201,810)</b>	(346,756,429)
Others	<b>30,224,487</b>	34,806,256
Total	<b>1,463,236,344</b>	969,175,097

(i) The Group's interest expenses include interest on bank loans, other loans, corporate bonds and MTN (Medium Term Note) which will expire within five years.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 41. ASSETS IMPAIRMENT LOSS

	2012	2011 (Restated)
Provisions for bad debts	<b>1,305,308,186</b>	128,279
Including: Trade receivables	<b>50,081</b>	–
Other receivables	<b>1,303,208,981</b>	–
Loans and advances	<b>2,049,124</b>	128,279
Provisions for inventories	<b>1,417,177,552</b>	676,714,989
Total	<b>2,722,485,738</b>	676,843,268

### 42. INVESTMENT INCOME

	2012	2011 (Restated)
Long term equity investment income under the equity method	<b>111,905,442</b>	122,027,420
Long term equity investment income under the cost method	<b>15,006,311</b>	21,114,188
Income deemed disposal of a subsidiary	<b>484,109,649</b>	–
Investment income from disposal of a affiliated company	<b>2,752,460</b>	–
Other investment income	<b>137,155</b>	466,006
Total	<b>613,911,017</b>	143,607,614

\* During the current year, the Group's investment income from listed companies and unlisted companies were RMB21,232 and RMB613,889,785, respectively (2011: the investment income from listed companies and unlisted companies were RMB17,796 and RMB143,589,818, respectively).

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 42. INVESTMENT INCOME (CONTINUED)

Among the long term equity investment income under the equity method, the top five largest items are as follows:

	2012	2011	Reason for variation
BOC-Ma Steel	<b>75,179,762</b>	87,174,414	(i)
Jiyuan Jinma Coke Making	<b>20,286,748</b>	35,851,763	(i)
Jinxi Traffic	<b>9,357,542</b>	–	(ii)
Maanshan Harbour	<b>6,690,671</b>	11,128,386	(i)
Shanghai Iron and Steel Electronic	<b>2,302,219</b>	10,365,248	(i)
Total	<b>113,816,942</b>	144,519,811	

(i) In the current 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.

(ii) Jinxi Traffic is a joint enterprise which was set up in the current year.

As at 31 December 2012, there was no significant restriction imposed upon the realisation of the Group's investment income.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 43. NON-OPERATING INCOME

	2012	2011
Amortisation of deferred income (note V.31)	<b>90,746,124</b>	82,109,482
Subsidy income	<b>47,577,837</b>	84,455,658
Gain on disposal of non-current assets	<b>9,838,599</b>	–
Others	<b>4,679,954</b>	414,411
Total	<b>152,842,514</b>	166,979,551

Details of government subsidy income recorded in income statement are as follows:

	2012	2011
Amortisation of deferred income	<b>90,746,124</b>	82,109,482
Subsidies granted by government (i)	<b>29,324,737</b>	64,855,490
Others	<b>18,253,100</b>	19,600,168
Total	<b>138,323,961</b>	166,565,140

(i) Specific subsidies granted by government refer the encouragement from to the local government for the Group's business development, import of products and overseas technical cooperation.

### 44. NON-OPERATING EXPENSES

	2012	2011 (Restated)
Loss on the disposal of non-current assets	–	18,753,548
Public relief donation	<b>935,000</b>	1,865,000
Others	<b>2,563,367</b>	3,561,007
Total	<b>3,498,367</b>	24,179,555

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 45. INCOME TAX

	2012	2011 (Restated)
*Mainland China:		
Current income tax expense	<b>87,438,340</b>	156,414,252
Adjustments in respect of current tax of previous periods	<b>(1,822,018)</b>	396,113
Deferred tax income	<b>(79,543,136)</b>	(114,480,746)
*Hong Kong current income tax expense (ii)	<b>5,782,624</b>	2,836,237
*Overseas current income tax expense	<b>42,350,060</b>	71,120,605
	<hr/>	<hr/>
Total	<b>54,205,870</b>	116,286,461
	<hr/> <hr/>	<hr/> <hr/>

Relationship between income tax and profit/(loss) before tax:

	2012	2011 (Restated)
Profit/(loss) before tax	<b>(3,746,317,556)</b>	319,831,535
Tax at the applicable tax rate of 25% (i)	<b>(936,579,390)</b>	79,957,885
Effect of different tax rates of subsidiaries	<b>1,419,323</b>	10,382,413
Expenses not deductible for tax	<b>40,803,027</b>	69,053,652
Adjustments in respect of current tax of previous periods	<b>(1,822,018)</b>	396,113
Other tax concessions	<b>(57,010,255)</b>	(59,526,336)
Income not subject to tax	<b>(3,756,886)</b>	(9,054,131)
Unrecognized deductible temporality difference and tax losses (iii)	<b>1,095,848,947</b>	58,882,495
Tax losses utilised	<b>(58,948,979)</b>	(1,383,061)
Profits and losses attributable to jointly-controlled entities and associates	<b>(28,003,918)</b>	(32,422,569)
Withholding income tax of dividends received from associate in the mainland of the PRC	<b>2,256,019</b>	-
	<hr/>	<hr/>
Tax charge at the Group's effective rate	<b>54,205,870</b>	116,286,461
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 45. INCOME TAX (CONTINUED)

- (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 or regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.
- (ii) Income tax for a subsidiary operating in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the year.
- (iii) Including the tax effect of non-deductible tax losses of RMB270 million.

### 46. 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 taking into account: (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.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 46. EARNINGS PER SHARE (CONTINUED)

The calculations of basic and diluted earnings per share amounts are based on:

	2012	2011 (Restated)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<b><u><u>(3,863,232,545)</u></u></b>	<u><u>82,369,208</u></u>
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<b><u><u>7,700,681,186</u></u></b>	<u><u>7,700,681,186</u></u>

During 2012 and 2011, there was no dilutive item to adjust the Group's basic earnings per share.

### 47. OTHER COMPREHENSIVE INCOME

	2012	2011
Exchange fluctuation reserve	<b><u><u>14,026,744</u></u></b>	<u><u>(24,221,088)</u></u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 48. NOTES TO THE CASH FLOW STATEMENT

	2012	2011 (Restated)
Cash received relating to other operating activities:		
Specific subsidies granted by the government	<b>24,980,407</b>	64,855,490
Others	<b>147,557,259</b>	169,631,462
	<b>172,537,666</b>	234,486,952
Cash paid relating to other operating activities:		
Supporting services	<b>123,825,791</b>	235,642,799
Security expenses	<b>62,193,391</b>	80,419,379
Packing fee	<b>24,390,962</b>	24,240,976
Flood prevention fund	<b>27,269,137</b>	15,501,455
Environmental improvement fee	<b>35,761,637</b>	40,139,448
Research and development fee	<b>17,049,725</b>	32,899,365
Bank fee	<b>30,224,487</b>	34,806,257
Others	<b>162,638,852</b>	103,816,256
Total	<b>483,353,982</b>	567,465,935
Cash received relating to other investing activities:		
Government special project funding	<b>157,104,000</b>	62,009,300

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 49. SUPPLEMENTS TO CASH FLOWS

(1) Cash flows from operating activities:

	2012	2011 (Restated)
Net profit	<b>(3,800,523,426)</b>	203,545,074
Add: Provision/(reversal of provision) for bad debts	<b>1,303,259,062</b>	–
Provision for inventories	<b>1,417,177,552</b>	676,714,989
Provision for loans and advances to customers	<b>2,049,124</b>	128,279
Depreciation of fixed assets	<b>3,507,763,851</b>	4,332,908,131
Amortisation of investment properties	<b>139,791</b>	184,111
Amortisation of intangible assets	<b>60,795,998</b>	53,348,502
Amortisation of deferred income	<b>(90,746,124)</b>	(82,109,482)
(Profit)/loss on disposal of non-current assets	<b>(9,838,599)</b>	18,753,548
Increase in special reserves	<b>14,768,610</b>	–
Financial expenses	<b>1,575,889,162</b>	1,102,729,357
Investment income	<b>(613,911,017)</b>	(143,607,614)
Loss on fair value changes	<b>20,860</b>	218,660
Decrease/(increase) in deferred tax assets	<b>(75,829,033)</b>	(112,840,557)
Decrease in deferred tax liabilities	<b>(3,714,103)</b>	(1,640,189)
Decrease/(increase) in inventories	<b>1,430,298,828</b>	(1,618,445,002)
Decrease/(increase) in receivables from operating activities	<b>477,086,489</b>	(2,669,321,120)
Increase/(decrease) in payables from operating activities	<b>397,900,093</b>	(650,544,553)
	<hr/>	<hr/>
Net cash flows from operating activities	<b><u>5,592,587,118</u></b>	<b><u>1,110,022,134</u></b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

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

### 49. SUPPLEMENTS TO CASH FLOWS (CONTINUED)

(2)	Information of the subsidiaries acquired	2011
	Price paid to acquire the subsidiaries	1,234,444,444
	Cash and cash equivalents paid to acquire the subsidiaries	1,234,444,444
	Less: Cash and cash equivalents of subsidiaries acquired	(1,617,705,837)
	Net cash received from acquisition of subsidiaries	383,261,393
	The net assets of subsidiaries acquired	2,244,444,444
	Current assets	3,092,101,181
	Non-current assets	2,555,636,712
	Current liabilities	2,547,289,065
	Non-current liabilities	856,004,384
(3)	Information of the subsidiaries disposed of	2012
	Price of subsidiaries deemed disposed of	-
	Cash and cash equivalents paid for the deemed disposal of subsidiaries	-
	Less: Cash and cash equivalents of subsidiaries deemed disposed of	<b>107,636,270</b>
	Net cash paid for the deemed disposal of subsidiaries	<b>(107,636,270)</b>
	The net assets of subsidiaries deemed disposed of	<b>(367,791,377)</b>
	Current assets	<b>178,236,949</b>
	Non-current assets	<b>162,550,999</b>
	Current liabilities	<b>708,579,325</b>
	Non-current liabilities	-

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

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

### 50. CASH AND CASH EQUIVALENTS

Net movement of cash and cash equivalents:

	2012	2011 (Restated)
Cash closing balance	<b>6,629,796,092</b>	9,190,021,229
Less: Cash opening balance	<b>9,190,021,229</b>	5,385,065,613
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
	<hr/>	<hr/>
Net increase of cash and cash equivalents	<b><u>(2,560,225,137)</u></b>	<b><u>3,804,955,616</u></b>

	2012	2011 (Restated)
Cash		
Including: Cash on hand	<b>191,349</b>	381,411
Balances with financial institutions without restriction	<b>6,629,604,743</b>	9,189,639,818
Other balances without restriction	-	-
	<hr/>	<hr/>
Cash equivalents	<b><u>6,629,796,092</u></b>	<b><u>9,190,021,229</u></b>

### \*51. DIVIDEND

	2012	2011
Proposed final – Nil	<b><u>-</u></b>	<b><u>-</u></b>

The board of directors do not recommend the payment of any dividends for the year ended 31 December 2012.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. PARENT COMPANY

Name of parent	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 are stated in note IV to the financial statements.

### 3. ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES OF THE GROUP

Further details on balances with associates and jointly-controlled entities of the Group are stated in note V.10 to the financial statements.

### 4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP

Name	Relationship with the Company	Organisation code
Maanshan Li Sheng Group Co., Ltd. (i)	Controlled by Holding	711703722
Maanshan Gang Chen Industry Co., Ltd. (ii)	Controlled by Holding	70492034x
Maanshan Steel Construction (Group) Co., Ltd. (iii)	Controlled by Holding	733002281
Anhui Tian Kai Lu Qiao Co., Ltd. (iv)	Controlled by Holding	733002273
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding	72850552x
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding	55781951-5
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by Holding	850512838
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by Holding	777366319
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by Holding	750993301
Masteel Shen Ma Metal Co., Ltd.	Controlled by Holding	150509160
Anhui BRC & 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. (vi)	Controlled by Holding	733020252
Maanshan Shi Fa Metal Industry and Trading Co., Ltd. (v)	Controlled by Holding	713957507
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd.	Controlled by Holding	728509803

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP (CONTINUED)

Name	Relationship with the Company	Organisation code
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 Holiday Village	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.	Controlled by Holding	573045716
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited (vii)	Controlled by Holding	581537534

- (i) During the current year, the company changed its name, and was formerly known as Masteel (Group) Li Sheng Co., Ltd.
- (ii) During this current year, the company changed its name, formerly known as Masteel (Group) Industry Development Company.
- (iii) During 2011, the company changed its name, and was formerly known as Maanshan Iron & Steel Group Construction Co., Ltd., and it has been restructured during the year, and is no longer considered as a related party after 18 August, 2011.
- (iv) During 2011, the company changed its name, formerly known as Masteel Group Building Road & Bridge Co., Ltd, and it has been restructured during the year, and is no longer considered as a related party after 18 August, 2011.
- (v) This company was cancelled during 2012.
- (vi) This company entered into liquidation during 2012.
- (vii) This company was established at 31 August 2011 as an affiliated business of the Company.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

#### (1) Purchases of iron ore from related parties

		2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
Note		RMB	%	RMB	%
Holding	(i)	<b>2,661,796,946</b>	<b>19</b>	2,295,360,672	10
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	<b>158,073,384</b>	<b>2</b>	101,799,834	1
Total		<b>2,819,870,330</b>	<b>21</b>	2,397,160,506	11

- (i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 15 October 2009 entered into between the Company and the Holding. A subsidiary of the Group purchase iron ore from Luo He Mining, the price terms of which are negotiated.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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 labor, support services and other services

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Holding	(ii)	152,226,086	42	112,292,896	44
Maanshan Li Sheng Group Co., Ltd.	(ii)	43,884,765	12	39,800,288	16
Maanshan Gang Chen Industry Co., Ltd.	(ii)	18,550,893	5	46,290,847	18
Maanshan Steel Construction (Group) Co., Ltd.	(ii)	-	-	13,994,740	6
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	(ii)	115,383,237	32	-	-
Masteel Group Steel Scrap Integrated Utilisation Co., Ltd.	(ii)	-	-	7,089,913	3
Others	(ii)	30,356,499	9	34,206,338	13
<b>Total</b>		<b>360,401,480</b>	<b>100</b>	<b>253,675,022</b>	<b>100</b>

- (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 determined in accordance with a service agreement between the Company and the Holding.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Holding	(iii)	702,375	5	158,021	1
Masteel Shen Ma Metal Co., Ltd.	(iii)	1,164,286	8	1,451,894	10
Maanshan Gang Chen Industry Co., Ltd.	(iii)	12,998,096	87	12,358,138	89
<b>Total</b>		<b>14,864,757</b>	<b>100</b>	<b>13,968,053</b>	<b>100</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (4) Rental expenses

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Holding	(iii)	48,540,000	100	48,540,000	100

(iii) The Holding lease building to the group in current year.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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

	Note	2012		2011	
		Amount RMB	Percentage of Similar transactions	Amount RMB	Percentage of Similar transactions
			%		%
Holding	(iii)	9,943,340	-	-	-
Masteel (Group) Power and Machinery Installation Co., Ltd.	(iii)	-	-	226,128	-
Anhui Xinchuang Energy Saving and Environmental Protection Technoogy Company Limited	(iii)	101,247,403	2	-	-
Maanshan Gang Chen Industry Co., Ltd.	(iii)	2,252,448	-	13,324,706	-
Maanshan Li Sheng Group Co., Ltd.	(iii)	7,072,550	-	4,674,028	-
Masteel (Group) Kang Tai Building and Installing Industry Co., Ltd.	(iii)	971,700	-	31,400	-
Anhui Tian Kai Lu Qiao Co., Ltd.	(iii)	-	-	1,320,000	-
Anhui BRC & Masteel Weldmesh Co., Ltd	(iii)	2,826,435	-	-	-
Maanshan Steel Construction (Group) Co., Ltd.	(iii)	-	-	156,695,860	3
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	42,175,303	1	-	-
Others	(iii)	-	-	356,500	-
<b>Total</b>		<b>166,489,179</b>	<b>3</b>	<b>176,628,622</b>	<b>3</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Holding	(iii)	25,638,810	3	14,505,913	1
Maanshan Steel Construction (Group) Co., Ltd.	(iii)	-	-	29,755,296	3
Maanshan Gang Chen Industry Co., Ltd	(iii)	4,284,381	-	-	-
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	1,174,755	-	419,803	-
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	(iii)	161,671	-	35,345,396	2
Others	(iii)	9,818,725	1	6,359,936	1
<b>Total</b>	(iii)	<b>41,078,342</b>	<b>4</b>	<b>86,386,344</b>	<b>7</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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)

#### (7) Sale of steel products and related by products

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Maanshan Masteel K.Wah Commodity Concrete Co., Ltd.	(iii)	662,101	-	297,981	-
Maanshan Steel Construction (Group) Co., Ltd.	(iii)	-	-	1,482,309	-
Maanshan Gang Chen Industry Co., Ltd	(iii)	57,334,766	-	-	-
<b>Total</b>		<b>57,996,867</b>	<b>-</b>	<b>1,780,290</b>	<b>-</b>

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (8) Financial service costs paid to related parties

	Note	2012		2011 (Restated)	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Holding	(iv)	5,704,239	68	1,353,225	82
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	(iv)	1,039,923	12	32,385	2
Maanshan Gang Chen Industry Co., Ltd	(iv)	803,014	9	48,585	3
Others	(iv)	972,600	11	210,003	13
<b>Total</b>		<b>8,519,776</b>	<b>100</b>	<b>1,644,198</b>	<b>100</b>

(iv) MASTEEL-Financial took deposits from the Holding and its subsidiaries, and paid interest to them at rates that were not higher than the benchmark interest rates issued by the People's Bank of China.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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)

#### (9) Financial service income received from related parties

	Note	2012		2011 (Restated)	
		Amount RMB	Percentage of Similar transactions %	Amount RMB	Percentage of Similar transactions %
Holding	(v)	1,217,474	35	-	-
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	(v)	305,148	9	-	-
Maanshan Gang Chen Industry Co., Ltd.	(v)	1,358,350	39	133,125	100
Others	(v)	573,310	17	-	-
<b>Total</b>		<b>3,454,282</b>	<b>100</b>	<b>133,125</b>	<b>100</b>

(v) MASTEEL-Financial obtained financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance bill discounting and entrusted loans.

#### (10) Purchases of coke from associates

	Note	2012		2011	
		Amount RMB	Percentage of Similar transactions %	Amount RMB	Percentage of Similar transactions %
Shenglong Chemical	(vi)	101,945,736	23	188,760,578	5

(vi) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms mutually agreed between the parties.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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)

#### (11) Loading expenses paid to associates

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
Maanshan Harbour Co., Ltd.	(v)	<b>143,629,429</b>	<b>13</b>	158,863,916	14

(vi) These transactions were made between the Group and Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

#### (12) Rental income from a jointly-controlled entity

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
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	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
BOC-Ma Steel	(vii)	<b>278,674,436</b>	<b>67</b>	274,517,034	66

(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)

31 December 2012  
Renminbi Yuan

## 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)

#### (14) Fee received for utilities and facilities from a jointly-controlled entity

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
BOC-Ma Steel	(vii)	<b>5,685,347</b>	<b>100</b>	5,524,576	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.

#### (15) Purchase of gas products from a jointly-controlled entity

	Note	2012		2011	
		Amount	Percentage of Similar transactions	Amount	Percentage of Similar transactions
		RMB	%	RMB	%
BOC-Ma Steel	(vii)	<b>548,309,053</b>	<b>100</b>	536,961,147	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)

31 December 2012  
Renminbi Yuan

## 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)

#### (16) Guarantee from a related party

2012	Note	Guarantee name	Guarantee amount	Start date	End date	Has guarantee matured
Holding	(viii)	the Company	3.381 billion	2012.8	2016.8	Not yet as at the signing date of the report
2011	Note	Guarantee name	Guarantee amount	Start date	End date	Has guarantee matured
Holding	(viii)	the Company	7.345 billion	2011.2	2016.8	Not yet as at the signing date of the report

(viii) The holding has guaranteed certain bank loans of the Group amounting approximately to RMB3.381 billion (2011: approximately RMB7.345 billion) in 2012 at nil consideration. The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB10.607 billion (31 December 2011: part of the Group's bank loans and bonds with warrants amounting approximately to RMB8.411 billion) as at 31 December 2012.

#### (17) Salaries of key management paid to of a related party

The total amount of key management salaries paid to related party (including salaries in the form of monetary, practicality and other form) was RMB1,831,537 during the current year (2011: RMB3,982,722).

#### \*(18) Directors' and supervisors' emoluments

	2012	2011
Fees	<b>447,368</b>	487,500
Other emoluments:		
Salaries, allowances and benefits in kind	<b>1,072,162</b>	682,479
Performance-related bonuses	-	1,876,439
Pension scheme contributions	<b>22,500</b>	39,873
	<b>1,094,662</b>	2,598,791
	<b>1,542,030</b>	3,086,291

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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:

	2012	2011
<i>Independent directors</i>		
Mr. Wong Chun Wa (i)	–	50,000
Mr. Su Yong (i)	–	50,000
Mr. Hui Leung Wah (i)	–	50,000
Mr. Han Yi (i)	–	50,000
Mr. Qin Tongzhou (ii)	100,000	50,000
Ms. Yang Yada (ii)	100,000	50,000
Mr. Wu Tat Man Damon Albert (iii)	66,667	50,000
Mr. Liu Fangduan (iv)	33,333	–
	<hr/> 300,000	<hr/> 350,000
<i>Independent supervisors</i>		
Ms. Cheng Shaoxiu (v)	–	31,250
Ms. An Qun (v)	–	31,250
Mr. Wong Chun Wa (vi)	73,684	37,500
Mr. Su Yong (vi)	73,684	37,500
	<hr/> 147,368	<hr/> 137,500
	<hr/> <b>447,368</b>	<hr/> <b>487,500</b>

There were no other emoluments payable to the independent directors and independent supervisors during the year (2011: Nil).

- (i) Resigned his directorship on 31 August, 2011
- (ii) Appointed to the board on 31 August, 2011
- (iii) Appointed to the board on 31 August, 2011, resigned his directorship on 31 August, 2012
- (iv) Appointed to the board on 25 October, 2012
- (v) Resigned from the supervisor position on 31 August, 2011
- (vi) Appointed to the supervisor position on 31 August, 2011

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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) Non-independent directors and non-independent supervisors

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
<b>2012</b>					
<i>Executive directors</i>					
Mr. Su Jiangang	-	-	-	-	-
Mr. Qian Haifan	-	300,000	-	5,625	305,625
Mr. Ren Tianbao	-	240,000	-	5,625	245,625
	-	540,000	-	11,250	551,250
<i>Non-executive directors</i>					
Mr. Zhao Jianming(iii)	-	-	-	-	-
	-	-	-	-	-
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	300,000	-	5,625	305,625
Mr. Liu Xianli	-	232,162	-	5,625	237,787
Mr. Fang Jinrong	-	-	-	-	-
	-	532,162	-	11,250	543,412
	-	1,072,162	-	22,500	1,094,662

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2011: Nil).

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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) Non-independent directors and non-independent supervisors (Continued)

	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2011					
<i>Executive directors</i>					
Mr. Gu Jianguo (i)	-	63,165	301,802	5,592	370,559
Mr. Su Jiangang	-	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. 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>Non-executive directors</i>					
Mr. Zhao Jianming	-	-	-	-	-
	-	-	-	-	-
<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 31 August, 2011

(ii) Appointed to the board on 31 August, 2011

(iii) Resigned his directorship on 21 December, 2012

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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 three highest paid employees during the year were directors and supervisors (2011: five), details of whose remuneration are stated in note VI.5 (18) above. Details of the remuneration of the remaining two non-directors, non-supervisors, highest paid employee in 2012 are as follows:

	2012	2011
Group		
Salaries, allowances and benefits in kind	<b>480,000</b>	–
Performance-related bonuses	–	–
Pension scheme contributions	<b>11,250</b>	–
	<hr/>	<hr/>
	<b>491,250</b>	–
	<hr/> <hr/>	<hr/> <hr/>

In 2012, the remuneration of the remaining two non-directors, non-supervisors, highest paid employee fell within the band of nil to HKD1,000,000.

- (20) On 9 February 2012, Company and Group signed an equity transfer agreement amounting to RMB429,290,736, which made the Company acquired 42% shares of MASTEEL-Financial. This agreement was completed on 5 April 2012.
- (21) Further details on balances with the Holding and its subsidiaries, and the Group's associates are stated in note VI.6 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.
- (22) The Group has obtained long-term entrusted loans amounting to RMB10,000,000 in 2012. (31 December 2011: short-term loans RMB10,000,000 (Restated))
- (23) At 6 April 2012, MASTEEL-Financial and the holding signed the agreement of financial service. The highest daily deposits (including interest) under the annual cap was RMB700 million; The highest daily loan under annual cap was RMB500 million; Total monthly and daily loan shall not be higher than deposits or total amount of interest accrued.

The directors believe that the above transactions in (1) to (9), (16),(22) and (23) above are in the ordinary course of business of the Group.

- \* The related party transactions in (1) to (9), (17), (20), (22) and (23) above 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)

31 December 2012  
Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2012	2011
<b>Trade receivables:</b>		
Holding and its subsidiaries		
Holding	4,473,542	23,509,315
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	17,982,919	17,982,919
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	2,083,550	-
Maanshan Jia Hua Commodity Concrete Co., Ltd.	1,062,101	-
Others entities controlled by Holding	734,684	103,056
	<u>26,336,796</u>	<u>41,595,290</u>
Associates and jointly-controlled enteritis of the Group		
Maanshan Harbour	25,269	68,643
BOC-Ma Steel	-	268,879
	<u>25,269</u>	<u>337,522</u>
<b>Prepayments:</b>		
Holding and its subsidiaries		
Holding	500,000	-
Anhui BRC & Masteel Weldmesh Co., Ltd.	406,803	-
Masteel Group Design and Research Institute Co., Ltd.	-	1,760,000
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	29,412,642	-
	<u>30,319,445</u>	<u>1,760,000</u>
<b>Dividends receivable:</b>		
Associates and jointly-controlled entities of the Group		
Jiyuan JinMa Coke	46,800,000	88,800,000
	<u>46,800,000</u>	<u>88,800,000</u>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES (CONTINUED)

	2012	2011
<b>Accounts payable:</b>		
Holding and its subsidiaries		
Holding	<b>2,664,945</b>	1,718,318
Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited	<b>44,634,163</b>	452,139
Maanshan Li Sheng Group Co., Ltd.	<b>5,025,226</b>	6,956,604
Masteel Group Power and Machinery Installation Co., Ltd.	-	466,010
Masteel Group Steel Scrap Integrated Utilisation Co., Ltd.	<b>505,209</b>	3,066,029
Maanshan Gang Chen Industry Co., Ltd.	<b>8,148,736</b>	5,253,282
Others entities controlled by Holding	<b>4,651,378</b>	3,409,060
Total	<b>65,629,657</b>	21,321,442
Associates and jointly-controlled entities of the Group		
BOC-Ma Steel	<b>21,888,952</b>	19,935,867
Jiyuan JinMa Coke	-	223,791
Maanshan Harbour	<b>14,396,430</b>	17,053,499
Shenglong Chemical	<b>24,191,225</b>	23,540,223
Total	<b>60,476,607</b>	60,753,380
<b>Deposits received:</b>		
Holding and its subsidiaries		
Anhui BRC & Masteel Weldmesh Co., Ltd.	<b>6,863,688</b>	12,895,660
Holding	<b>12,315,708</b>	-
Maanshan Gang Chen Industry Co., Ltd.	<b>300,397,188</b>	274,943,072
Others entities controlled by Holding	<b>2,749,015</b>	4,036,070
Total	<b>322,325,599</b>	291,874,802
Associates and jointly-controlled enteritis of the Group		
Jiyuan JinMa Coke	<b>23,235</b>	35,636
Jinxi Traffic	<b>18,539</b>	-
Shenglong Chemical	<b>247,827</b>	-
Total	<b>289,601</b>	35,636

All the trade receivable, prepayment, dividend receivable, account payable and deposits received have no interest no pledge and do not have a certain day of pay back.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES (CONTINUED)

\* As at December 31 2012, among the current assets and current liabilities, the Company's trade receivables from and accounts payable to subsidiaries, are RMB851,504,789 (2011: RMB782,796,834) and RMB2,538,569,796 (2011: RMB1,831,973,485) respectively. These receivables and payables have no interest, no pledge and will pay in the future.

	2012	2011 (Restated)
<b>Loans and advances to customers:</b>		
Holding and its subsidiaries		
Holding	149,085,000	—
Anhui Masteel Luo He Mining Co., Ltd.	50,000,000	—
Other entities controlled by Holding	18,655,209	12,827,856
	<hr/>	<hr/>
Total	<b>217,740,209</b>	12,827,856
	<hr/> <hr/>	<hr/> <hr/>
<b>Customer deposits:</b>		
Holding and its subsidiaries		
Holding	251,729,915	446,857,182
Maanshan Li Sheng Group Co., Ltd.	3,324,327	2,417,417
Maanshan Gang Chen Industry Co., Ltd.	85,595,196	46,051,454
Other entities controlled by Holding	224,518,544	202,618,928
	<hr/>	<hr/>
Total	<b>565,167,982</b>	697,944,981
	<hr/> <hr/>	<hr/> <hr/>

### 7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As at 31 December 2012, the Group did not have significant commitment in relation to related parties.



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## VII. CONTINGENT LIABILITIES

### 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, penalties and interest (if applicable).

## VIII. COMMITMENTS

### 1. THE COMMITMENTS OF THE GROUP WERE AS FOLLOWS:

	2012 RMB'000	2011 RMB'000
Capital commitments		
Authorised, but not contracted for	<b>2,513,081</b>	2,521,008
Contracted, but not provided for	<b>5,414,877</b>	5,431,956
Total	<b>7,927,958</b>	7,952,964
Investment commitments		
Authorised, but not contracted for	-	153,000
Contracted, but not fully contributed	<b>108,980</b>	67,500

### 2. THE GROUP'S SHARE IN THE COMMITMENTS OF A JOINTLY-CONTROLLED ENTITY (NOT INCLUDED IN NOTE 1 ABOVE) WERE AS FOLLOWS:

	2012 RMB'000	2011 RMB'000
Capital commitments		
Authorised, but not contracted for	-	111

## IX. POST BALANCE SHEET EVENTS

On 5 March 2013, Ma Steel (Hefei) obtained the approval of the board of directors regarding the issuance of five-year medium-term notes amounted to RMB900 million. The medium-term notes are not issued as of the reporting date.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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.

	2012	2011
Remaining lease period		
Within 1 year, inclusive	<b>1,750,000</b>	1,750,000
1 to 2 years, inclusive	<b>1,250,000</b>	1,750,000
2 to 3 years, inclusive	<b>1,250,000</b>	1,250,000
Over 3 years	<b>8,907,534</b>	10,157,534
	<hr/>	<hr/>
Total	<b>13,157,534</b>	14,907,534
	<hr/> <hr/>	<hr/> <hr/>

### 2. ASSETS MEASURED AT FAIR VALUE

#### 2012

	Opening balance	Fair value gains or losses 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>607,980</b>	<b>(20,860)</b>	-	-	<b>587,120</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

#### 2011

	Opening balance	Fair value gains or losses 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	826,640	(218,660)	-	-	607,980
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 3. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

2012

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Loans and trade receivables	<u>441,856,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,318,454</u>
<b>Financial liabilities</b>					
Borrowings	<u>11,439,598,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,618,962,623</u>
Trade payables	<u>43,167,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,823,658</u>

2011 (Restated)

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
<b>Financial assets</b>					
Loans and trade receivables	<u>340,383,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>441,856,745</u>
<b>Financial liabilities</b>					
Borrowings	<u>5,392,177,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,439,598,316</u>
Trade payables	<u>57,546,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,167,573</u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. OPERATING SEGMENT INFORMATION

#### Operating segment

We divide the operation services into three operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for MASTEEL-Financial, Ma Steel International Trade Corp. and Shanghai Trading.
- Trading of steel, iron ores and raw materials: Ma Steel International Trade Corp, and Shanghai Trading.
- Financial service: MASTEEL-Financial.

The Group did not consider trade service and financial service as an individual reportable segment, as their revenue, profit and assets are lower than 10% of the Group, and that MASTEEL-Financial mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of steel and it is unnecessary for the Group to disclose more detailed information.

#### Other information

##### *Products and service information*

##### **External principal operation income**

	2012	2011
Sale of steel products	<b>60,824,244,829</b>	72,111,502,935
Sale of steel billets and pig iron	<b>1,519,072,055</b>	723,246,296
Sale of coke by-products	<b>905,082,877</b>	1,040,176,521
Others	<b>2,604,373,153</b>	7,543,639,824
	<hr/>	<hr/>
Total	<b>65,852,772,914</b>	81,418,565,576
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. OPERATING SEGMENT INFORMATION (CONTINUED)

#### Other information (Continued)

##### Geographical information

##### External principal operation income

	2012	2011
The PRC	<b>63,132,558,528</b>	79,861,669,032
Overseas	<b>2,720,214,386</b>	1,556,896,544
Total	<b>65,852,772,914</b>	81,418,565,576

##### Non-current assets

	2012	2011 (Restated)
The PRC	<b>41,815,111,602</b>	40,279,019,269
Overseas	<b>213,221,638</b>	197,388,457
Total	<b>42,028,333,240</b>	40,476,407,726

The non-current asset information above is based on the locations of assets and excludes deferred tax assets.

##### Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS

The Group's principal financial instruments comprise interest-bearing bank borrowings, 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, and market risk.

#### (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:

#### 2012

#### Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Total
Cash and bank balances	-	9,782,424,115	9,782,424,115
Financial assets held for trading	587,120	-	587,120
Bills receivable	-	8,060,760,260	8,060,760,260
Trade receivables	-	1,411,927,109	1,411,927,109
Other receivables	-	469,008,747	469,008,747
Interest receivable	-	4,846,087	4,846,087
Dividends receivable	-	46,800,000	46,800,000
Loans and advances to customers	-	215,562,806	215,562,806
Total	<b>587,120</b>	<b>19,991,329,124</b>	<b>19,991,916,244</b>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS

#### (1) Classification of financial instruments (Continued)

##### Financial liabilities

	Other financial liabilities	Total
Short-term loans	9,777,449,423	9,777,449,423
Customer deposits	565,167,982	565,167,982
Repurchase agreements	494,753,998	494,753,998
Bills payable	5,096,302,242	5,096,302,242
Accounts payable	7,029,326,670	7,029,326,670
Interest payable	205,268,222	205,268,222
Dividends payable	80,492,522	80,492,522
Other payables	1,058,965,107	1,058,965,107
Non-current liabilities due within one year	1,335,542,400	1,335,542,400
Long term loans	9,914,180,000	9,914,180,000
Bonds payable	8,261,992,704	8,261,992,704
Total	<u>43,819,441,270</u>	<u>43,819,441,270</u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS

#### (1) Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2011 (Restated)	Financial assets at at fair value through profit or loss	Loans and receivables	Total
Financial assets			
Cash and bank balances	–	10,611,862,099	10,611,862,099
Financial assets held for trading	607,980	–	607,980
Bills receivable	–	9,034,711,272	9,034,711,272
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
Loans and advances to customers	–	12,699,577	12,699,577
<b>Total</b>	<b>607,980</b>	<b>22,337,072,859</b>	<b>22,337,680,839</b>
Financial liabilities		Other financial liabilities	Total
Short-term loans		5,822,785,816	5,822,785,816
Customer deposits		697,944,982	697,944,982
Repurchase agreements		68,180,659	68,180,659
Bills payable		5,142,687,963	5,142,687,963
Accounts payable		7,030,282,017	7,030,282,017
Interest payable		218,784,755	218,784,755
Dividends payable		80,281,968	80,281,968
Other payables		731,863,459	731,863,459
Non-current liabilities due within one year		2,681,045,000	2,681,045,000
Long term loans		12,506,772,000	12,506,772,000
Bonds payable		9,243,722,051	9,243,722,051
<b>Total</b>		<b>44,224,350,670</b>	<b>44,224,350,670</b>



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS

#### (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.

The credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group had a certain concentration of credit risk as 8% (2011: 32%) and 27% (2011: 45%) of the respectively 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 stated in notes V.4 and V.7 to the financial statements.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## 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:

2012

	Total	Not overdue	Overdue	
			Less than six months	Over six months
Trade receivables	1,411,927,109	1,341,628,354	37,876,693	32,422,062
Bills receivable	8,060,760,260	8,060,760,260	-	-
Dividends receivable	46,800,000	46,800,000	-	-
Interest receivable	4,846,087	4,846,087	-	-
Other receivables	469,008,747	462,203,281	6,176,767	628,699
Loans and advances to customers	215,562,806	215,562,806	-	-
	<u>215,562,806</u>	<u>215,562,806</u>	<u>-</u>	<u>-</u>

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				
(Restated)	9,034,711,272	9,034,711,272	-	-
Dividends receivable	99,902,452	99,902,452	-	-
Other receivables	694,493,241	690,041,475	3,256,829	1,194,937
Loans and advances to customers (Restated)	12,699,577	12,699,577	-	-
	<u>12,699,577</u>	<u>12,699,577</u>	<u>-</u>	<u>-</u>

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (2) Credit risk (Continued)

As at 31 December 2012, 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 a significant change in credit quality and the balances are still considered fully recoverable.

#### (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 flows of the Group into consideration.

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

#### 2012

##### 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	9,782,424,115	-	-	-	-	9,782,424,115
Financial assets held for trading	587,120	-	-	-	-	587,120
Bills receivable	8,060,760,260	-	-	-	-	8,060,760,260
Trade receivables	1,411,927,109	-	-	-	-	1,411,927,109
Dividend receivables	46,800,000	-	-	-	-	46,800,000
Interest receivables	4,846,087	-	-	-	-	4,846,087
Other receivables	469,008,747	-	-	-	-	469,008,747
Loans and advanced to customer	215,562,806	-	-	-	-	215,562,806

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (3) Liquidity risk (Continued)

##### Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	9,777,449,423	-	-	-	-	9,777,449,423
Customer deposits	565,167,982	-	-	-	-	565,167,982
Repurchase agreements	494,753,998	-	-	-	-	494,753,998
Bills payable	5,096,302,242	-	-	-	-	5,096,302,242
Trade payables	7,029,326,670	-	-	-	-	7,029,326,670
Interest payable	205,268,222	-	-	-	-	205,268,222
Dividends payable	80,492,522	-	-	-	-	80,492,522
Other payables	1,058,965,107	-	-	-	-	1,058,965,107
Non-current liabilities due within one year	1,335,542,400	-	-	-	-	1,335,542,400
Long term loans	530,512,081	9,195,414,580	1,034,415,119	-	-	10,760,341,780
Bonds payable	472,664,000	6,354,206,633	134,316,000	2,426,186,100	-	9,387,372,733

2011

##### Financial assets (Restated)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and bank balances	10,611,862,099	-	-	-	-	10,611,862,099
Financial assets held for trading	607,980	-	-	-	-	607,980
Bills receivable	9,034,711,272	-	-	-	-	9,034,711,272
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
Loans and advances to customer	12,699,577	-	-	-	-	12,699,577

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (3) Liquidity risk (Continued)

##### Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	5,822,785,816	-	-	-	-	5,822,785,816
Customer deposits	697,944,982	-	-	-	-	697,944,982
Repurchase agreements	68,180,659	-	-	-	-	68,180,659
Bills payable	5,142,687,963	-	-	-	-	5,142,687,963
Trade payables	7,030,282,017	-	-	-	-	7,030,282,017
Interest payable	218,784,755	-	-	-	-	218,784,755
Dividends payable	80,281,968	-	-	-	-	80,281,968
Other payables	731,863,459	-	-	-	-	731,863,459
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	768,600,000	-	-	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

#### (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 includes interest rate risk and foreign currency risk.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (4) Market risk (Continued)

##### *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 Group's long term debt obligations with a floating interest rate.

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/(loss) (through the impact on floating rate borrowings).

	<b>Increase/ (decrease) in basis points</b>	<b>Increase/ (decrease) in net profit</b>
<b>2012</b>		
RMB	<b>50</b>	<b>(45,851,000)</b>
USD	<b>50</b>	<b>(4,059,000)</b>
RMB	<b>(50)</b>	<b>45,851,000</b>
USD	<b>(50)</b>	<b>4,059,000</b>
<b>2011</b>		
RMB	50	(29,603,000)
USD	50	(6,877,749)
RMB	(50)	29,603,000
USD	(50)	6,877,749

# Notes to Financial Statements (Continued)

31 December 2012  
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 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 dollars, 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 amounts 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, 20, 22 and 29 to the financial statements, respectively.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 5. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

#### (4) Market risk (Continued)

##### Foreign currency risk (Continued)

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/(loss) (due to changes in the fair value of monetary assets and liabilities).

	<b>Increase/ (decrease) in exchange rate</b>	<b>Increase/ (decrease) in net profit</b>
<b>2012</b>		
Depreciation of RMB to USD	<b>1%</b>	<b>(20,577,410)</b>
Depreciation of RMB to EUR	<b>1%</b>	<b>87,833</b>
Depreciation of RMB to JPY	<b>1%</b>	<b>(175,227)</b>
Appreciation of RMB to USD	<b>1%</b>	<b>20,577,410</b>
Appreciation of RMB to EUR	<b>1%</b>	<b>(87,833)</b>
Appreciation of RMB to JPY	<b>1%</b>	<b>175,227</b>
<b>2011</b>		
Depreciation of RMB to USD	1%	(92,344,396)
Depreciation of RMB to EUR	1%	4,419,877
Depreciation of RMB to JPY	1%	(7,349)
Appreciation of RMB to USD	1%	92,344,396
Appreciation of RMB to EUR	1%	(4,419,877)
Appreciation of RMB to JPY	1%	7,349



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 6. FAIR VALUE

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2012	2011 (Restated)	2012	2011 (Restated)
<b>Financial liabilities</b>				
Long term loans	<b>9,914,180,000</b>	12,506,772,000	<b>9,914,180,000</b>	12,506,772,000
Bonds payable	<b>8,261,992,704</b>	9,243,722,051	<b>8,364,436,900</b>	9,438,448,000

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 values of cash and bank balances, bills receivable, trade receivables, dividends receivable, other receivables, bills payable, accounts payable, interest payable, dividends payable, other payables, loans and advanced to customer, customer deposits, repurchase agreements, short term loans and non-current liabilities due within one year approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the long term loans and medium-term notes payable have been calculated by discounting the expected future cash flows using rates currently available; The fair values of bonds payable are based on quoted market prices.

The fair values of listed equity investments are based on quoted market prices.

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 enterprises are unable to have access to the comparable market price of identical or similar asset.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 6. FAIR VALUE (CONTINUED)

Financial instruments measured at fair value:

#### 2012

	Level 1	Level 2	Level 3	Total
Financial assets held for trading	<b>587,120</b>	-	-	<b>587,120</b>

#### 2011

	Level 1	Level 2	Level 3	Total
Financial assets held for trading	607,980	-	-	607,980

During the year of 2012, there was no significant transfer into or out of Level 3.

### \*7. OTHER FINANCIAL INFORMATION

	Group		Company	
	2012	2011 (Restated)	2012	2011
Current assets	<b>33,280,575,450</b>	40,121,808,048	<b>22,714,387,922</b>	27,757,450,810
Less: Current liabilities	<b>31,663,322,867</b>	29,420,242,660	<b>21,361,356,363</b>	18,707,771,692
Net current assets	<b>1,617,252,583</b>	10,701,565,388	<b>1,353,031,559</b>	9,049,679,118

	Group		Company	
	2012	2011 (Restated)	2012	2011
Total assets	<b>76,011,164,039</b>	81,224,642,090	<b>63,459,283,349</b>	66,825,015,545
Less: Current liabilities	<b>31,663,322,867</b>	29,420,242,660	<b>21,361,356,363</b>	18,707,771,692
Net total assets minus liabilities	<b>44,347,841,172</b>	51,804,399,430	<b>42,097,926,986</b>	48,117,243,853

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### \*8. EMPLOYEE COSTS (EXCLUDING DIRECTORS AND SUPERVISORS' REMUNERATION (NOTE VI.10))

	2012	2011
Wages and salaries	<b>2,709,564,627</b>	2,714,899,208
Welfare	<b>859,571,384</b>	907,709,086
Pension scheme contributions (i)	<b>700,755,005</b>	665,903,915
	<b>4,269,891,016</b>	4,288,512,209

(i) As at 31 December 2012 and 31 December 2011, 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 in order to comply with the requirement of presentation. Please refer to note IV.4 for the details.

## 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:

	2012	2011
Within one year	<b>1,603,053,558</b>	2,205,528,263
One to two years	<b>138,711,163</b>	155,444,562
Two to three years	<b>9,126,501</b>	22,491,689
Over three years	<b>47,806,673</b>	42,841,419
	<b>1,798,697,895</b>	2,426,305,933
Less: Provisions for bad debts	<b>13,382,203</b>	13,382,203
Total	<b>1,785,315,692</b>	2,412,923,730

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. TRADE RECEIVABLES (CONTINUED)

Trade receivables balance is analysed as follows:

	2012				2011			
	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	884,175,999	49	(6,927,040)	1	1,424,379,952	59	(6,927,040)	-
Other insignificant but assessed impairment individually	914,521,896	51	(6,455,163)	1	1,001,925,981	41	(6,455,163)	1
<b>Total</b>	<b>1,798,697,895</b>	<b>100</b>	<b>(13,382,203)</b>		<b>2,426,305,933</b>	<b>100</b>	<b>(13,382,203)</b>	

The movement of provision for bad debts against trade receivables for the year is disclosed in note XI.5.

The following balances are denominated in foreign currencies:

	2012			2011		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
EUR	34,627	8.3176	288,015	49,837,142	8.1625	406,795,668
USD	19,185,749	6.2855	120,592,024	1,687,901	6.3009	10,635,294
			<b>120,880,039</b>			<b>417,430,962</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 1. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2012, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	<b>Independent third party</b>	<b>197,223,710</b>	<b>Within one year</b>	<b>11</b>
Company 2	<b>Subsidiary</b>	<b>174,524,790</b>	<b>Within one year</b>	<b>10</b>
Company 3	<b>Subsidiary</b>	<b>104,840,889</b>	<b>Within one year</b>	<b>6</b>
Company 4	<b>Independent third party</b>	<b>90,587,673</b>	<b>Within one year</b>	<b>5</b>
Company 5	<b>Subsidiary</b>	<b>85,974,880</b>	<b>Within one year</b>	<b>5</b>
		<b>653,151,942</b>		<b>37</b>
		<b>653,151,942</b>		<b>37</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
		1,232,086,088		51
		1,232,086,088		51

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2012	2011
Within one year	<b>610,939,620</b>	53,878,811
One to two years	<b>915,370</b>	33,348,070
Two to three years	<b>447,251</b>	226,710
Over three years	<b>6,787,885</b>	6,687,408
	<b>619,090,126</b>	94,140,999
Less: Provisions for bad debts	<b>339,712,597</b>	6,930,913
Total	<b>279,377,529</b>	87,210,086

The movement of provision for bad debts against other receivables for the year is disclosed in note XI.5.

Other receivable balance is analysed as follows:

	2012				2011			
	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	<b>537,794,033</b>	<b>87</b>	<b>(335,181,684)</b>	<b>62</b>	41,538,083	44	(2,400,000)	6
Other insignificant but assessed impairment								
Individually	<b>81,296,093</b>	<b>13</b>	<b>(4,530,913)</b>	<b>6</b>	52,602,916	56	(4,530,913)	9
Total	<b>619,090,126</b>	<b>100</b>	<b>(339,712,597)</b>		94,140,999	100	(6,930,913)	

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. OTHER RECEIVABLES (CONTINUED)

During the year, there was no provision for bad debts against other receivables that were written off.

As at 31 December 2012, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	153,324,000	Within one year	25
Company 2	Independent third party	141,286,434	Within one year	23
Company 3	Independent third party	127,685,368	Within one year	21
Company 4	Independent third party	66,625,132	Within one year	11
Company 5	Independent third party	37,464,000	Within one year	6
		<b>526,384,934</b>		<b>86</b>

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)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. INVENTORIES

	2012			2011		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	3,898,986,776	(219,713,336)	3,679,273,440	6,581,517,319	(526,707,239)	6,054,810,080
Spare parts	1,794,379,179	(60,651,928)	1,733,727,251	2,078,696,861	(61,226,316)	2,017,470,545
Finished goods	1,010,005,768	(17,434,142)	992,571,626	968,403,969	(61,316,046)	907,087,923
Work in progress	1,816,332,841	(49,553,203)	1,766,779,638	1,541,059,619	(86,456,715)	1,454,602,904
<b>Total</b>	<b>8,519,704,564</b>	<b>(347,352,609)</b>	<b>8,172,351,955</b>	<b>11,169,677,768</b>	<b>(735,706,316)</b>	<b>10,433,971,452</b>

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 on the normal business terms, deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2012 and 2011, there was no reversal of impairment provision against inventories.

### 4. LONG TERM EQUITY INVESTMENTS

	2012	2011
Long term investments under the equity method		
Jointly-controlled entities (i)	315,603,257	330,435,137
Associates (ii)	735,152,344	1,119,609,961
Long term investments under the cost method		
Subsidiaries (iii)	5,861,169,848	3,834,997,239
Other equity investments (iv)	126,772,160	123,772,160
	<b>7,038,697,609</b>	<b>5,408,814,497</b>
Less: Provision for impairment	330,000,000	–
<b>Total</b>	<b>6,708,697,609</b>	<b>5,408,814,497</b>

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



# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

\* The above investments in jointly-controlled entities and associates under the equity method and the investments in subsidiaries and other entities under the cost method are all unlisted equity investments.

The movement of impairment provision for long term investments for the year is disclosed in note XI.5.

#### (i) Jointly-controlled entities

Name of investee	2012					
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
BOC-Ma Steel	234,000,000	329,872,302	75,179,762	90,000,000	90,000,000	315,052,064
MASTEEL-CMI	500,000	562,835	-	11,642	-	551,193
		<u>330,435,137</u>	<u>75,179,762</u>	<u>90,011,642</u>		<u>315,603,257</u>
Less: Impairment		-	-	-		-
		<u>330,435,137</u>	<u>75,179,762</u>	<u>90,011,642</u>		<u>315,603,257</u>
Name of investee	2011					
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
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>326,392,771</u>	<u>87,174,414</u>	<u>83,132,048</u>		<u>330,435,137</u>

Major financial information of the jointly-controlled entities is disclosed in note V.10.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (ii) Associates

Name of investee	2012					
	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	160,943,695	20,286,749	19,080,000	19,080,000	162,150,444
Shenglong Chemical	66,776,000	185,532,159	-	3,680,000	-	181,852,159
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	2,302,219	4,000,000	4,000,000	37,949,164
Maanshan Harbour	112,500,000	191,745,837	6,690,671	4,500,000	4,500,000	193,936,508
Zhengpu Harbour	35,000,000	34,995,484	-	761	-	34,994,723
MASTEEL-Financial	490,000,000	496,844,061	7,037,812	503,881,873	-	-
Xin Chuang Economize Resource	35,000,000	9,901,780	12,010,024	-	-	21,911,804
Ma Steel Jinxi Rail	75,000,000	-	84,357,542	-	-	84,357,542
Jiyuan Chemical	18,000,000	-	18,000,000	-	-	18,000,000
		1,119,609,961	150,685,017	535,142,634		735,152,344
Less: Impairment		-	-	-		-
		1,119,609,961	150,685,017	535,142,634		735,152,344

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (ii) Associates (Continued)

Name of investee	Initial investment cost	Opening balance	2011		Including: Cash dividend received during the year	Closing balance
			Increase during the year	Decrease 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

Major financial information of associates is disclosed in note V.10.

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (iii) Subsidiaries

Name of investee	2012						Provision for impairment during the year
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Impairment loss	
Ma Steel International Trade Corp	50,000,000	50,000,000	-	-	50,000,000	-	-
Ma Steel Engineering Technology	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	-	-
Masteel (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	852,000,000	-	1,207,000,000	-	-
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 Scrap Steel	50,000,000	50,000,000	50,000,000	-	100,000,000	-	-
Shanghai Trading ①	60,000,000	60,000,000	-	-	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	-	-
MASTEEL-Financial	933,172,609	-	933,172,609	-	933,172,609	-	-
Hefei Materials Technology	70,000,000	-	70,000,000	-	70,000,000	-	-
Masteel Powder Metallurgy	51,000,000	-	51,000,000	-	51,000,000	-	-
Ma Steel Yuyuan Logistics ②	70,000,000	200,000,000	70,000,000	-	270,000,000	270,000,000	270,000,000
	<b>3,834,997,239</b>	<b>2,026,172,609</b>	<b>-</b>	<b>-</b>	<b>5,861,169,848</b>	<b>330,000,000</b>	<b>330,000,000</b>

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (iii) Subsidiaries (Continued)

① At 31 December 2012, the net worth of Maanshan (Shanghai) Industrial Trading Co., Ltd. and Maanshan Masteeel Yuyuan Logistics Co., Ltd. was negative. A full provision for impairment of long-term equity investments in these two subsidiaries was made after comparing the carrying amounts to the recoverable amounts of these long-term equity investments.

Name of investee	2011						Provision for impairment during the year
	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Impairment loss	
Ma Steel International Trade Corp	50,000,000	50,000,000	-	-	50,000,000	-	-
Ma Steel Engineering Technology	7,500,000	7,500,000	-	-	7,500,000	-	-
MG Control Technique	7,500,000	7,500,000	-	-	7,500,000	-	-
Anhui Masteeel 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	-	200,000,000	-	200,000,000	-	-
		1,200,552,795	2,634,444,444	-	3,834,997,239	-	-

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (iv) Other equity investments

Name of investee	2012				
	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 Maanshan heavy Industry Co., Ltd.	15,000,000	15,000,000	-	-	15,000,000
State Automobile (Beijing) Vehicle Lightweight	3,000,000	-	3,000,000	-	3,000,000
Others	1,450,000	1,450,000	-	-	1,450,000
		123,772,160	3,000,000	-	126,772,160
Less: Impairment		-	-	-	-
Total		123,772,160	3,000,000	-	126,772,160

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

#### (iv) Other equity investments (Continued)

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

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. ASSET IMPAIRMENT PROVISIONS

	2012					Closing balance
	Opening Balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	20,313,116	332,781,684	-	-	-	353,094,800
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	6,930,913	332,781,684	-	-	-	339,712,597
Provisions for inventories	735,706,316	1,414,882,827	-	1,803,236,534	-	347,352,609
Including: Raw materials	526,707,239	1,170,153,040	-	1,477,146,943	-	219,713,336
Semi-finished products	86,456,715	126,689,105	-	163,592,617	-	49,553,203
Finished products	61,316,046	118,040,682	-	161,922,586	-	17,434,142
Spare parts	61,226,316	-	-	574,388	-	60,651,928
Provisions for long term investments	-	330,000,000	-	-	-	330,000,000
Including: Subsidiary	-	330,000,000	-	-	-	330,000,000
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>843,874,168</b>	<b>2,077,664,511</b>	<b>-</b>	<b>1,891,091,270</b>	<b>-</b>	<b>1,030,447,409</b>



# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. ASSET IMPAIRMENT PROVISIONS (CONTINUED)

	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
	170,043,320	674,480,000	-	649,152	-	843,874,168

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2012	2011
Principal operating income	<b>53,948,884,313</b>	71,370,701,130
Other operating income	<b>3,784,957,883</b>	6,696,420,095
Total	<b>57,733,842,196</b>	78,067,121,225

Cost of sales is stated as follows:

	2012	2011
Principal cost of sales	<b>53,951,112,477</b>	70,096,935,250
Other cost of sales	<b>3,519,962,695</b>	6,187,184,796
Total	<b>57,471,075,172</b>	76,284,120,046

Principal operating income is stated as follows:

	2012	2011
Sale of steel products	<b>51,179,093,580</b>	62,945,297,567
Sale of steel billets and pig iron	<b>606,817,007</b>	544,402,209
Sale of coke by-products	<b>928,354,298</b>	948,850,444
Others	<b>1,234,619,428</b>	6,932,150,910
Total	<b>53,948,884,313</b>	71,370,701,130

# Notes to Financial Statements (Continued)

31 December 2012

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND COST OF SALES (CONTINUED)

In 2012, the revenue from the top five largest customers is as follows:

	Amount	Percentage of total revenue (%)
Company 1	<b>2,932,686,300</b>	<b>5</b>
Company 2	<b>2,494,789,722</b>	<b>4</b>
Company 3	<b>2,448,012,663</b>	<b>4</b>
Company 4	<b>2,104,444,792</b>	<b>4</b>
Company 5	<b>1,583,185,819</b>	<b>3</b>
Total	<b>11,563,119,296</b>	<b>20</b>

In 2011, the revenue from the top five largest customers is as follows:

	Amount	Percentage of 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	<b>13,548,420,485</b>	<b>17</b>

### 7. ASSET IMPAIRMENT LOSS

	2012	2011
Reversal of provision for bad debts	<b>332,781,684</b>	-
Including: Trade receivables	-	-
Other receivables	<b>332,781,684</b>	-
Provision for inventories	<b>1,414,882,827</b>	674,480,000
Provision of long term equity investments	<b>330,000,000</b>	-
Total	<b>2,077,664,511</b>	674,480,000

# Notes to Financial Statements (Continued)

31 December 2012  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 8. INVESTMENT INCOME

	2012	2011
Long term equity investment income under the equity method	<b>119,172,376</b>	130,918,471
Long term equity investment income under the cost method	<b>180,085,628</b>	75,411,319
Other investment income	<b>21,232</b>	282,605
Total	<b>299,279,236</b>	206,612,395

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

### 9. CASH FLOWS FROM OPERATING ACTIVITIES

	2012	2011
Net loss	<b>(4,085,768,158)</b>	(278,171,955)
Add: Provision for bad debts	<b>332,781,684</b>	-
Provision for inventories	<b>1,414,882,827</b>	674,480,000
Provision for long term equity investments	<b>330,000,000</b>	-
Depreciation of fixed assets	<b>3,022,117,200</b>	3,973,189,378
Amortisation of investment properties	<b>405,049</b>	405,049
Amortisation of intangible assets	<b>32,079,116</b>	32,079,116
Amortisation of deferred income	<b>(87,019,474)</b>	(78,457,832)
(Gain)/Loss on disposal of non-current assets	<b>(12,272,652)</b>	5,261,751
Financial expenses	<b>1,643,574,152</b>	653,730,652
Investment income	<b>(299,279,236)</b>	(206,612,395)
Loss on fair value changes of financial assets held for trading	<b>20,860</b>	218,660
Decrease in deferred tax assets	<b>(82,349,900)</b>	(117,425,843)
Decrease/(Increase) in inventories	<b>846,736,670</b>	(506,751,545)
Increase/(Decrease) in receivables from operating activities	<b>3,384,011,187</b>	(681,503,616)
Increase/(Decrease) in payables from operating activities	<b>(685,260,306)</b>	663,458,379
Net cash flows from operating activities	<b>5,754,659,019</b>	4,133,899,799

# Appendices Supplementary Information

31 December 2012

Renminbi Yuan

## 1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

	2012	2011 (Restated)
<b>Non-recurring gains or losses items</b>		
Profit/(loss) on disposal of non-current assets	<b>9,838,599</b>	(18,753,548)
Subsidy income	<b>47,577,837</b>	84,455,658
Amortisation of deferred income	<b>90,746,124</b>	82,109,482
Other non-operating income and expense items	<b>1,181,587</b>	(5,011,596)
Loss on fair value changes of financial assets held for trading	<b>(20,860)</b>	(218,660)
Other investment income	<b>137,155</b>	466,006
	<b>149,460,442</b>	143,047,342
Less: Income tax effect of non-recurring gains or losses	<b>63,286,618</b>	34,795,494
Non-recurring gains or losses attributable to minority shareholders	<b>254,650</b>	7,699,403
Net effect of non-recurring gains or losses	<b>85,919,174</b>	100,552,445
<b>Net profit attributable to equity holders of the parent excluding non-recurring gains or losses</b>		
Net profit/(loss) attributable to equity holders of the parent	<b>(3,863,232,545)</b>	82,369,208
Less: Net effect of non-recurring gains or losses	<b>85,919,174</b>	100,552,445
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(3,949,151,719)</b>	(18,183,237)

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 the CSRC.

# Appendices Supplementary Information (Continued)

31 December 2012  
Renminbi Yuan

## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

### 2012

	<u>Return on net assets</u>	<u>Earnings per share (RMB)</u>	
	(%)	Basic	Diluted
Net profit attributable to equity holders of the parent	<b>(15.30)</b>	<b>(0.502)</b>	<b>(0.502)</b>
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(15.64)</b>	<b>(0.513)</b>	<b>(0.513)</b>

### 2011(Restated)

	<u>Return on net assets</u>	<u>Earnings per share (RMB)</u>	
	(%)	Basic	Diluted
Net profit attributable to equity holders of the parent	0.30	0.011	0.011
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	<b>(0.07)</b>	<b>(0.002)</b>	<b>(0.002)</b>

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 the CSRC.

# Appendices Supplementary Information (Continued)

31 December 2012

Renminbi Yuan

## 3. VARIANCE ANALYSIS

In accordance with 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 of the financial statement items either with a fluctuation over 30% compared with the comparative period, or with an 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) Dividends receivable balances amounted to RMB46,800,000, a decrease of 53% over the previous year, which was mainly attributable to the receipt of dividends declared by associates, Jiyuan JinMa Coke and Henan LongYu Energy Co., Ltd, in previous years.
- (2) Prepayments amounted to RMB2,037,721,944, a decrease of 44% over the previous year, which was mainly attributable to the decrease of prepayments of steel trading.
- (3) Other receivable balances amounted to RMB469,008,747, a decrease of 32%, which was mainly attributable to the decrease of prepayments of import tariff and value-added tax which was prepaid in the previous year, and in the current year, the balance were paid directly instead of in the from of prepayment.
- (4) Loans and advances to customers amounted to RMB215,562,806, an increase of 1597%, which was mainly attributable to MASTEEL-Financial obtaining loan qualifications on April 2012. MASTEEL-Financial has expanded its business from discounting bills to discounting bills and loans.
- (5) Construction materials, plant and equipment amounted to RMB673,731,960, a 154% increase over FY2011. This is mainly because in FY2012 the Company's subsidiary Hefei Steel started a large project to develop high-end products. The expenditure was for the purchase of imported equipment and other construction materials.
- (6) Repurchase agreements is generated from the rediscounting of received discounted notes from the Group and its subsidiaries at the People's Bank of China. It amounted to RMB494,753,998, an increase of 626% over the previous year, which was mainly attributable to the business growth of MASTEEL-Financial.
- (7) Short term loans amounted to RMB9,777,449,423, an increase of 68% over the previous year, which was mainly attributable to the issuance of one-year short-term financing bonds amounting to RMB3.5 billion.
- (8) Other payables amounted to RMB1,058,965,107, an increase of 45% over the previous year, which was mainly attributable to the increase in the amount of sales price differences accrued but not yet paid, resulting from the decreased price of steel products.
- (9) Non-current liabilities due within one year amounted to RMB1,335,542,400, a decrease of 50% over the previous year, which was mainly attributable to the repayment of bank loans.

# Appendices Supplementary Information (Continued)

31 December 2012

Renminbi Yuan

## 3. VARIANCE ANALYSIS (CONTINUED)

- (10) Special reserves amounted to RMB14,768,610, an increase of 100% over the previous year, which was mainly attributable to the balance of accrue and use Safety production reserves, according to the “The Management Approach of Safety Production Reserves” which was issued in the current year.
- (11) General reserve amounted to RMB55,650,161, an increase of 43683% over the previous year, which was mainly attributable to MASTEEL-Financial comprehensively carrying out the loan and discounted bill business in the current year. The general reserve increased accordingly.
- (12) Exchange fluctuation reserve amounted to RMB30,510,424, an increase of 85% over the previous year, which was mainly attributable to the appreciation of certain overseas subsidiaries’ functional currencies against Renminbi.
- (13) Revenue amounted to RMB74,404,364,038, a decrease of 14% over the previous year, which was mainly attributable to the decrease in the selling price of steel products. Sales volume in the current year was essentially the same as that the prior year.
- (14) Cost of sales amounted to RMB72,840,274,575, a decrease of 13% over the previous year, which was mainly attributable to the decrease in the price of raw materials.
- (15) Financial expenses amounted to RMB1,463,236,344, an increase of 51% over the previous year, which was mainly attributable to the increase in the average amounts of bank loans in the current year.
- (16) Asset impairment losses amounted to RMB2,722,485,738, an increase of 302% over the previous year, which was mainly attributable to the accrual of impairment provision against other receivables and inventories.
- (17) Investment income amounted to RMB613,911,017, an increase of 327% over the previous year, which was mainly attributable to a disposal gain rising from losing control of a subsidiary, Masteel Yuyuan.
- (18) Non-operating expenses amounted to RMB3,498,367, a decrease of 86% over the previous year which was mainly attributable to the decrease in the disposal loss of fixed assets.
- (19) Income tax amounted to RMB54,205,870, a decrease of 53% over the previous comparative year, which was mainly attributable to the decrease in profit for the current year.
- (20) Profit or loss attributable to minority interests amounted to RMB62,709,119, a decrease of 48% over the previous comparative year, which was mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.





## XI. 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. Sun Zhongni, 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.