



本钢板材股份有限公司

BENGANG STEEL PLATES CO.,LTD.

Interim Report 2011

January 1 – June 30

(Prepared Under International Accounting Standard)

August 24, 2011

Important Statement

The Board of Directors and the directors of the Company guarantee that there are no significant omissions, fictitious or misleading statements carried in the Report and we will accept individual and joint responsibilities for the truthfulness, accuracy and completeness of the Report.

None of the directors, supervisors, or executives holds any opinion that is against the authenticity, accuracy and completeness of this report's content. Independent director Wang Yiqiu was on business trip and empowered independent director Tian bingfu to vote on her behalf.

Financial statements carried in this interim report are not audited.

Chairwoman of the Board – Ms. Zhang Xiaofang, Chief Financial Officer and General Manager – Mr. Cao Aimin, and Head of Accounting Dept. – Mr. Wang Shaoyu hereby declare: the authenticity and integrity of the report are guaranteed. This report is prepared both in English and Chinese. When there is any conflict in understanding, the Chinese version shall prevail.

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I. Company Profile

1. Legal Name of the Company in Chinese: 本钢板材股份有限公司
In English: BENGANG STEEL PLATES CO., LTD
English abbreviation: BSP
2. Legal representative: Zhang Xiaofang
3. Secretary of Board: Zhang Jichen
Securities Affairs Representatives: Mr. Lu Xiaoyong
Contact address: No.16, Renmin Road, Pingshan District, Benxi City, Liaoning
Tel: 0414 - 7828360 7828734
Fax: 0414 - 7824158 7827004
Email: bgbczjc761@126.com
4. Registered address: No.18 Guangtie Rd., Pingshan District, Benxi City, Liaoning
Office address: No.16, Renmin Road, Pingshan District, Benxi City, Liaoning
Post code: 117000
Email: bgbc761@126.com
5. Information disclosure media stipulated by the company: China Securities Journal, Security Times, Hong Kong Commercial Daily
Annual reports also published online at: <http://www.cninfo.com.cn>
Place where the annual report is prepared and ready for reference: Stock Affair Department of the Company
6. Stock Listed in: Shenzhen Stock Exchange
(1) Short Form of A-Shares: BENGANGBANCAI Stock Code: 000761
(2) Short Form of B-Shares: BENGANGBAN-B Stock Code: 200761
7. Misc. Information
Initial business registration on: June 27 1997
Business registration renewed on: June 15, 2007
Business registration renewed with: Liaoning Commerce & Industry Administration Bureau
Business license number: 210000004931633
Taxation registration number: 210502242690243
Public accountant engaged by the Company: Shulun Pan Certified Public Accountants Co., Ltd.
Address: 4/F 61 Nanjing Rd. East, Huangpu, Shanghai

II. Major Financial Information

1. Main indices

In RMB

| | Ended this report term | Ended previous year | Increase/decrease (%) |
|--|------------------------|-----------------------|-----------------------|
| Gross Assets (RMB) | 39,294,043,312.71 | 35,871,741,948.24 | 9.54% |
| Owners' equity attributable to the shareholders of the listed company (yuan) | 15,292,215,422.32 | 15,010,359,312.05 | 1.88% |
| Capital shares (shares) | 3,136,000,000.00 | 3,136,000,000.00 | 0.00% |
| Net asset per share attributable to the shareholders of the listed company (Yuan/share) | 4.88 | 4.79 | 1.88% |
| | Report term (Jan-Jun) | Same period last year | Increase/decrease (%) |
| Turnover (yuan) | 24,050,256,657.14 | 22,354,385,410.54 | 7.59% |
| Business profit (RMB) | 617,632,783.04 | 686,808,575.93 | -10.07% |
| Gross profit (RMB) | 628,365,457.52 | 693,493,263.72 | -9.39% |
| Net profit attributable to shareholders of the listed company (yuan) | 595,456,110.27 | 688,606,765.04 | -13.53% |
| Net profit after deducting of non-recurring gain/loss attributable to the shareholders of the listed company (RMB) | 587,406,604.41 | 683,593,249.20 | -14.07% |
| Basic earnings per share (Yuan/share) | 0.19 | 0.22 | -13.64% |
| Diluted earnings per share (Yuan/share) | 0.19 | 0.22 | -13.64% |
| Weighted average of ROE (%) | 3.93% | 4.77% | -0.84% |
| Weighted average net income/asset ratio less non-recurring gain/loss(%) | 3.88% | 4.73% | -0.85% |
| Net Cash flow generated by business operation (RMB) | 1,141,757,019.65 | 602,108,047.71 | 89.63% |
| Net Cash flow per share generated by business operation (yuan/share) | 0.36 | 0.19 | 89.47% |

2. Non-recurring profit/loss items

In RMB

| Non-recurring gain and loss items | Amount | Note (if applicable) |
|---|---------------|----------------------|
| Gain/loss of non-current assets | 105,882.56 | |
| Government subsidies accounted into current gain/loss account, other than those closely related to the Company ' s common business, comply with the national policy and continues to enjoy at certain fixed rate or amount. | 5,072,967.00 | |
| Gain/loss from debt reorganization | 1,602,521.42 | |
| Other non-business income and expenditures other than the above | 3,951,303.50 | |
| Influenced amount of income tax | -2,683,168.62 | |
| Total | 8,049,505.86 | - |

3. Diversity of domestic and international accounting standard

| | Net profit attributable to the shareholders of the listed company | | Owners' equity to shareholders of the listed company | |
|--|--|---------------------|--|-------------------|
| | Current term | Amount of last term | End of term | Beginning of term |
| On IAS | 595,456,110.27 | 688,606,765.04 | 15,292,215,422.32 | 15,010,359,312.05 |
| On domestic accounting standard | 595,456,110.27 | 688,606,765.04 | 15,292,215,422.32 | 15,010,359,312.05 |
| Individual and total of adjustment according to IAS | | | | |
| Total of differences between the IAS and domestic accounting standard | 0.00 | 0.00 | 0.00 | 0.00 |
| Statement on differences between the IAS and Chinese Accounting Standard | The differences between the new Chinese accounting standard and the international accounting standard make no influence on the net profit and the net asset of the term. | | | |

III. Change of Capital Share and Top Ten Shareholders

1. Change of share equity

| | Before the change | | Changed (+,-) | | | | | After the change | |
|---|-------------------|------------|-----------------------|--------------|---------------------------|--------|-----------|------------------|------------|
| | Amount | Proportion | Issuing of new shares | Bonus shares | Transferred from reserves | Others | Sub-total | Amount | Proportion |
| I. Shares with trading limited conditions | 2,038,413,400 | 65.00% | | | | | | 2,038,413,400 | 65.00% |
| 1. State-owned shares | | | | | | | | | |
| 2. State-owned legal person shares | 2,038,400,000 | 65.00% | | | | | | 2,038,400,000 | 65.00% |
| 3. Other domestic shares | | | | | | | | | |
| Incl. Non-government domestic legal person shares | | | | | | | | | |
| Domestic natural person shares | | | | | | | | | |
| 4. Share held by foreign investors | | | | | | | | | |
| Incl. Shares held by foreign legal persons | | | | | | | | | |
| Foreign natural person shares | | | | | | | | | |
| 5. Management shares | 13,400 | 0.00% | | | | | | 13,400 | 0.00% |
| II. Shares without trading limited conditions | 1,097,586,600 | 35.00% | | | | | | 1,097,586,600 | 35.00% |
| 1. Common shares in RMB | 697,586,600 | 22.24% | | | | | | 697,586,600 | 22.24% |
| 2. Foreign shares in domestic market | 400,000,000 | 12.76% | | | | | | 400,000,000 | 12.76% |
| 3. Foreign shares in overseas market | | | | | | | | | |
| 4. Others | | | | | | | | | |

| | | | | | | | | | |
|------------------------------|---------------|---------|--|--|--|--|--|---------------|---------|
| III. Total of capital shares | 3,136,000,000 | 100.00% | | | | | | 3,136,000,000 | 100.00% |
|------------------------------|---------------|---------|--|--|--|--|--|---------------|---------|

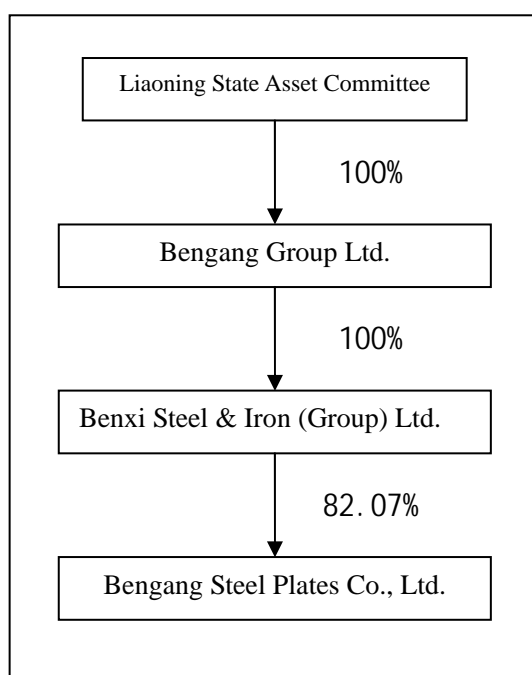
2. Particulars about the top 10 shareholders and top 10 unconditional-share holders

in shares

| Total of shareholders | | | | | | 58,211 |
|--|---------------------------|---|---------------|--|-------------------|--------|
| Top 10 Shareholders | | | | | | |
| Name of the shareholder | Properties of shareholder | Share proportion % | Total shares | Conditional shares | Pledged or frozen | |
| Benxi Steel (Group) Ltd. | State-owned legal person | 82.07% | 2,573,632,420 | | | |
| China Construction Bank – Shangtou Morgan China Advantage Securities Investment Fund | Domestic natural person | 1.65% | 51,760,321 | | | |
| DREYFUS PREMIER INVESTMENT FDS INC.-DREYFUS GREATER CHINA FD | Overseas natural person | 1.54% | 48,448,857 | | | |
| GOVERNMENT OF SINGAPORE INV. CORP.- A/C "C" | Overseas natural person | 0.81% | 25,259,648 | | | |
| NOMURA TST N BK CO.,LTD ATTF ASIA ATTR DIV STK FD MTH FD | Overseas natural person | 0.58% | 18,049,086 | | | |
| GSIC A/C MONETARY AUTHORITY OF SINGAPORE | Overseas natural person | 0.32% | 10,154,817 | | | |
| RENAISSANCE CHINA PLUS FUND | Overseas natural person | 0.22% | 6,986,716 | | | |
| APS CHINA ALPHA FUND | Overseas natural person | 0.15% | 4,616,701 | | | |
| BOCHK INVESTMENT FUNDS-BOCHK CHINA GOLDEN DRAGON FUND | Overseas natural person | 0.14% | 4,499,952 | | | |
| LSV EMERGING MARKETS EQUITY FUND,L.P. | Overseas natural person | 0.11% | 3,385,700 | | | |
| Top 10 holders of unconditional shares | | | | | | |
| Name of the shareholder | | Amount of shares without trade limited conditions | | Category of shares | | |
| Benxi Steel (Group) Ltd. | | 535,232,420 | | RMB common shares | | |
| China Construction Bank – Shangtou Morgan China Advantage Securities Investment Fund | | 51,760,321 | | RMB common shares | | |
| DREYFUS PREMIER INVESTMENT FDS INC.-DREYFUS GREATER CHINA FD | | 48,448,857 | | Foreign shares placed in domestic exchange | | |
| GOVERNMENT OF SINGAPORE INV. CORP.- A/C "C" | | 25,259,648 | | Foreign shares placed in domestic exchange | | |
| NOMURA TST N BK CO.,LTD ATTF ASIA ATTR DIV STK FD MTH FD | | 18,049,086 | | Foreign shares placed in domestic exchange | | |

| | | |
|--|--|--|
| GSIC A/C MONETARY AUTHORITY OF SINGAPORE | 10,154,817 | Foreign shares placed in domestic exchange |
| RENAISSANCE CHINA PLUS FUND | 6,986,716 | Foreign shares placed in domestic exchange |
| APS CHINA ALPHA FUND | 4,616,701 | Foreign shares placed in domestic exchange |
| BOCHK INVESTMENT FUNDS-BOCHK CHINA GOLDEN DRAGON FUND | 4,499,952 | Foreign shares placed in domestic exchange |
| LSV EMERGING MARKETS EQUITY FUND,L.P. | 3,385,700 | Foreign shares placed in domestic exchange |
| Notes to relationship or “ action in concert ” among the top ten shareholders. | It is unknown to the Company whether there is any related connection or ‘Action in Concert’ as described by Rules of Information Disclosing Regarding Changing of Shareholding Status of Listed Companies existing among the above shareholders. | |

3. Profile of the controlling shareholder



IV. Particulars about the Directors, Supervisors and Senior Executives

1. Shareholding position of the directors, supervisors and senior executives in the current term.

| Name | Position | Shares held at the beginning of term | Amount of shares increased in the report term | Amount of shares decreased in the report term | Shares held at the end of term | Cause of change |
|----------------|---------------------------------------|--------------------------------------|---|---|--------------------------------|-----------------|
| Zhang Xiaofang | Chairman | 0 | 0 | 0 | 0 | |
| Cao Aimin | Director, GM | 0 | 0 | 0 | 0 | |
| Zhang Jichen | Director, Secretary of the Board | 0 | 0 | 0 | 0 | |
| Tang Chaosheng | Director | 0 | 0 | 0 | 0 | |
| Tian Binfu | Independent Director | 0 | 0 | 0 | 0 | |
| Li Kai | Independent Director | 0 | 0 | 0 | 0 | |
| Wang Yiqiu | Independent Director | 0 | 0 | 0 | 0 | |
| Liu Junyou | Chairman of the supervisory committee | 0 | 0 | 0 | 0 | |
| Zhao Wei | Supervisor | 0 | 0 | 0 | 0 | |
| Liu Engquan | Supervisor | 0 | 0 | 0 | 0 | |
| Wang Pu | Supervisor | 0 | 0 | 0 | 0 | |
| Zhang Chuang | Supervisor | 0 | 0 | 0 | 0 | |
| Zhang guohua | Vice General Manager | 0 | 0 | 0 | 0 | |
| Zhang Guiyu | Vice General Manager | 0 | 0 | 0 | 0 | |
| Xie Huaidang | Vice General Manager | 0 | 0 | 0 | 0 | |

(Note: Mr. Yu Tianchen, formal Chairman of the Board is holding 13400 shares of the Company which are constrained to sale until July 2011.

2. Engaging and dismissing of directors, supervisors and executives.

(1) Mr. Yu Tianchen, former director and Chairman of Board, resigned from the positions due to change of job. As approved by the 4th meeting of the 5th term of Board held on January 20, 2011, Ms. Zhang Xiaofang, former Vice Chairwoman of Board was elected Chairwoman of the 5th term of Board. The resolutions are released by China Securities Journal, Securities Times, and Hong Kong Commercial Daily dated January 21, 2011.

(2) As approved at the 5th meeting of the 5th term of Board held on April 18, 2011, Mr. Nai Zuoxin resigned from the position of Vice General Manager. The resolutions are released by China Securities Journal, Securities Times, and

Hong Kong Commercial Daily dated April 20, 2011

(3) As approved at the Shareholders' Annual Meeting 2010 held on May 17, 2011, Mr. Tang Chaosheng was elected director of the 5th term of Board. The resolutions are released by China Securities Journal, Securities Times, and Hong Kong Commercial Daily dated May 18, 2011.

(4) As approved at the 6th meeting of the 5th term of Board held on May 17, 2011, Mr. Xie Huaidang was engaged Vice General Manager of the Company. The resolutions are released by China Securities Journal, Securities Times, and Hong Kong Commercial Daily dated May 18, 2011.

V. Report of the Board

1. Business Overview

In the first half of 2011, along with continuous increasing of raw materials and energy prices, the cost has been going up constantly and profitability was under great pressure. As the countermeasures, the Company kept improving its business operation, upgrading equipment and product lines. In the report term, the Company has been in a positive economical situation and laid a solid foundation for achieving of the annual goals.

For the period of January to June, the Company realized iron output of 4.7253 million ton, decreased by 2.12% from the same period of last year; steel output of 4.8845 million ton, decreased by 0.12%; hot-rolled plate of 4.3517 million ton, decreased by 5.53%; cool-rolled plate of 934.3 thousand ton, increased by 9.01%; and the sales rate reached 100%.

2. Operation in the report term

A. Distribution of main business in products

In RMB 10 thousand Yuan

| Segments on industries | | | | | | |
|------------------------|--------------|----------------|------------------------|---|---|---|
| On industry or product | Turnover | Operation cost | Gross profit ratio (%) | Increase/decrease of turnover over the same period of last year (%) | Increase/decrease of operation cost over the same period of last year (%) | Increase/decrease of gross profit ratio over the same period of last year (%) |
| Industry | 2,207,961.34 | 1,965,485.95 | 10.98% | 11.56% | 13.44% | -11.86% |
| Segments on products | | | | | | |
| Steel plate | 2,168,383.11 | 1,930,381.11 | 10.98% | 11.41% | 13.28% | -11.78% |
| Steel billet | 392.89 | 323.56 | 17.65% | 270.13% | 317.61% | -34.66% |
| Others | 39,185.33 | 34,781.28 | 11.24% | 19.47% | 22.58% | -16.66% |
| Total | 2,207,961.34 | 1,965,485.95 | 10.98% | 11.56% | 13.44% | -11.86% |

B. Distribution of main business in territories

In RMB 10 thousand Yuan

| Regions | Turnover | Change of income over last year % |
|------------|------------|-----------------------------------|
| North east | 840,444.96 | 20.29% |
| North | 317,571.01 | 7.65% |

| | | |
|-----------|--------------|---------|
| East | 511,802.93 | 15.53% |
| Northwest | 27,084.37 | 287.89% |
| Mid-south | 239,189.26 | 31.75% |
| Export | 271,868.81 | -23.18% |
| Total | 2,207,961.34 | 11.56% |

C. Investment of the report term

Utilizing of fund raised previously:

The fund raised in previous share placing has already been put into utilization completely. The details have been disclosed in the interim report and annual report of 2006.

In the report term, using of non-financing funds were as the followings:

In the first half of 2011, the Company has accomplished technical reconstruction investment of RMB610.65 million in total.

1. IT project: planned for RMB274.44 million of investment, started in 2005. RMB11.92 million invested in first half of 2011. Accumulated to RMB195.91 million at the end of report period (including: RMB159.55 million transferred from construction-in-process to fixed assets). Scheduled to be completed in 2012.
2. Super thin cool rolling reengineering project: planned for RMB1126.19 million of investment, started in 2006. RMB11.39 million invested the 1st half of 2011. Accumulated to RMB1027.44 million at the end of June 2011 (including RMB970.36 million of construction in process transferred to fixed assets). Scheduled to be completed in 2011.
3. Energy saving and environmental reengineering project of 180 ton converter system: planned for RMB1.37584 billion, started in 2007. RMB105.51 million was invested in 2011. Accumulated to RMB741.39 million at the end of June 2011 (including RMB533.99 million transferred from construction in process to fixed asset). Scheduled to be completed in 2012.
4. Dandong stainless steel cool rolling project: planned with investment of RMB2230 million, started in 2008. RMB283.79 million invested in the 1st half of 2011. Accumulated to RMB1008.48 million at end of June 2011. Scheduled to complete in 2011.
5. Cool rolled silicon steel project: planned with RMB603.35 million, started in 2009. RMB14.81 million invested in the first half of 2011 and accumulated to RMB396.11 million at the end of June 2011. Scheduled to be completed in 2011.
6. Plate billet flare clearing project: planned for RMB207.63 million of investment, started in 2010. RMB55.10 million invested in the first half of 2011, accumulated to RMB142.70 million at end of June 2011. (including RMB0.44 million of construction in process transferred to fixed assets). Scheduled to be completed in 2011.
7. Construction of 2250mm skin pass mill project: planned for RMB96.88 million, started in 2011. RMB7.43 million was invested in first half of 2011. Accumulated to RMB7.43 million at the end of June 2011. Scheduled to be completed in 2012.
8. Electro Galvanize project: planned for RMB700 million of investment, started in 2011. RMB64.19 million invested in the first half of 2011. Accumulated to

RMB64.19 million at the end of June 2011. Scheduled to be completed in 2012.

VI. Significant Events

1. Company Administration

The Company was following with the Company Law, Securities Law, Listed Company Administrative Criteria, Listed Company Shareholders' Meeting Criteria, Opinions on Increasing the Quality of Listed Companies, and Guidance for Articles of Association of Listed Companies, kept establishing and improving the administrative structure, and executed the regulations in daily operation. No behaviors violating or departure from the regulations were conducted. The controlling shareholder was acting its rights as sponsor legally. Basically no competition was conducted against the Company's business operation. The Company has established a long-term controlling shareholder behaving system. The shareholders' meetings have been operated with clear responsibilities and clear meeting criteria. Regulations were established to give convenient to the public investors to participate in decision making process. Online voting system was opened to public shareholders to vote on major issues of the Company. Shareholders' meetings were held legally according to the laws, regulations, regulatory regulations, and the Articles of Association. The Board of Directors, Supervisory Committee, and executives were working with clear responsibilities and meeting criteria. All of the directors, supervisors, and executives were fulfilling their duties. Administrative systems have been established regarding internal controlling, finance, decision-making over major investment, decision-making over related transactions, and other internal criteria. The systems are reviewed and assessed periodically, and relative information is released. The Company has also established internal restricting mechanism and responsibility tracking mechanism. Responsibilities are clearly undertaken and invalid decision-making is effectively restricted. Information disclosure regulations were established and executed to ensure authentic, precise, complete, timely, and fair information disclosure.

2. Dividend plan and execution

The profit distribution plan for year 2010 was as: upon the total capital share of 3,136,000,000, cash dividend of RMB1.00 (tax included) to be distributed to each 10 shares. The registration date of the distribution was July 4, 2011, the final trading date for B shares was July 4, 2011, and the ex-dividend date was July 5, 2011.

Neither dividend distribution nor capitalizing of common reserves will be implemented for the interim term.

No share equity motivation scheme has been implemented in the report term.

3. Material lawsuit and arbitrations

No material lawsuit and arbitrations occurred in the report term or carried down to the report term from previous terms.

In the report term, the Company held no share equities in other listed companies or financial organizations such as commercial banks, securities companies, insurance companies, trust companies, or futures companies.

4. Material asset acquisition, selling, and merger

No material asset acquisition, selling or merger occurred in the report term or carried down to the report term from previous terms.

5. Material Events about Related Transactions

(1) Parent company of the Company (RMB100 million)

| Name of the parent co. | Relationship | Ownership type | Reg. Add. | Legal representative | Business property | Registered capital |
|-------------------------------|----------------|-------------------|-----------|----------------------|-------------------|--------------------|
| Benxi Steel (Group) Co., Ltd. | Parent company | Fully state-owned | Benxi | Zhang Xiaofang | Production | 53.69 |

(Continued)

| Name of the parent co. | Shareholding portion of the parent co. | Voting power of the parent co. | Substantial holder of the Company | Organization code |
|-------------------------------|--|--------------------------------|--|-------------------|
| Benxi Steel (Group) Co., Ltd. | 82.07 | 82.07 | Liaoning Provincial State-asset Administration | 11972626-3 |

(2) Subsidiaries of the Company

In RMB 10 thousand

| Name of the subsidiaries | Ownership of the subsidiary | Ownership type | Reg. Add. | Legal representative | Business property |
|--|-----------------------------|-------------------|------------|----------------------|-------------------|
| Xiamen Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Xiamen | Zhang Guoming | Sales |
| Wuxi Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Wuxi | Wen Yonggang | Sales |
| Tianjin Bengang Steel Trading Ltd. | Fully-owned subsidiary | Limited liability | Tianjin | Liu Chuang | Sales |
| Nanjing Bengang Material Sales Ltd. | Fully-owned subsidiary | Limited liability | Nanjing | Pang Zonghua | Sales |
| Yantai Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Yantai | Wang Lixin | Sales |
| Harbin Bengang Steel & Iron Sales Ltd. | Fully-owned subsidiary | Limited liability | Harbin | Fei Jixi | Sales |
| Changchun Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Chang Chun | Wang Jun | Sales |
| Guangzhou Bengang Trade Co., Ltd. | Fully-owned subsidiary | Limited liability | Guangzhou | Wu Shaogang | Sales |
| Shanghai Metallurgy Tech Co., Ltd. | Fully-owned subsidiary | Limited liability | Shanghai | Fei Jixi | Sales |
| Bengang Steel Plate Liaoyang Orel Ball Co., Ltd. | Fully-owned subsidiary | Limited liability | Liaoyuang | Wang Zhengzhi | Production |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | Controlled subsidiaries | Limited liability | Dalian | Wang Shu | Production |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | Fully-owned subsidiary | Limited liability | Dandong | Yu Tianchen | Production |

(Continued)

| Name of the subsidiaries | Registered capital | Share portion % | Voting power % | Organization code |
|--|--------------------|-----------------|----------------|-------------------|
| Xiamen Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 73788827-8 |
| Wuxi Bengang Steel Sales Ltd. | 100.00 | 100.00 | 100.00 | 73654820-4 |
| Tianjin Bengang Steel Trading Ltd. | 300.00 | 100.00 | 100.00 | 74135658-1 |
| Nanjing Bengang Material Sales Ltd. | 115.00 | 100.00 | 100.00 | 75945466-5 |
| Yantai Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 74451514-6 |
| Harbin Bengang Steel & Iron Sales Ltd. | 50.00 | 100.00 | 100.00 | 73137417-X |
| Changchun Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 74841484-4 |
| Guangzhou Bengang Trade Co., Ltd. | 100.00 | 100.00 | 100.00 | 68328959-4 |
| Shanghai Metallurgy Tech Co., Ltd. | 500.00 | 100.00 | 100.00 | 68408762-8 |
| Bengang Steel Plate Liaoyang Orel Ball Co., Ltd. | 1,000.00 | 100.00 | 100.00 | 68968094-9 |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | 10,000.00 | 65.00 | 65.00 | 55498444-3 |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | 16,000.00 | 100.00 | 100.00 | 69941004-5 |

(3) Other related parties

| Name of the related parties | Relationship with the Company | Organization code |
|---|-------------------------------|-------------------|
| Benxi Steel (Group) Machinery Co., Ltd. | Same parent | 701577718 |
| Bengang Group International Trading Ltd. | Same parent | 701581055 |
| Benxi Steel (Group) Tengda Holdings Ltd. | Same parent | 11968922-0 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | Same parent | 231289622 |
| Shanghai Bengang Steel & Iron Trading Co., Ltd. | Same parent | 784796085 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | Same parent | 78458403-1 |
| Dalian Boluole Steel Tube Ltd. | Same parent | 60480260-2 |
| Benxi Steel (Group) Steel Process and Logistics Co., Ltd. | Same parent | 752795993 |
| Benxi Steel (Group) Construction & Repairing Co., Ltd. | Same parent | 701578219 |
| Bengang Fire-resistance Material Co. | Same parent | 78124925-8 |
| Benxi Steel (Group) Metallurgy Residues Co., Ltd. | Same parent | 701578155 |
| Liaoning Metallurgy Technician College | Same parent | 463564144 |
| Benxi Steel (Group) Industrial Development Co., Ltd. | Same parent | 701578120 |
| Benxi Steel (Group) Construction Co., Ltd. | Same parent | 119726538 |
| Yinkou Bengang International Logistics Co., Ltd. | Same parent | 74712716-5 |
| Benxi Steel (Group) Real-estate Development Co., Ltd. | Same parent | 819664921 |
| Benxi Steel (Group) Education Center | Same parent | 463567636 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | Same parent | 74710835-1 |
| Benxi Steel (Group) Designing Institute | Same parent | 78510290-3 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Same parent | 752798182 |
| Benxi Steel (Group) News Center | Same parent | 774640431 |
| Benxi Steel (Group) New Industrial Development Co., Ltd. | Same parent | 701578198 |
| Benxi Steel (Group) Mining Co., Ltd. | Same parent | 701577726 |
| Benxi Steel (Group) Electronics Co., Ltd. | Same parent | 781648511 |
| Benxi Steel (Group) Thermal Power Development Co., Ltd. | Same parent | 701579297 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Same parent | 717851072 |
| Benxi Steel & Iron (Group) Inspection Co., Ltd. | Same parent | 736708677 |

(4) Related party transactions

1. For those subsidiaries with holding relationship have been included in the consolidated financial statement, thus the trade among them and with the parent company have been neutralized.

2. Related transactions of product sales and providing of services

In RMB 10 thousand

| Related parties | Subjects of the related transactions | Amount of the Current Term | | Amount of the Previous Term | |
|--|--------------------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| | | Amount | Portion in similar trade % | Amount | Portion in similar trade % |
| | | RMB0'000 | | RMB0'000 | |
| Benxi Steel & Iron (Group) Ltd. | Material and parts | 525.77 | 0.02 | 19,269.33 | 0.86 |
| Benxi Steel & Iron (Group) Ltd. | Power supply | 477.77 | 0.02 | 62.39 | 0 |
| Dalian Boluole Steel Tube Ltd. | Products | 3,418.00 | 0.14 | 2,234.11 | 0.1 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | Products | 0.00 | 0.00 | 2,265.29 | 0.1 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | Products | 13,002.13 | 0.54 | 17,095.78 | 0.76 |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | Products | 17,807.54 | 0.74 | 15,127.06 | 0.68 |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | Power supply | 48.26 | 0.00 | 56.23 | 0 |
| Bengang Group Dahe Industry Co., Ltd. | Power supply | 49.68 | 0.00 | 18.17 | 0 |
| Benxi Steel (Group) Industrial Development Ltd. | Material and parts | 4,244.18 | 0.18 | 3,654.62 | 0.16 |
| Benxi Steel (Group) Industrial Development Ltd. | Power supply | 120.79 | 0.01 | 111.95 | 0.01 |
| Benxi Steel (Group) Construction Ltd. | Material and parts | 5,058.73 | 0.21 | 14.63 | 0 |
| Benxi Steel (Group) Construction Ltd. | Power supply | 401.68 | 0.02 | 447.73 | 0.02 |
| Bengang Group Machinery Ltd. | Power supply | 1,339.91 | 0.06 | 1,807.37 | 0.08 |
| Bengang Group Mineral Co., Ltd. | Material and parts | 55,517.41 | 2.31 | 83,266.60 | 3.72 |
| Bengang Group Mineral Co., Ltd. | Power supply | 39,370.62 | 1.64 | 21,102.64 | 0.94 |
| Bengang Group Mineral Co., Ltd. | Freight income | 459.91 | 0.02 | 499.76 | 0.02 |
| Bengang Group New Industry Development Co., Ltd. | Power supply | 45.51 | 0.00 | 32.95 | 0 |
| Benxi Steel (Group) Repairing & Building Ltd. | Material and parts | 87.76 | 0.00 | 169.73 | 0.01 |
| Benxi Steel (Group) Repairing & Building Ltd. | Power supply | 61.30 | 0.00 | 112.26 | 0.01 |
| Bengang Group Metallurgy Residue Ltd. | Material and parts | 8,999.65 | 0.37 | 6,808.84 | 0.3 |
| Bengang Group Metallurgy Residue Ltd. | Power supply | 280.37 | 0.01 | 3,637.7 | 0.16 |
| Bengang Electronics Co., Ltd. | Power supply | 33.25 | 0.00 | 137.98 | 0.01 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Products | 378,172.84 | 15.72 | 322,960.34 | 14.45 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Material and parts | 23,385.46 | 0.97 | 25,427.75 | 1.14 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Power supply | 19,266.90 | 0.80 | 19,211.78 | 0.86 |
| Bengang Group Thermal Power Development Co., Ltd. | Power supply | 4,245.53 | 0.18 | 5,274.33 | 0.24 |
| Bengang Group Thermal Power Development Co., Ltd. | Material and parts | 2,976.63 | 0.12 | 4,036.66 | 0.18 |
| Bengang Group Property Co., Ltd. | Power supply | 264.35 | 0.01 | 227.22 | 0.01 |
| Bengang Fire-resistance Material Co. | Material and parts | 2,322.33 | 0.10 | | |
| Bengang Fire-resistance | Power supply | | 0.03 | 3,825.04 | 0.17 |

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| | | Amount of the Current Term | | Amount of the Previous Term | |
|---|----------------|----------------------------|--------------|-----------------------------|--------------|
| | | Amount | | Amount | |
| Material Co. | | 672.60 | | | |
| Bengang Fire-resistance Material Co. | Freight income | 68.52 | 0.00 | 1,334.8 | 0.06 |
| Tianjin Bengang Steel Plate Processing and Delivery Co., Ltd. | Products | 112.37 | 0.00 | 0.00 | 0.00 |
| Total | | 582,837.74 | 24.23 | 560,231.01 | 25.06 |

3. Related transactions of purchasing of products and accepting of services

In RMB 10 thousand

| Related parties | Subjects of the related transactions | Amount of the Current Term | | Amount of the Previous Term | |
|--|--------------------------------------|----------------------------|---------------------------|-----------------------------|---------------------------|
| | | Amount | Portion in annual trade % | Amount | Portion in annual trade % |
| | | RMB0'000 | | RMB0'000 | |
| Benxi Steel & Iron (Group) Ltd. | Raw materials | 18.92 | 0.00 | 128.12 | 0.01 |
| Benxi Steel & Iron (Group) Ltd. | Land using rights | 2,871.30 | 0.13 | 0.00 | 0.00 |
| Benxi Steel & Iron (Group) Ltd. | Maintaining | 12,443.89 | 0.58 | 7356.52 | 0.37 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Raw materials | 194,583.46 | 9.02 | 124,100.99 | 6.32 |
| Bengang Group Mineral Co., Ltd. | Repairing services | 94.18 | 0.00 | 176.31 | 0.01 |
| Bengang Group Mineral Co., Ltd. | Raw materials | 244,431.62 | 11.33 | 181,706.58 | 9.25 |
| Bengang Group Mineral Co., Ltd. | Transportation | 0.00 | 0.00 | 3.59 | 0.00 |
| Bengang Group Metallurgy Residue Ltd. | Raw materials | 4,247.47 | 0.20 | 4,360.01 | 0.22 |
| Bengang Group Steel Process & Logistics Ltd. | Process fee | 56.65 | 0.00 | 220.74 | 0.01 |
| Bengang Group Property Development Ltd. | Raw materials | 2,040.83 | 0.09 | 3217.25 | 0.16 |
| Bengang Group Property Co., Ltd. | Rental | 0.00 | 0.00 | 3.76 | 0.00 |
| Bengang Group Property Co., Ltd. | Property management fee | 8.72 | 0.00 | 164.73 | 0.01 |
| Bengang Group Property Management Center | Property management fee | 61.66 | 0.00 | 0.00 | 0.00 |
| Bengang Group Machinery Ltd. | Spare parts | 15,785.40 | 0.73 | 16,767.73 | 0.85 |
| Bengang Group Machinery Ltd. | Repairing services | 2,579.39 | 0.12 | 518.55 | 0.03 |
| Bengang Group Machinery Ltd. | Raw materials | 92.69 | 0.00 | 132.29 | 0.01 |
| Bengang Group Construction Ltd. | Spare parts | 4,498.07 | 0.21 | 547.32 | 0.03 |
| Bengang Group Construction Ltd. | Repairing services | 28,081.12 | 1.30 | 22,163.08 | 1.13 |
| Bengang Group Construction Ltd. | Raw materials | 139.46 | 0.01 | 527.88 | 0.03 |
| Bengang Group Construction Ltd. | Transportation | 102.35 | 0.00 | 214.25 | 0.01 |
| Benxi Steel (Group) Industrial Development Ltd. | Spare parts | 18.47 | 0.00 | 26.26 | 0.00 |
| Benxi Steel (Group) Industrial Development Ltd. | Raw materials | 14,189.66 | 0.66 | 7,099.90 | 0.36 |
| Benxi Steel (Group) Industrial Development Ltd. | Repairing services | 898.15 | 0.04 | 656.02 | 0.03 |
| Benxi Steel (Group) Industrial Development Ltd. | Transportation | 264.20 | 0.01 | 585.3 | 0.03 |
| Benxi Steel (Group) Construction Ltd. | Material and parts | 277.03 | 0.01 | 1272.22 | 0.06 |
| Benxi Steel (Group) | Maintaining | 4,884.46 | 0.23 | 7,501.75 | 0.38 |

| | | Amount of the Current Term | | Amount of the Previous Term | |
|--|---------------------|----------------------------|--------------|-----------------------------|--------------|
| | | Amount | | Amount | |
| Construction Ltd. | | | | | |
| Bengang Electronics Co., Ltd. | Raw materials | 6,516.22 | 0.30 | 4779.39 | 0.24 |
| Bengang Electronics Co., Ltd. | Repairing services | 447.64 | 0.02 | 1022.71 | 0.05 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | Spare parts | 982.03 | 0.05 | 926.69 | 0.05 |
| Bengang Group New Industry Development Co., Ltd. | Labour security fee | 59.89 | 0.00 | 103.92 | 0.01 |
| Liaoning Metallurgy Technician College | Spare parts | 544.49 | 0.03 | 837.69 | 0.04 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Spare parts | 52.97 | 0.00 | 349.45 | 0.02 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Repairing services | 3,129.27 | 0.15 | 2268.76 | 0.12 |
| Bengang Group Thermal Power Development Co., Ltd. | Heating fee | 100.16 | 0.00 | 11.74 | 0.00 |
| Bengang Fire-resistance Material Co. | Raw materials | 14,521.98 | 0.67 | 18,277.22 | 0.93 |
| Bengang Designing & Researching Institute Ltd. | Repairing services | 204.60 | 0.01 | 846.1 | 0.04 |
| Benxi Steel (Group) Trucking Ltd. | Freight | 2,663.85 | 0.12 | 0.00 | 0.00 |
| Total | | 561,892.25 | 26.05 | 408,874.82 | 20.81 |

Pricing policies at trading with related parties:

(1) On December 28, 2005 and June 26, 2008, and April 15, 2009, the Company entered the "Land Rent Contract", "Land Rent Contract Supplementary", "Land Rent Contract Supplementary II" and "Material and Service Providing Agreement" on April 18, 2011 with Bengang Group, which set out the providing of raw materials, supplementary materials, supporting serves, trade mark, patent, and land renting by the Group to the Company; as well as sales of products, supplementary materials, power, spare parts, and waste materials to the Group.

A: The pricing of subjects purchased from Bengang Group:

Pricing of raw materials:

Price of fine iron ore will not higher than the average customs C&F price from countries like Brazil and Australia in the last half year, plus inland freight, port fee, and quality adjustment price.

Quality adjustment on prices will be basing on the weighted average of imported fine iron ore in the first half of year, and on the basis of 10 yuan per ton to 1% of quality difference.

The price for iron ore pellets is according to the market price at same quality. The price for recycled steel will not be higher than the weighted average of the recycled steel the Company purchased from the independent 3rd parties in the previous month, and to be decided upon negotiation.

The prices for steel billet are on current market price. In case of no market price available, the full cost plus tax and reasonable profit will be adopted. The price for cool hard plate is decided at the weighted average of the hot rolled plate the Company sold to the independent 3rd parties in the previous month plus processing fee, the processing fee is revised once a year, which is RMB363 (tax excluded) per ton for 2011.

Cool plate and galvanized sheet are on market prices.

Fine iron ore supplied by the subsidiary of the Group located in HK to the Company

are priced as sum of purchase price of the subsidiary of the Group and the financial expenses occurred during the credit period. Such prices shall not higher than the average price of fine iron ore in similar quality the Company could purchase from the market plus the interest paid for domestic loans at the same period.

Pricing of auxiliary materials: limestone, fire resistance material and auxiliary materials provided by Bengang Group will be at market price.

Pricing of spare parts: the spare parts manufactured by the Group itself will be at market price.

Rental for the 2300mm hot rolling line is decided by the "Lease Agreement".

Trucking service: on market price.

Pricing of the heating service of the dwelling house for staff and workers: carried out according to the price set forth by the national government.

Workshop and equipment maintaining services: maintaining services are priced upon negotiation. Designing and engineering service will be at national government price.

Construction service: construction services provided by Bengang Group to the Company will be at market price.

Printing, newspapers, media and other publications: on national government price.

Education facilities and services: education facilities, vocational education programs, and onsite training courses provided by Bengang Group are at market price.

Agent service: before the Company is authorized to do import & export trade, the international business is done by Bengang Group. All business are on normal commercial operation. Commissions are decided through negotiation within the range of 0.5%-1.5% of the total value of the goods.

When the Company is authorized to do import & export trade, the agent service can be terminated on beforehand notice. Bengang Group is not the sole agent of the Company, namely the Company has the right to choose another party to do the agent.

Pricing of telephone, fax and the TV service: carried out according to the price set forth by the national government.

Office spaces: on market price during the effective period of this agreement.

Car service: on market price during the effective period of this agreement.

Property management: on market price during the effective period of this agreement.

Packing service: on market price during the effective period of this agreement.

Labor safety services: on market price during the effective period of this agreement.

Pricing of trademark: Bengang Group allows the Company to use "Bengang" trademark by free. However the Company can't allow any other parties to use it. The Company has the right to register its own trademark at any time.

For the hot plate processing services provided by Bengang Group to the Company, the price is fixed to RMB73 per ton, which is the practical processing cost

of Bengang Group. The price will be reconsidered once a year.

For the low-grade ore powder processing service provided by the Group to the Company, the price is fixed to RMB50 per ton, which is the practical processing cost of Bengang Group. The price will be reconsidered once a year.

For the iron resource (for instance steel residue or residue mud) processing service provided by the Group to the Company, the price is decided according to the practical processing cost of Bengang Group as the followings:

Refined steel residue powder: RMB325 per ton;

Dried residue mud: RMB154 per ton;

Minor type combined materials: RMB64 per ton;

Processing fees are reconsidered once a year.

Steel materials: For steel products provided by Bengang Group to the Company (including but not limited to plates, long steels, and cast pipes), the prices shall be the weighted average of prices sold by the Group to the 3rd parties in the previous month

Fuel and energy, supporting materials, equipment, spare parts: For the raw materials, fuel, supplementing materials, equipment, and spare parts provided by Bengang Group to the Company, the prices will be decided by the purchasing prices of the Group plus 0.5-1.5% of purchasing expenses.

B: Pricing of sales to Bengang Group:

Hot-rolled steel sheet: carried out according to the weighting average price of the same quality products which our company sold to the independent third party in the previous month.

Coke, ore ball, and chemical products manufactured by Bengang Steel Plates and provided to Bengang Group are on market prices.

For steel billet provided by the Company to the Group, prices shall be decided by the market price of the same month.

If no current market price available, the price shall be decided upon the complete cost of the month plus national taxes and reasonable profit.

Steel and iron residue is on market price.

Pricing of public service: Power supply to the Group was on the market price plus transferring cost. The supplies from the Company to Bengang Group, i.e. oxygen, nitrogen, argon, blast furnace gas, coke furnace gas, steam, clean water, fresh water, recycling water, and soft water, are at complete costs plus national surplus tax and reasonable profit.

Railway transportation, quality test, measuring, weighting: at national price.

Iron and steel scrap, including the iron material: carried out according to the market price.

Raw material, supplementary material and spare parts: based on purchase price of the Company plus 0.5%-1.5% purchasing fee.

R&D service: R&D that Bengang Group can't do by itself are provided by the Company. The expenses shall be the national price.

Land rent from Bengang Group to the Company, it was agreed to carry forward the Land Using Right Rent Agreement " which is effective at present. Namely the price is RMB6.24 /m²/year.

4. Leasing to and from related parties

Remarks on the rental with related party:

In 2009, the Company leased 2300mm hot rolling mill production line from shareholder Benxi Steel (Group) Co., Ltd. The value of the whole line amounts to 5 billion RMB. The stage from the effective date of the lease contract to December 31st, 2009 is a testing period. Benxi Steel (Group) Co., Ltd charged no rent and any loss related to the lease subject is borne by Benxi Steel (Group) Co., Ltd and the profit belongs to the company if there is any. The second stage: From January 1st 2010 to the end of the lease period, the company will pay 30% of the profit to Benxi Steel (Group) Co., Ltd as rent, and the annual rent will be no more than 5%(excluding 5%) of the audited net assets, and any loss related to the lease subject will be borne by the company. During Jan – Jun 2011, the 2300mm hot rolling line has primarily contributed profit of RMB500 million. RMB150 million of rental provided in advance.

5. Guarantees provided amongst related parties

| The guarantor | The beneficiary | Amount guaranteed | Start date | Due date | Completed or not |
|---------------------------|--------------------------------|--------------------|------------|------------|------------------|
| Guarantees for bank loans | | | | | |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2011-3-4 | 2012-3-3 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2007-12-3 | 2012-7-25 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥70,000,000.00 | 2007-4-30 | 2014-4-29 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥130,000,000.00 | 2007-4-30 | 2014-4-29 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2007-12-3 | 2012-7-25 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥400,000,000.00 | 2008-4-29 | 2013-4-15 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2010-7-1 | 2013-6-30 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥300,000,000.00 | 2010-7-2 | 2013-6-1 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥310,000,000.00 | 2010-7-2 | 2013-7-1 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2010-4-29 | 2013-4-28 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$60,000,000.00 | 2009-9-11 | 2012-9-10 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-9-25 | 2012-9-24 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-10-12 | 2012-8-24 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$24,000,000.00 | 2009-10-20 | 2012-10-18 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-10-21 | 2012-10-5 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | JPY 382,423,928.57 | 1997-9-10 | 2027-9-10 | No |

Notes to guarantees amongst related parties: Benxi Steel & Iron (Group) Co., Ltd. provides guarantees for long-term and short-term loans.

6. Receivable and payables due with related parties

Receivable accounts due from related parties

| Related parties | End of term RMB0'000 | | Beginning of term RMB0'000 | |
|--|----------------------|--------------------|----------------------------|--------------------|
| | Book balance | Bad debt provision | Book balance | Bad debt provision |
| Account receivable | | | | |
| Bengang Group Machinery Ltd. | 9,469.11 | 698.83 | 8,729.28 | 698.83 |
| Bengang Group Thermal Power Development Co., Ltd. | 1,111.65 | | 1,650.90 | |
| Benxi Steel (Group) Repairing & Building Ltd. | 1,519.99 | | 1754.4 | |
| Benxi Steel (Group) Construction Ltd. | 669.53 | 13.00 | 1,691.40 | 13.00 |
| Benxi Steel (Group) Industrial Development Ltd. | 4,653.99 | 24.54 | 6,540.99 | 24.54 |
| Bengang Group New Industry Development Co., Ltd. | 387.46 | 282.76 | 651.91 | 282.76 |
| Bengang Group Metallurgy Residue Ltd. | 1,422.27 | | 2,176.32 | |
| Benxi Steel (Group) Medical Co. Ltd. | 54.72 | 2.28 | 54.72 | 2.28 |
| Sub-total | 19,288.72 | 1,021.41 | 23,249.92 | 1021.41 |
| Prepayments | | | | |
| Benxi Steel (Group) Repairing & Building Ltd. | 901.21 | | 0.00 | |
| Benxi Steel (Group) Construction Ltd. | 6,287.17 | | 2,295.51 | |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 0.00 | | 516.94 | |

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| Related parties | End of term RMB0'000 | | Beginning of term RMB0'000 | |
|--|----------------------|--------------------|----------------------------|--------------------|
| | Book balance | Bad debt provision | Book balance | Bad debt provision |
| Sub-total | 7,188.38 | 0.00 | 2,812.45 | 0.00 |
| Other account receivable | | | | |
| Bengang Group Inspection Co., Ltd. | 25.00 | 25.00 | 25.00 | 25.00 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 106.87 | | 14.54 | - |
| Benxi Steel (Group) Real-estate Development Co., Ltd. | 571.21 | 11.15 | 700.4 | 11.15 |
| Benxi Steel (Group) Electronics Co., Ltd. | 230.76 | | 163.63 | |
| Benxi Steel (Group) Education Center | 27.1 | | 27.1 | |
| Benxi Steel (Group) Co., Ltd. | 195.43 | | 52.2 | |
| Sub-total | 1,156.36 | 36.15 | 982.87 | 36.15 |

Account payable due to related parties

| Related parties | End of term RMB0'000 | Beginning of term RMB0'000 |
|--|----------------------|----------------------------|
| Account payable | | |
| Bengang Group International Trading Ltd. | 117,774.78 | 183,896.93 |
| Bengang Fire-resistance Material Co. | 9,579.67 | 9,844.87 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 283.66 | 457.33 |
| Liaoning Metallurgy Technician College | 323.51 | 979.03 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 209.34 | 280.13 |
| Bengang Group New Industry Development Co., Ltd. | 3.86 | 775.14 |
| Bengang Group Property Co., Ltd. | 413.33 | 921.53 |
| Bengang Group Construction Inspection Co., Ltd. | 0.00 | 8.80 |
| Bengang Group Machinery Ltd. | 7,750.30 | 3,849.04 |
| Benxi Steel (Group) Construction Ltd. | 29,901.85 | 52,105.38 |
| Bengang Group Mineral Co., Ltd. | 59,279.62 | 45,136.74 |
| Benxi Steel (Group) Industrial Development Ltd. | 9,121.28 | 12,418.05 |
| Benxi Steel (Group) Repairing & Building Ltd. | 9,073.85 | 16,682.52 |
| Bengang Group Metallurgy Residue Ltd. | 889.49 | 2,118.73 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 4,143.85 | 3,436.69 |
| Bengang Group Electronics Co., Ltd. | 613.32 | 1,811.18 |
| Benxi Steel (Group) Designing Institute | 2,763.02 | 5,784.26 |
| Benxi Steel (Group) Education Center | 34.15 | 372.47 |
| Benxi Steel (Group) Thermal Power Development Co., Ltd. | 319.56 | 115.29 |
| Sub-total | 252,478.44 | 340,994.11 |
| Notes payable | | |
| Benxi Steel (Group) Construction Ltd. | 87.76 | 69.60 |
| Benxi Steel (Group) Industrial Development Ltd. | 286.57 | 994.69 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 0.00 | 59.98 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 0.00 | 123.84 |
| Bengang Group New Industry Development Co., Ltd. | 0.00 | 16.63 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 96.18 | 14.50 |
| Bengang Group Machinery Ltd. | 0.00 | 15.04 |
| Bengang Group Property Co., Ltd. | 0.00 | 21.45 |
| Bengang Electronics Co., Ltd. | 15.41 | 32.00 |
| Bengang Group Construction and Repairing Co., Ltd. | 14.20 | 35.50 |
| Liaoning Metallurgy Technician College | 0.00 | 34.56 |
| Sub-total | 500.11 | 1,417.79 |
| Other account payable | | |
| Bengang Group Machinery Ltd. | 120.55 | 4.53 |
| Benxi Steel (Group) Repairing & Building Ltd. | 8.00 | 56.69 |
| Benxi Steel (Group) Industrial Development Ltd. | 185.47 | 354.13 |
| Benxi Steel (Group) Construction Ltd. | 523.01 | 783.98 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 49.45 | 87.54 |
| Bengang Group New Industry Development Co., Ltd. | 282.28 | 1.00 |

| Related parties | End of term RMB0'000 | Beginning of term RMB0'000 |
|---|----------------------|----------------------------|
| Benxi Electronics Co., Ltd. | 21.23 | 1.00 |
| Bengang Group Training Center | 2.78 | 2.78 |
| Bengang Group Mineral Co., Ltd. | 82.97 | 3.54 |
| Benxi Steel (Group) Ltd. | 18,280.01 | 28,125.70 |
| Benxi Steel (Group) News Center | 216.79 | 422.69 |
| Bengang Trucking & Transportation Co., Ltd. | 2,019.48 | 2,047.21 |
| Bengang Group Thermal Power Development Co., Ltd. | 1,431.21 | 1,438.56 |
| Sub-total | 23,223.22 | 33,329.35 |
| Advances received | | |
| Dalian Boluole Steel Tube Ltd. | 702.14 | 1,146.25 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 37,838.87 | |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | 1,810.54 | 634.04 |
| Benxi Steel (Group) Construction Ltd. | 17.58 | 17.58 |
| Benxi Steel (Group) Industrial Development Ltd. | 17.86 | 1.85 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | 2,354.58 | 2,745.58 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 1.02 | 120.18 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 5,057.01 | 3,932.11 |
| Shanghai Bengang Steel & Iron Trading Co., Ltd. | 1,848.13 | 548.13 |
| Tianjin Bengang Steel Plate Processing and Delivery Co., Ltd. | 2,024.36 | 2,386.46 |
| Benxi Steel (Group) Machinery Co., Ltd. | 57.17 | 233.05 |
| Tianjin Bengang Longxing Steel Processing Co., Ltd. | 1,599.14 | 300.00 |
| Sub-total | 53,328.38 | 12,065.23 |

6. Other significant issues, their influences, and resolutions

- (1) No security investment and gains in the report term;
- (2) The Company was not holding other PLCs' shares in the report term;
- (3) No capital adoption by the holding shareholder or other related parties occurred in the report term or carried over from the previous term. No providing of external guarantee occurred in the report term.

7. Engaging and fulfilling of material contracts

- (1) The Company has never been involved in such events as keeping as custodian, contracted or leased any other company's assets and vice versa in the report period.
- (2) No providing of external guarantee occurred in the report term.
- (3) No providing or accepting of cash asset management to or from other parties occurred during the report term.
- (4) No other material contract engaged in the report term.

8. Reception of visitors and investigations

In the report term, the Company properly executed "Investor Management Instruction" issued by China Securities Regulatory Commission, and "Fair Information Disclosure Instruction" issued by Shenzhen Stock Exchange, accepted investigations, inquiring, and visiting of organization investors and individual investors. All information provided are those have already been disclosed in regular and provisional reports and announcements. The Company never provided, disclosed or leaked any major information to any particular

object that is closed to the public.

| Time/date | Place | Way | Visitors | Main content involved and material provided |
|------------------|----------------------------------|----------------|--------------------|---|
| January 17, 2011 | Office of the secretary of Board | Field research | Fuda Foundation HK | Production and operation situation |

9. No commitment made by shareholders holding 5% or above of the Company's capital shares in the report term or carried down to the report term from previous terms.

Commitments made by the former holder of non-negotiable shares during the share equity reorganization, and fulfilling

(1) Since the date when the right of trading being granted, the controlling shareholder shall not put the shares it holds in the market within at least 24 months. While shall not sell the shares more than 5% of the total shares held between 24 months to 36 months.

(2) The Company has issued new A shares privately to Bengang Group to purchase its steel & iron assets. Bengang Group committed not to put the newly placed shares in the market or sell to others in 36 months since the date when the share registration is done. (Except for transferring to strategic investors by ways approved by the national policies, however the undertaker should takeover the commitment made by Bengang Group.)

(3) From completion day of this acquisition up to the end of 2010, Bengang Group will hold not lower than 65% of the Company's shares (Except for transferring to strategic investors by ways approved by the national policies, however the undertaker should takeover the commitment made by Bengang Group.)

(4) When Bengang disposes or transfers the Company's shares before 2010, the transaction price shall not be lower than the net asset per share provided by the latest auditing report. Bengang Group committed to put the gains from transferring or disposing of the shares to the Company if the shares were transferred or disposed with violating of the above commitments.

(5) Bengang Group promises to compensate other shareholders' losses when above commitments are not fulfilled or not completely fulfilled.

The above commitments are under processing at present and no breaching of commitment has occurred.

10. Construction of internal controlling system and acceptance of social responsibilities

In accordance with the Company Law, Securities Law, PLC Information Disclosure Administrative Criteria, Internal Control Guide by Shenzhen Stock Exchange,

and Administrative Rules of PLC, the Company has produced the Criteria of General Meeting, Criteria of Board Meeting, Criteria of Supervisory Committee Meeting, and Working Rules of the General Manager, clarified the responsibilities and working procedures of the General Meeting, the Board of Directors, the Supervisory Committee, and the managements. All of the meetings and decision making processes of the General Meeting, Board meeting, and Supervisory Committee have been conducted legally, validly, frankly, and effectively. The internal control system has been established and improved to cover production, finance, information disclosure, and risk prevention. This system has been effectively operated in the Company's business practice and working effectively in administration, controlling and monitoring of the production process.

In the report term, according to the provisions of documents regarding social responsibilities, along with pursuing of economic return and best interest of shareholders, the Company initiatively protected the creditors' interests and the legal benefits of whole employees, treated the suppliers, customers and clients with best faith, and did actively in environment protection and community construction. In business operation, the Company kept following the principle of free will, fairness, equality, and faith, abiding social morality and profession standard, accept supervising of the government departments and the public, fulfilled the responsibilities an enterprise should do. The Company has been fully accelerating developing of productivity and energy saving, reinforcing investment, undertaking special managerial operations, discarding of old equipment, and promoting environmental protection. The Company has devoted itself into public services and supported education, culture, and science activities in the community.

11. Auditing issues and change of CPA

The Interim Financial Report was not audited.
No replacing of CPA occurred in the report term.

12. In the report term, any of the directors, supervisors, executives, shareholders, substantial dominators, buyer of the Company was investigated by relative departments, executed by legal & discipline departments, delivered to legal departments, appeared for crime, investigated or punished by China Securities Regulatory Commission, restricted to security market, criticized publicly, regarded as improper person, punished by other executive departments, or publicly condemned by the Stock Exchange.

No such issue occurred.

13. Other material issues occurred in the report term or carried down to the report term from previous term.

No such issue occurred.

14. Special statement and independent opinions of the Independent Directors on capital adoption by related parties and providing of external guarantees

According to Document Zheng-Jian-Fa (2003)56 issued by China Securities Regulatory Commission regarding capital trade with related parties and providing of external guarantees, as the independent directors of the Company, we carefully verified and inspected over the capital trade with related parties and providing of external guarantees. Basing on necessary inspection and inquiries, we provide the following opinions: The Company has provided no guarantees to any of the holding shareholder, other related parties with shares below 50%, non-legal person, or individual, and hasn't provided external guarantees by any means. The external guarantees were accumulated to zero. No capital adoption by any of the holding shareholder or other related parties.

VII. Financial Report

Enclosed please find the Financial Statements and Notes to Financial Statements.

VIII. Documents for Inquiring

1. Interim Report 2007 signed and stamped by the legal representative;
2. Accounting Statements with signatures and seals of the legal representative, Chief Financial Officer and Manager of the Accounting Department;
3. All the originals of the Company's documents and public notices disclosed in the newspapers designated by China Securities Regulatory Commission in the report period;
4. Other relative documents.

The Board of Directors of
Bengang Steel Plate Co., Ltd.
Chairwoman of the Board: Zhang Xiaofang
August 24, 2011



Bengang Steel Plates Co., Ltd. Financial Report

(January 1 – June 30 2011)

(Not Audited)

August 24, 2011

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Balance Sheet

Prepared by: Bengang Steel Plates Co., Ltd.

Ended June 30 2011

RMB Yuan

| Items | Notes | End of term | | Beginning of term | |
|--|---------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Consolidated | Parent company | Consolidated | Parent company |
| Current asset: | | | | | |
| Monetary capital | V(I) | 2,991,857,388.66 | 2,879,761,948.09 | 1,475,045,148.55 | 1,358,651,762.79 |
| Settlement provision | | | | | |
| Outgoing call loan | | | | | |
| Transactional financial assets | | | | | |
| Notes receivable | V(II) | 2,520,421,814.29 | 2,374,987,948.96 | 1,900,062,739.70 | 1,822,459,543.49 |
| Account receivable | V(III) | 325,640,391.22 | 380,914,428.57 | 344,857,035.57 | 400,131,072.92 |
| Prepayment | V(IV) | 820,367,082.47 | 790,581,649.91 | 810,851,238.27 | 744,919,442.64 |
| Insurance receivable | | | | | |
| Interest receivable | | | | | |
| Other account receivable | V(V) | 201,096,671.93 | 296,669,286.29 | 106,040,016.05 | 220,725,711.61 |
| Repurchasing of financial assets | | | | | |
| Inventories | V(VI) | 11,813,388,757.76 | 11,300,192,717.96 | 10,297,600,688.08 | 9,814,369,793.69 |
| Non-current asset due in 1 year | | | | | |
| Other current asset | V(VII) | 182,211,823.73 | 182,211,823.73 | 182,211,823.73 | 182,211,823.73 |
| Total of current asset | | 18,854,983,930.06 | 18,205,319,803.51 | 15,116,668,689.95 | 14,543,469,150.87 |
| Non-current assets | | | | | |
| Loans and payment on other 's behalf disbursed | | | | | |
| Available-for-sale financial asset | | | | | |
| Expired investment in possess | | | | | |
| Long-term receivable | | | | | |
| Long-term share equity investment | V(VIII) | 15,791,030.00 | 1,008,655,407.17 | 15,791,030.00 | 878,655,407.17 |
| Investment properties | | | | | |
| Fixed assets | V(IX) | 17,900,000,742.23 | 17,494,482,815.57 | 18,856,618,212.00 | 18,438,736,612.00 |
| Construction in process | V(X) | 2,226,326,260.22 | 1,212,496,964.98 | 1,619,227,102.66 | 889,881,763.38 |
| Engineering goods | V(XI) | 49,606,825.75 | 49,606,825.75 | 15,638,434.32 | 15,638,434.32 |
| Fixed asset disposal | | | | | |
| Intangible assets | V(XII) | 45,931,528.94 | | 46,395,483.80 | |
| R&D expense | | | | | |
| Goodwill | | | | | |
| Long-term amortizable expenses | | | | | |
| Differed income tax asset | V(XIII) | 201,402,995.51 | 189,470,501.84 | 201,402,995.51 | 189,470,501.84 |
| Other non-current asset | | | | | |
| Total of non-current assets | | 20,439,059,382.65 | 19,954,712,515.31 | 20,755,073,258.29 | 20,412,382,718.71 |
| Total of assets | | 39,294,043,312.71 | 38,160,032,318.82 | 35,871,741,948.24 | 34,955,851,869.58 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Balance Sheet (Cont.)

Prepared by: Bengang Steel Plates Co., Ltd.

Ended June 30 2011

RMB Yuan

| Items | Notes | End of term | | Beginning of term | |
|---|-----------|-------------------|-------------------|-------------------|-------------------|
| | | Consolidated | Parent company | Consolidated | Parent company |
| Current liabilities | | | | | |
| Short-term loans | V(XV) | 3,861,573,000.00 | 3,861,573,000.00 | 2,295,236,500.00 | 2,295,236,500.00 |
| Trade off financial liabilities | | | | | |
| Notes payable | V(XVI) | 1,748,231,397.35 | 1,736,239,397.35 | 1,260,376,722.11 | 1,260,376,722.11 |
| Account payable | V(XVII) | 7,237,771,917.67 | 7,310,564,711.21 | 7,993,191,216.38 | 8,189,917,528.20 |
| Prepayment received | V(XVIII) | 3,540,877,787.77 | 3,345,910,193.18 | 3,118,780,973.56 | 2,831,031,113.85 |
| Selling of repurchased financial assets | | | | | |
| Fees and commissions receivable | | | | | |
| Employees' wage payable | V(XIX) | 139,646,673.69 | 139,480,600.61 | 184,769,139.84 | 184,669,271.84 |
| Tax payable | X(XX) | -222,515,488.09 | -160,680,608.99 | -704,770,343.24 | -651,410,574.54 |
| Interest payable | | | | | |
| Dividend payable | V(XXI) | 313,600,000.00 | 313,600,000.00 | | |
| Other account payable | V(XXII) | 824,883,512.62 | 746,909,082.14 | 721,086,330.41 | 631,026,887.30 |
| Non-current liability due in 1 year | V(XXIII) | 1,603,160,000.00 | 1,603,160,000.00 | 1,013,263,228.43 | 1,013,263,228.43 |
| Other current liability | | | | | |
| Total of current liability | | 19,047,228,801.01 | 18,896,756,375.50 | 15,881,933,767.49 | 15,754,110,677.19 |
| Non-current liabilities | | | | | |
| Long-term borrowings | V(XXIV) | 4,756,848,843.30 | 4,156,848,843.30 | 4,824,024,138.39 | 4,314,024,138.39 |
| Bond payable | | | | | |
| Long-term payable | | | | | |
| Special payable | | | | | |
| Anticipated liabilities | | | | | |
| Differed income tax liability | | | | | |
| Other non-recurring liabilities | V(XXV) | 162,894,446.22 | 160,834,446.22 | 120,469,446.22 | 120,469,446.22 |
| Total of non-current liabilities | | 4,919,743,289.52 | 4,317,683,289.52 | 4,944,493,584.61 | 4,434,493,584.61 |
| Total of liability | | 23,966,972,090.53 | 23,214,439,665.02 | 20,826,427,352.10 | 20,188,604,261.80 |
| Owners' equity (or shareholders' equity) | | | | | |
| Capital paid in (or share capital) | V(XXVI) | 3,136,000,000.00 | 3,136,000,000.00 | 3,136,000,000.00 | 3,136,000,000.00 |
| Capital reserves | V(XXVII) | 8,790,691,134.76 | 8,790,691,134.76 | 8,790,691,134.76 | 8,790,691,134.76 |
| Less: Shares in stock | | | | | |
| Surplus reserves | V(XXVIII) | 921,277,509.22 | 921,277,509.22 | 921,277,509.22 | 921,277,509.22 |
| Common risk provision | | | | | |
| Retained profit | V(XXIX) | 2,444,246,778.34 | 2,097,624,009.82 | 2,162,390,668.07 | 1,919,278,963.80 |
| Different of foreign currency translation | | | | | |
| Total of owner's equity belong to the parent company | | 15,292,215,422.32 | 14,945,592,653.80 | 15,010,359,312.05 | 14,767,247,607.78 |
| Minor shareholders' equity | | 34,855,799.86 | | 34,955,284.09 | |
| Total of owners' equity | | 15,327,071,222.18 | 14,945,592,653.80 | 15,045,314,596.14 | 14,767,247,607.78 |
| Total of liabilities and owners' equity | | 39,294,043,312.71 | 38,160,032,318.82 | 35,871,741,948.24 | 34,955,851,869.58 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Income Statement

Prepared by: Bengang Steel Plates Co., Ltd.

Jan-Jun 2011

RMB Yuan

| Items | Notes | Current term | | Same period last year | |
|---|-----------|-------------------|-------------------|-----------------------|-------------------|
| | | Consolidated | Parent company | Consolidated | Parent company |
| I. Turnover | V(XXX) | 24,050,256,657.14 | 23,470,730,563.17 | 22,354,385,410.54 | 21,088,872,060.37 |
| II. Total business cost | | 23,432,623,874.10 | 22,988,484,070.03 | 21,667,576,834.61 | 20,409,841,097.26 |
| Incl. Business cost | | 21,573,460,001.27 | 21,218,162,916.22 | 19,639,448,948.70 | 18,444,526,168.35 |
| Business tax and surcharge | V(XXXI) | 3,307,222.35 | 667,938.31 | 88,875,246.52 | 87,819,905.91 |
| Sales expense | V(XXXII) | 249,672,077.79 | 194,662,367.06 | 232,468,074.79 | 189,455,641.04 |
| Administrative expense | V(XXXIII) | 1,461,168,367.44 | 1,429,428,964.65 | 1,588,857,380.97 | 1,569,917,072.92 |
| Financial expenses | V(XXXIV) | 145,016,205.25 | 145,561,883.79 | 117,927,183.63 | 118,122,309.04 |
| Asset impairment loss | V(XXXV) | | | | |
| Plus: Gains from change of fair value ("-" for loss) | | | | | |
| Investment gain ("-" for loss) | | | | | |
| Incl. Investment gains from affiliates | | | | | |
| III. Operational profit ("-" for loss) | | 617,632,783.04 | 482,246,493.14 | 686,808,575.93 | 679,030,963.11 |
| Plus: Non business income | V(36) | 10,846,574.48 | 9,812,452.88 | 6,695,012.42 | 6,470,969.57 |
| Less: Non-business expenses | V(37) | 113,900.00 | 113,900.00 | 10,324.63 | |
| Incl. Loss from disposal of non-current assets | | | | | |
| IV. Gross profit ("-" for loss) | | 628,365,457.52 | 491,945,046.02 | 693,493,263.72 | 685,501,932.68 |
| Less: Income tax expenses | V(38) | 33,008,831.48 | | 4,886,498.68 | |
| V. Net profit ("-" for net loss) | | 595,356,626.04 | 491,945,046.02 | 688,606,765.04 | 685,501,932.68 |
| Net profit attributable to the owners of parent company | | 595,456,110.27 | 491,945,046.02 | 688,606,765.04 | 685,501,932.68 |
| Minor shareholders' equity | | -99,484.23 | | | |
| VI. Earnings per share: | V(39) | | | | |
| (I) Basic earnings per share | | 0.19 | 0.16 | 0.22 | 0.22 |
| (II) Diluted earnings per share | | 0.19 | 0.16 | 0.22 | 0.22 |
| VII. Other misc. incomes | | | | | |
| VIII. Total of misc. incomes | | 595,356,626.04 | 491,945,046.02 | 688,606,765.04 | 685,501,932.68 |
| Total of misc. incomes attributable to the owners of the parent company | | 595,456,110.27 | 491,945,046.02 | 688,606,765.04 | 685,501,932.68 |
| Total misc gains attributable to the minor shareholders | | -99,484.23 | | | |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Cash Flow Statement

Prepared by: Bengang Steel Plates Co., Ltd.

Jan-Jun 2011

RMB Yuan

| Items | Notes | Current term | | Same period last year | |
|---|---------|-------------------|-------------------|-----------------------|-------------------|
| | | Consolidated | Parent company | Consolidated | Parent company |
| I. Net cash flow from business operation | | | | | |
| Cash received from sales of products and providing of services | | 15,361,368,132.67 | 15,099,184,619.55 | 14,762,247,471.37 | 14,600,827,028.72 |
| Net increase of trade financial asset disposal | | | | | |
| Tax returned | | 204,484,229.75 | 203,476,262.75 | 83,873,824.81 | 80,970,050.35 |
| Other cash received from business operation | V(XXXX) | 58,724,812.38 | 51,687,615.48 | 16,154,358.56 | 15,478,322.37 |
| Sub-total of cash inflow from business activities | | 15,624,577,174.80 | 15,354,348,497.78 | 14,862,275,654.74 | 14,697,275,401.44 |
| Cash paid for purchasing of merchandise and services | | 13,081,503,904.31 | 13,061,983,992.15 | 12,667,550,050.98 | 12,667,550,050.98 |
| Cash paid to staffs or paid for staffs | | 609,514,629.37 | 603,756,362.61 | 574,115,193.91 | 569,463,180.14 |
| Taxes paid | | 162,626,078.15 | 85,520,031.12 | 454,263,009.67 | 433,824,484.04 |
| Other cash paid for business activities | V(XXXX) | 629,175,543.32 | 583,730,813.62 | 564,239,352.47 | 431,501,248.39 |
| Sub-total of cash outflow from business activities | | 14,482,820,155.15 | 14,334,991,199.50 | 14,260,167,607.03 | 14,102,338,963.55 |
| Cash flow generated by business operation, net | | 1,141,757,019.65 | 1,019,357,298.28 | 602,108,047.71 | 594,936,437.89 |
| II. Cash flow generated by investing | | | | | |
| Cash received from investment retrieving | | | | | |
| Cash received as investment gains | | | | | |
| Net cash retrieved from disposal of fixed assets, intangible assets, and other long-term assets | | | | 307,991.00 | 307,991.00 |
| Net cash received from disposal of subsidiaries or other operational units | | | | | |
| Other investment-related cash received | | | | | |
| Sub-total of cash inflow due to investment activities | | 0.00 | 0.00 | 307,991.00 | 307,991.00 |
| Cash paid for construction of fixed assets, intangible assets and other long-term assets | | 1,365,888,762.43 | 1,119,447,497.00 | 2,689,301,949.00 | 2,138,959,118.00 |
| Cash paid as investment | | | 130,000,000.00 | 68,888,980.00 | 328,888,980.00 |
| Net cash received from subsidiaries and other operational units | | | | | |
| Other cash paid for investment activities | | | | | |
| Sub-total of cash outflow due to investment activities | | 1,365,888,762.43 | 1,249,447,497.00 | 2,758,190,929.00 | 2,467,848,098.00 |
| Net cash flow generated by investment | | -1,365,888,762.43 | -1,249,447,497.00 | -2,757,882,938.00 | -2,467,540,107.00 |
| III. Cash flow generated by financing | | | | | |
| Cash received as investment | | | | | |
| Incl. Cash received as investment from minor shareholders | | | | | |
| Cash received as loans | | 5,415,903,248.87 | 5,325,854,700.00 | 5,325,370,214.03 | 4,815,370,214.03 |
| Other financing-related cash received | | | | | |
| Subtotal of cash inflow from financing activities | | 5,415,903,248.87 | 5,325,854,700.00 | 5,325,370,214.03 | 4,815,370,214.03 |

Cash Flow Statement (Cont.)

Prepared by: Bengang Steel Plates Co., Ltd.

Jan-Jun 2011

RMB Yuan

| Items | Notes | Current term | | Same period last year | |
|--|-------|------------------|------------------|-----------------------|------------------|
| | | Consolidated | Parent company | Consolidated | Parent company |
| Cash to repay debts | | 3,360,701,271.34 | 3,269,701,271.34 | 3,274,231,276.00 | 3,274,231,276.00 |
| Cash paid as dividend, profit, or interests | | 312,913,952.32 | 303,609,002.32 | 167,758,690.74 | 167,758,690.74 |
| Subtotal of cash outflow due to financing activities | | 3,673,615,223.66 | 3,573,310,273.66 | 3,441,989,966.74 | 3,441,989,966.74 |
| Net cash flow generated by financing | | 1,742,288,025.21 | 1,752,544,426.34 | 1,883,380,247.29 | 1,373,380,247.29 |
| IV. Influence of exchange rate alternation on cash and cash equivalents | | -1,344,042.32 | -1,344,042.32 | -49,056.78 | -49,056.78 |
| V. Net increase of cash and cash equivalents | | 1,516,812,240.11 | 1,521,110,185.30 | -272,443,699.78 | -499,272,478.60 |
| Plus: Balance of cash and cash equivalents at the beginning of term | | 1,475,045,148.55 | 1,358,651,762.79 | 2,842,961,050.60 | 2,795,043,926.41 |
| VI. Balance of cash and cash equivalents at the end of term | | 2,991,857,388.66 | 2,879,761,948.09 | 2,570,517,350.82 | 2,295,771,447.81 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Detailed Table of Asset Impairment Provisions

Bengang Steel Plate Co., Ltd. June 30, 2011 In RMB Yuan

| Items | Balance of book value at beginning of term | Provided this term | Decreased this term | | Balance of book value at end of term |
|--|--|--------------------|---------------------|-------------|--------------------------------------|
| | | | Written back | Transferred | |
| I. Bad debt provision | 484,737,809.81 | | | | 484,737,809.81 |
| II. Inventory impairment provision | 101,064,897.91 | | | | 101,064,897.91 |
| III. Disposable financial asset impairment provision | 0.00 | | | | 0.00 |
| IV. Investment equity hold till expiring impairment provision | 0.00 | | | | 0.00 |
| V. Long-term equity investment impairment provision | 0.00 | | | | 0.00 |
| VI. Property investment impairment provision | 0.00 | | | | 0.00 |
| VII. Fixed asset impairment provision | 8,237,689.11 | | | | 8,237,689.11 |
| VIII. Project material impairment provision | 0.00 | | | | 0.00 |
| IX. Construction in process impairment provision | 0.00 | | | | 0.00 |
| X. Production biological material asset impairment provision | 0.00 | | | | 0.00 |
| Incl. Mature production biological material asset impairment provision | 0.00 | | | | 0.00 |
| XI. Gas & oil asset impairment provision | 0.00 | | | | 0.00 |
| XII. Intangible asset impairment provision | 0.00 | | | | 0.00 |
| XIII. Goodwill impairment provision | 0.00 | | | | 0.00 |
| XIV. Other | 0.00 | | | | 0.00 |
| Total | 594,040,396.83 | 0.00 | 0.00 | 0.00 | 594,040,396.83 |

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Bengang Steel Plates Co., Ltd.
Change in Owners' Equities
Jan-Jun 2011

(In RMB Yuan except for otherwise specified)

| Items | Amount of the Current Term | | | | | | | Total of owners' |
|--|----------------------------|------------------|-------|---------|----------------|-------------|-----------------------|-------------------|
| | Share capital | Capital reserves | Less: | Special | Surplus | Common risk | Retained profit | |
| I. Balance at the end of last year | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 1,919,278,963.80 | 14,767,247,607.78 |
| Plus: Change of accounting policy | | | | | | | | |
| Correcting of previous errors | | | | | | | | |
| Others | | | | | | | | |
| II. Balance at the beginning of current year | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 1,919,278,963.80 | 14,767,247,607.78 |
| III. Changed in the report term ("-" for | | | | | | | 178,345,046.02 | 178,345,046.02 |
| (I) Net profit | | | | | | | 491,945,046.02 | 491,945,046.02 |
| (II) Other misc. income | | | | | | | | |
| Total of (I) and (II) | | | | | | | | |
| (III) Investment or decreasing of capital by | | | | | | | | |
| 1. Capital inputted by owners | | | | | | | | |
| 2. Amount of shares paid and accounted as | - | | | | | | | |
| 3. Others | | | | | | | | |
| (IV) Profit allotment | | | | | | | -313,600,000.00 | -313,600,000.00 |
| 1. Providing of surplus reserves | | | | | | | | |
| 2. Common risk provision | | | | | | | | |
| 3. Allotment to the owners (or shareholders) | | | | | | | -313,600,000.00 | -313,600,000.00 |
| 4. Others | | | | | | | | |
| (V) Internal transferring of owners' equity | | | | | | | | |
| 1. Capitalizing of capital reserves (or to capital | | | | | | | | |
| 2. Capitalizing of surplus reserves (or to | | | | | | | | |
| 3. Making up losses by surplus reserves | | | | | | | | |
| 4. Others | | | | | | | | |
| (VI) Special reserves | | | | | | | | |
| 1. Provided this year | | | | | | | | |
| 2. Used this term | | | | | | | | |
| IV. Balance at the end of this term | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 2,097,624,009.82 | 14,945,592,653.80 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Bengang Steel Plates Co., Ltd.
Change in Owners' Equities (Cont.)
Jan-Jun 2011
(In RMB Yuan except for otherwise specified)

| Items | Amount of Last Year | | | | | | | |
|--|---------------------|------------------|--------------|---------|------------------|-------------|-----------------------|-------------------|
| | Share capital | Capital reserves | Less: Shares | Special | Surplus reserves | Common risk | Retained profit | Total of owners' |
| I. Balance at the end of last year | 3,136,000,000.00 | 8,736,261,134.76 | | | 921,277,509.22 | | 1,258,234,662.17 | 14,051,773,306.15 |
| Plus: Change of accounting policy | | | | | | | | |
| Correcting of previous errors | | | | | | | | |
| Others | | | | | | | | |
| II. Balance at the beginning of current year | 3,136,000,000.00 | 8,736,261,134.76 | | | 921,277,509.22 | | 1,258,234,662.17 | 14,051,773,306.15 |
| III. Changed in the report term ("-" for | | 54,430,000.00 | | | | | 661,044,301.63 | 715,474,301.63 |
| (I) Net profit | | | | | | | 755,124,301.63 | 755,124,301.63 |
| (II) Other misc. income | | | | | | | | |
| Total of (I) and (II) | | | | | | | 755,124,301.63 | 755,124,301.63 |
| (III) Investment or decreasing of capital by | | 54,430,000.00 | | | | | | 54,430,000.00 |
| 1. Capital inputted by owners | | | | | | | | |
| 2. Amount of shares paid and accounted as | | | | | | | | |
| 3. Others | | 54,430,000.00 | | | | | | 54,430,000.00 |
| (IV) Profit allotment | | | | | | | -94,080,000.00 | -94,080,000.00 |
| 1. Providing of surplus reserves | | | | | | | | |
| 2. Common risk provision | | | | | | | | |
| 3. Allotment to the owners (or shareholders) | | | | | | | -94,080,000.00 | -94,080,000.00 |
| 4. Others | | | | | | | | |
| (V) Internal transferring of owners' equity | | | | | | | | |
| 1. Capitalizing of capital reserves (or to capital | | | | | | | | |
| 2. Capitalizing of surplus reserves (or to | | | | | | | | |
| 3. Making up losses by surplus reserves | | | | | | | | |
| 4. Others | | | | | | | | |
| (VI) Special reserves | | | | | | | | |
| 1. Provided this year | | | | | | | | |
| 2. Used this term | | | | | | | | |
| IV. Balance at the end of this term | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 1,919,278,963.80 | 14,767,247,607.78 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Bengang Steel Plates Co., Ltd.
Consolidated Statement of Change in Owners' Equity
Jan-Jun 2011

(In RMB Yuan except for otherwise specified)

| Items | Amount of the Current Term | | | | | | | | | |
|--|---|------------------|-----------------------|------------------|------------------|-----------------------|------------------|--------|----------------------------|-------------------------|
| | Owners' Equity Attributable to the Parent Company | | | | | | | | Minor shareholders' equity | Total of owners' equity |
| | Share capital | Capital reserves | Less: Shares in stock | Special reserves | Surplus reserves | Common risk provision | Retained profit | Others | | |
| I. Balance at the end of last year | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 2,162,390,668.07 | | 34,955,284.09 | 15,045,314,596.14 |
| Plus: Change of accounting policy | | | | | | | | | | |
| Correcting of previous errors | | | | | | | | | | |
| Others | | | | | | | | | | |
| II. Balance at the beginning of current year | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 2,162,390,668.07 | | 34,955,284.09 | 15,045,314,596.14 |
| III. Changed in the report term ("-" for decrease) | | | | | | | 281,856,110.27 | | -99,484.23 | 281,756,626.04 |
| (I) Net profit | | | | | | | 595,456,110.27 | | -99,484.23 | 595,356,626.04 |
| (II) Other misc. income | | | | | | | | | | |
| Total of (I) and (II) | | | | | | | 595,456,110.27 | | -99,484.23 | 595,356,626.04 |
| (III) Investment or decreasing of capital by owners | | | | | | | | | | |
| 1. Capital inputted by owners | | | | | | | | | | |
| 2. Amount of shares paid and accounted as owners' equity | | | | | | | | | | |
| 3. Others | | | | | | | | | | |
| (IV) Profit allotment | | | | | | | -313,600,000.00 | | | -313,600,000.00 |
| 1. Providing of surplus reserves | | | | | | | | | | |
| 2. Common risk provision | | | | | | | | | | |
| 3. Allotment to the owners (or shareholders) | | | | | | | -313,600,000.00 | | | -313,600,000.00 |

| | | | | | | | | | | |
|--|------------------|------------------|--|--|----------------|--|------------------|--|---------------|-------------------|
| 4. Others | | | | | | | | | | |
| (V) Internal transferring of owners' equity | | | | | | | | | | |
| 1. Capitalizing of capital reserves (or to capital shares) | | | | | | | | | | |
| 2. Capitalizing of surplus reserves (or to capital shares) | | | | | | | | | | |
| 3. Making up losses by surplus reserves | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (VI) Special reserves | | | | | | | | | | |
| 1. Provided this year | | | | | | | | | | |
| 2. Used this term | | | | | | | | | | |
| IV. Balance at the end of this term | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 2,444,246,778.34 | | 34,855,799.86 | 15,327,071,222.18 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Bengang Steel Plates Co., Ltd.
Consolidated Change in Owners' Equities (Cont.)
Jan-Jun 2011

(In RMB Yuan except for otherwise specified)

| Items | Amount of Last Year | | | | | | | | | |
|--|---|------------------|-----------------------|------------------|------------------|-----------------------|------------------|---------------|----------------------------|-------------------------|
| | Owners' Equity Attributable to the Parent Company | | | | | | | | Minor shareholders' equity | Total of owners' equity |
| | Share capital | Capital reserves | Less: Shares in stock | Special reserves | Surplus reserves | Common risk provision | Retained profit | Others | | |
| I. Balance at the end of last year | 3,136,000,000.00 | 8,736,261,134.76 | | | 921,277,509.22 | | 1,331,103,908.34 | | | 14,124,642,552.32 |
| Plus: Change of accounting policy | | | | | | | | | | |
| Correcting of previous errors | | | | | | | | | | |
| Others | | | | | | | | | | |
| II. Balance at the beginning of current year | 3,136,000,000.00 | 8,736,261,134.76 | | | 921,277,509.22 | | 1,331,103,908.34 | | | 14,124,642,552.32 |
| III. Changed in the report term ("-" for decrease) | | 54,430,000.00 | | | | | 831,286,759.73 | 34,955,284.09 | | 920,672,043.82 |
| (I) Net profit | | | | | | | 925,366,759.73 | -44,715.91 | | 925,322,043.82 |
| (II) Other misc. income | | | | | | | | | | |
| Total of (I) and (II) | | | | | | | 925,366,759.73 | -44,715.91 | | 925,322,043.82 |
| (III) Investment or decreasing of capital by owners | | 54,430,000.00 | | | | | | 35,000,000.00 | | 89,430,000.00 |
| 1. Capital inputted by owners | | | | | | | | 35,000,000.00 | | 35,000,000.00 |
| 2. Amount of shares paid and accounted as owners' equity | | | | | | | | | | |
| 3. Others | | 54,430,000.00 | | | | | | | | 54,430,000.00 |
| (IV) Profit allotment | | | | | | | -94,080,000.00 | | | -94,080,000.00 |
| 1. Providing of surplus reserves | | | | | | | | | | |
| 2. Common risk provision | | | | | | | | | | |
| 3. Allotment to the owners (or shareholders) | | | | | | | -94,080,000.00 | | | -94,080,000.00 |

| | | | | | | | | | | |
|--|------------------|------------------|--|--|----------------|--|------------------|--|---------------|-------------------|
| 4. Others | | | | | | | | | | |
| (V) Internal transferring of owners' equity | | | | | | | | | | |
| 1. Capitalizing of capital reserves (or to capital shares) | | | | | | | | | | |
| 2. Capitalizing of surplus reserves (or to capital shares) | | | | | | | | | | |
| 3. Making up losses by surplus reserves | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (VI) Special reserves | | | | | | | | | | |
| 1. Provided this year | | | | | | | | | | |
| 2. Used this term | | | | | | | | | | |
| IV. Balance at the end of this term | 3,136,000,000.00 | 8,790,691,134.76 | | | 921,277,509.22 | | 2,162,390,668.07 | | 34,955,284.09 | 15,045,314,596.14 |

The Notes to the Financial Statements attached hereafter are the essential parts of the Financial Statements.

Legal Representative: Zhang Xiaofang, CFO: Cao Aimin, Accounting Manager: Wang Shaoyu

Bengang Steel Plates Co., Ltd.

Notes to Financial Statements

(January 1 – June 30 2011)

(Amount are in RMB Yuan except for stated particularly)

I. Company Profile

Bengang Steel Plates Co., Ltd. (the “Company”) was incorporated as a joint stock limited company in the People’s Republic of China on June 27 1997 by Benxi Iron and Steel (Group) Limited “Bengang Group”, through reorganization of operations, assets and liabilities of its plants, namely, Steel Smelting plant, Primary Rolling Plant and Continuous Hot Rolling Plant. Establishing of the Company was approved by Liaoning People’s Government on March 27 1997 with Liao-Zheng (1997)57.

As approved by China Securities Regulatory Commission, the Company issued 400,000,000 B-shares at RMB2.38 each in Shenzhen Stock Exchange on 10 June 1997. On 3 November 1997, the Company issued another 120,000,000 A-shares (Renminbi Common Shares) at RMB5.40 each, and listed in Shenzhen Stock Exchange since 15 January 1998. The capital shares were totaled to 1,136,000,000 shares including 616,000,000 shares held by the promoter.

On March 14 2006, according to the resolutions of the Shareholders’ Meeting regarding share equity relocation, the Share Equity Relocation Scheme, Response to Bengang Steel Plate Co., Ltd. about Share Equity Relocation issued by Liaoning Provincial Government State-owned Asset Administrative Committee, Bengang Group – the only holder of non-negotiable state-owned legal person shares paid the consideration to the current shareholders to obtain the current option for the 40,800,000 shares of the total 616,000,000 shares it was holding. Shareholding positions have been registered with China Securities Depository & Clearing Corporation Ltd. However the total of capital shares of Bengang Steel Plate was not changed through the share equity relocation action.

China Securities Regulatory Commission issued Zheng-Jian-Gong-Si-Zi [2006] 126 on June 30th 2006 and served to the Company on July 6th 2006. The Company was approved to place 2 billion Renminbi common shares particularly to Bengang Group and the proceeds would be used to purchase the related assets of the Group. On the same day, Bengang Group received circular Zheng-Jian-Gong-Si-Zi [2006] 127 issued by China Securities Regulatory Committee, and was exempted for the liability of undertaking the purchase offer. The liability was caused by subscribing of the 2 billion new shares and the total shareholding was thus increased to 2.5752 billion shares (account for 82.12% of the total capital shares of the Company). On August 28 2006, as approved by China Securities Depository & Clearing Corporation Ltd. Shenzhen Office, the registration and conditional placing procedures of the 2 billion new shares were completed. On September 28 2006, the privately placed shares were approved by Shenzhen Stock Exchange to be placed in the stock market. The new shares were placed in the market on October 9th 2006, with face value of RMB1.00 per share and the placing price was RMB4.6733 per share. The newly placed shares were restricted to be sold in 36 months since August 28, 2006 when they were registered to the account of Bengang Group.

Capital inputted for the newly placed shares was the main steel & iron assets of Bengang Group amounted to RMB10,097,917,959.13 provided by the auditing report dated May 31st 2006 (i.e. the purchase price of the steel & iron assets). The price for each share was RMB4.6733. The balance between the net value of inputted assets and the share capital has formed capital reserves of RMB7,346,600,000 and liability to Bengang Group of RMB751,317,959.13.

The main steel and iron assets of Bengang Group have been appraised by Zhongzi Asset Appraisal Co., Ltd. based on 30 June 2005. The appraisal report was filed “Zhongzi-Ping-Bao-Zi (2005) 142.”

The business registration was renewed on December 21 2006. The business license was numbered 2100001049024. As of December 31 2007, the capital shares of Bengang was amounted to 3,136,000,000 shares. The registered address is: 18th Gangtie Road, Pingshan, Benxi, Liaoning. The registered capital is RMB3,136,000,000. The legal representative is Zhang Xiaofang.

Bengang Steel Plate Co., Ltd. is mainly involved in processing and trading of recycled metal (including color metal), steel & iron making, rolling, and trading, oxygen making, special pre-shaped steel material, metal process, goods and technology import & export (exclude categories prohibited by the national government, constrained products can only be traded with special certificates), measuring instruments, electronic & mechanical equipment, sales of steel, new industrial products, developing of technologies, recycling of gas dust and waste oil (excluding hazardous materials), production of hazardous chemical materials, trade of coal, process of furnace material, trade of waste materials.

II. Main Accounting Policies, Accounting Estimations and Retrospective Correcting of Previous Errors

(I) Basis for the preparation of financial statements

The Financial Statements have been prepared on the assumption of continuing operation and upon the trades and events actually occurred in accordance with the requirements of the China Accounting Standards for Business Enterprises(CAS(2006)) issued by the Ministry of Finance(MOF).

(II) Statement of compliance to the Enterprise Accounting Standard

The financial statements present truly and completely the financial position, operation results and cash flow of the company.

(III)Fiscal period

A fiscal year starts from January 1 and ends at December 31 of a calendar year.

(IV)Standard currency for bookkeeping

The Company uses Renminbi (RMB) as the standard currency for book keeping.

(V)Accounting treatment of the entities under common control and different control as well

1. Merger of entities under common control

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued),the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.

Where the accounting policy adopted by the combined party is different from that adopted by the combining party, the combining party shall, according to accounting policy it adopts, adjust the relevant items in the financial statements of the combined party, and shall, pursuant to the present Standard, recognize them on the basis of such adjustment.

2. Merger of enterprises under different control

The acquirer shall, on the acquisition date, measure the assets given and liabilities incurred or assumed by an enterprise for a business combination in light of their fair values, and shall record the balances between them and their carrying amounts into the profits and losses at the current period.

The acquirer shall distribute the combination costs on the acquisition date.

The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. The acquirer shall treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree into the profits and losses of the current period.

As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into the enterprise and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values. As for any intangible asset acquired in a combination, if its fair value can be measured reliably, it shall be separately recognized as an intangible asset and shall be measured in light of its fair value. As for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations is likely to result in any out-flow of economic benefits from the enterprise, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values. As for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall separately be recognized as liabilities and shall be measured in light of their fair values.

(VI) Preparation of Consolidated Financial Statements

The scope of consolidation of consolidated financial statements is determined based on control. All the subsidiaries have been consolidated into the scope of consolidation for this period ended.

The accounting policy and accounting period of the subsidiaries within the consolidation scope shall be in accordance with those of "the Company". If not, it is necessary to make the adjustment according to the Company's accounting policies and accounting period when preparing the consolidated financial statements.

The consolidated financial statements shall, on the basis of the financial statements of the parent company and its subsidiaries together with other relevant material, be prepared by the parent company after the long term equity investments in the subsidiaries are adjusted through the equity method.

The impact of transactions between the Company and its subsidiaries and inter-subsidiaries for the consolidated balance sheet, consolidated income statement, consolidated statement of cash flow and consolidated statement of changes of equity are eliminated when preparing the consolidated financial statements.

Where losses applicable to the minority exceed the minority's interests in the beginning equity of a subsidiary, the excess, are charged against the minority's interests.

If the parent company has a new subsidiary due to business combination under a same control during a reporting period, it shall adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. the sales, expenses and profits of the subsidiaries from the

acquisition date to the end of the reporting period are included in the parent company's consolidated Profit statements The cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements.

If it is not under a same control the parent company shall not adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. the sales, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting are included in the parent company's consolidated profit statements. the cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements.

If the parent company disposes of a subsidiary within reporting period, the sales, expenses and profits of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent company's consolidated profit statements. the cash flow of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent's consolidated cash flow statements.

(VII) Recognition of cash and cash equivalents

At preparing of cash flow statement, those investments, which are featured with short term (expire within 3 months since purchased), high liquidity, easy to convert to know cash, low in risk of value change, could be recognized as cash equivalents. Equity investment are not recognized as cash equivalents.

(VIII) Foreign currency transaction and translation of foreign currency financial statements

1. Trade in foreign currencies

Foreign currency transactions are translated into RMB at the current rate at the day of transactions.

The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period. The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed. The foreign currency non-monetary items measured at the fair value shall still be translated at the spot exchange rate on the date of confirming the fair value and the balance of exchange arising from it shall be recorded into profits and losses at the current period or capital reserves.

2. Translation of foreign currency financial statements

The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "undistributed profits", others shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date. The balance arisen from the translation of foreign currency financial statements in compliance with the aforesaid Items shall be presented separately under the owner's equity item of the balance sheets.

When disposing an overseas business, an enterprise shall shift the balance, which is presented under the items of the owner's equities in the balance sheet and arises from the translation of foreign currency financial statements related to this oversea business, into the disposal profits and losses of the current period. If the overseas business is disposed of partially, the enterprise shall calculate the balance arising from the translation of foreign currency statements of the part of disposal based on the disposal rate and shall shift them into the profits and losses of the current period.

(IX) Financial instrument

Financial instruments include financial assets, financial liabilities and equity instruments.

1. Categorizing of financial instruments

According to the purpose of holding financial assets and financial liabilities, the Company classifies its financial assets and financial liabilities as: financial assets or financial liabilities designated at fair value through profit or loss, including: Held-to-maturity investment; loans and receivables and other financial liabilities.

2. Recognition and Measurement of financial instruments

(1) The financial assets(financial liabilities) at fair value through profit or loss includes:

The financial assets (financial liabilities) at fair value through profit or loss are recognized initially at fair value (minus cash dividends declared but not received or bond interest matured but not drawn yet). The relevant transaction cost is recognized in the income statement when occurred.

Interests or cash dividends during the period of holding are recognized as investment gains. The fair value will be adjusted and accounted as current gain/loss.

When disposed, the differences between fair value and initial amount are recognized as investment gains, and thus adjust the gain/loss of fair value.

(2) Held-to-maturity investment

The Held-to-maturity investments are recognized initially at fair value (minus bond interest matured but not drawn yet). The relevant transaction cost is recognized in the income statement when occurred.

The held-to-maturity investments are measured at amortized cost using the effective interest rate. The interest income is recognized as investment income. The effective interest will be determined at the initial recognition and will not be changed in the holding period or within the applicable period.

When disposing the held-to-maturity investment, the difference between the investing proceeds and the carrying value is recognized as investment income.

(3) Receivables

Receivables from selling products and rendering services or receivable of other company not including the receivables with quoted price in the active market (Including: accounts receivable, other receivables, bill receivables, prepayments, long-term receivables) are measured at contract price; if the receivables is of financing nature, it shall be recognized at the present value initially.

When disposing the receivables, the difference between the proceeds and the carrying value is recognized in the income statement.

(4) Available for sale financial assets

Available for sale financial assets are initially recorded at fair value plus any directly attributable transaction costs on the trade date and subsequently re-measured at fair value. The price including the declared but not received bond interest or cash dividend is recognized as a separate item.

The Company recognizes the interest or cash dividends as investment income. At each balance sheet date, available-for-sale financial assets are measured at fair value and the fair value changes are recognized in the capital reserve - other capital reserve.

The difference between the proceeds of the disposal and the carrying value should be recognized as investment income. And the related fair value change in the equity should be transferred out, and recorded as investment income.

(5) Other financial liabilities

For other financial liabilities, they are initially recognized at fair value plus any directly attributable transaction costs. After the initial recognition, the other financial liabilities are measured at amortized cost.

3. Basis of recognition and accounting of financial asset transferring

Where an enterprise has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.

To judge whether the transfer of a financial asset can satisfy the conditions as prescribed in these Standards for stopping the recognition of a financial asset, the enterprise shall pay more attention to the essential of the transfer of the financial asset.

(1) Book value of the financial asset to be transposed;

(2) The sum of price received due to the transposition, and the accumulation of change in fair value originally accounted as owners' equity (when the asset to be transposed is saleable financial asset).

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped, be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period :

(1) The book value of the portion whose recognition has been stopped;

(2) The sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has been stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale).

If the transfer of financial assets does not satisfy the conditions to stop the recognition, it shall continue to be recognized as financial assets and the consideration received shall be recognized as financial liabilities.

4. Termination of financial liability recognition

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where an enterprise (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall terminate the recognition of the existing financial liability, and shall at the same time recognize the new financial liability.

Where an enterprise makes substantial revisions to some or all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability or part of it, and at the same time recognize the financial liability after revising the contractual stipulations as a new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the enterprise concerned shall include into the profits and losses of the current period the gap between the carrying amount which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed).

Where an enterprise buys back part of its financial liabilities, it shall distribute, on the repo day, the carrying amount of the whole financial liabilities in light of the comparatively fair value of the part that continues to be recognized and the part whose recognition has already been terminated. The gap between the carrying amount which is distributed to the part whose recognition has terminated and the considerations it has paid (including the non-cash assets it has transferred out and the new financial

liabilities it has assumed) shall be recorded into the profits and losses of the current period.

5. Determination of the Fair Value

The fair values of the financial assets or financial liabilities measured at fair value shall be determined by reference to the quoted prices in the active market.

6. Impairment provision of the financial assets (not including accounts receivables)

(1) Impairment of available-for-sale financial assets

An impairment provision shall be made where the fair value of the held-to-maturity financial assets drop significantly at the balance sheet date or the trend of decrease is expected not to be temporary after taking various factors into consideration. The accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included shall be transferred out and recorded as impairment loss.

(2) Impairment of held-to-maturity investment

Calculating of impairment loss of investment held till expiration will be with reference to the calculating of account receivable impairment loss.

(X)Account receivable

1. The recognition and provision of bad debt for the individually significant receivable

The recognition standard of bad debt provision for the individually significant receivable:

Individually significant receivables refer to accounts receivable over RMB 10 million or other receivables over RMB 5 million.

The provision of bad debt for the individually significant receivable:

The impairment test should be assessed individually for each individually significant receivable. If there is evidence indicating the receivables have been impaired, the difference between the present value of the future cash flows and the book value of receivables shall be recognized as bad debt provision and shall be recorded into the profits and losses at the current period.

2. The recognition and provision of bad debt for the individually significant receivable with high credit risk in group assessment:

| | |
|--|---|
| Basis of recognition for groups | |
| The portfolio | Receivable account with minor amount and tested individually and not impaired |
| Bad debt provision provided in groups (age group, balance percentage, or else) | |
| The portfolio: | Age analysis method |

Bad debt provisions provided on age groups

| Account age | Percentage of bad debt for Accounts receivables (%) | Percentage of bad debt for Other receivables (%) |
|-------------------------|---|--|
| Within 1 yr, (included) | | |
| 1-2 yrs (included) | 5 | 5 |
| 2-3 yrs (included) | 2 | 0 |
| O v e r 3 y r s | 1 | 0 |

3. Receivable accounts with minor amounts but provided bad debt provisions individually

(1) Reason of providing bad debt individually: concrete evidence showing that the account is

irretrievable

(2) Basis of providing bad debt provisions:

When concrete evidence showing that the possibility of retrieving is very little, it will be examined individually, and bad debt provision shall be provided according to the future irretrievable amount predicted.

(XI) Inventories

1. Categories of inventory

Inventories include material in transit, raw material, low-valued consumables, work in process, finished goods, materials for consigned processing etc.

2. Pricing of delivering inventory

The weighted average method is used to confirm the actual cost of the inventories sending out.

3. Recognition of inventory realizable value and providing of impairment provision

At the year end, complete check of the inventories shall be carried out and on the date of balance sheet, the inventories shall be measured whichever is lower in accordance with the cost and the net realizable value.

The net realizable value of inventories (finished products, stock commodity, material etc.) held for direct selling in the daily business activity shall be calculated by deducting the estimated sale expense and relevant taxes from the estimated sale price of inventories. The net realizable value of inventories for further processing in the daily business activity shall be calculated by deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The net realizable value of inventories held for the execution of sales contracts or labor contracts shall be calculated on the ground of the contract price. If an enterprise holds more inventories than the quantities subscribed in the sales contract, the net realizable value of the excessive part of the inventories shall be calculated on the ground of the general sales price.

The Company shall make provision for loss on decline in value of inventories on the ground of each item of inventories at the year end. For inventories with large quantity and relatively low unit prices, the provision for loss on decline in value of inventories shall be made on the ground of the categories of inventories.

When the circumstances of deducting the inventory value have eliminated, the deducted amount should be restored and written back within the original amount of impairment provision provided previously.

4. Inventory basis

The Company use perpetual inventory system.

5. Amortizing of low-value consumables and packaging materials

(1) Low-valued consumables should be amortized in full amount on issuance.

(2) Packing materials should be amortized in full amount on issuance.

(XII) Long-term equity investment

1. Initial measurement

(1) Long-term equity investment formed by merger

For the acquisition under the common control, if the consideration of the acquiring enterprise is that it

makes payment in cash, transfers non-cash assets, bear its debts, or issues equity securities, it shall, on the date of acquisition, regard the share of the book value of the owner's equity of the acquired enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment borne by the acquiring party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period.

For the combination not under the common control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs.

(2) Long-term equity investment obtained by other ways

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

Long-term equity investment obtained by placing of equity stocks is recognized for initial investment cost at the fair value of the stock.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement (minus cash dividend or profit declared but not paid) except the unfair value stipulated in the contract or agreement.

If the exchange of non-monetary assets is commercial in nature and the fair values of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable. Where any non-monetary assets transaction does not meet the conditions as prescribed above, the carrying value and relevant payable taxes of the assets surrendered shall be the initial cost of the assets received.

Long-term equity investment obtained through debt reorganizing is recognized for initial investment cost at fair value.

2. Subsequent measurement and profit or loss recognition

(1) Subsequent measurement

The Company adopts cost method for the long term investment in subsidiary company and shall make an adjustment by employing the equity method when it prepares consolidated financial statements.

For a long-term equity investment for which there is no quoted price in the active market and of which the fair value cannot be reliably measured, if the investing enterprise has not joint control or significant influence over the invested entity, the cost method shall be employed in the measurement.

A long-term equity investment of the investing enterprise that does joint control or significant influences over the invested entity shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses.

Where any change is made to the owner's equity other than the net profits and losses of the invested entity and if the percentage of the share remains the same, the book value of the long-term equity investment shall be adjusted in accordance with the attributable part calculated as per the proportion of the shares and simultaneously capital reserves (other capital reserves) shall be increased or decreased

accordingly.

(2) Recognition of profit and loss

Under the cost method, an investing enterprise shall, in accordance with the attributable share of the net profits or losses of the invested entity, recognize the investment profits or losses except the dividend declared but unpaid, which is included in the payment when acquiring the investment.

Under the equity method, the following factors shall be taken into consideration: if the accounting policies and accounting periods adopted by the invested entity are different from those adopted by the investing enterprise, an adjustment shall be made to the financial statements of the invested entity in accordance with the accounting policies and accounting periods of the investing enterprise. the impact of the depreciation and amortization based on the fair value of fixed assets and intangible assets acquired at the time of investment and related assets impairment for the net profit; the offset of the unrealized intercompany transaction profits between the parent company and the jointly controlled enterprises and associates. After considering the adjustments above, it shall, in accordance with the attributable share of the net profits or losses of the invested entity, recognize the investment profits or losses.

When the invested enterprise realize any net profit in the future period, the company shall reduce the unrecognised loss first and then make the reverse accounting treatment as above , reduce the book value of recognized contingent liabilities , recover the book value of the long-term equity investment and other long-term right and interests which substantially form the net investment made to the invested entity and at the same time, recognized the income on investment

3. Criteria for the determination of joint control and significant influence over invested enterprise

If an investing enterprise has the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with an assent on sharing the control power over the relevant important financial and operating decisions, the investing enterprise and other parties are regarded to have joint control over an invested entity If an investing enterprise has the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies, the investing enterprise is regarded to have significant influences on the invested entity.

4. Impairment test and provision for impairment

For a long-term equity investment for which there is no quoted price in the active market and of which the fair value cannot be reliably measured and the investing enterprise does not have significant influence over the invested entity, the impairment shall be determined by the balance between its carrying value and the present value of its future cash flows discounted by the present market rate of return of the similar financial assets.

For other long-term equity investment other than goodwill arising from the business combination, if the net realizable value shows the net realizable value of the long term equity investment is less than the book value, the balance shall be recognized as an impairment loss.

The Company assesses the goodwill arising from the business combination every year regardless whether there is indication of impairment.

Once any impairment loss of long-term equity investment is recognized, it shall not be switched back in the future accounting periods.

(XIII)Investment real estates

The term "investment real estates" refers to the real estates held for generating rent and/or capital appreciation. The investment real estates include:(1) The right to use any land which has already been rented;(2) The right to use any land which is held and prepared for transfer after appreciation; and(3) The right to use any building which has already been rented.

The Investment real estates shall be measured by the cost model. For the investment real estates measured at cost model, Building for rent shall adopt the same depreciation policy as that of fixed assets and land use right shall adopt the same amortization policy as that of intangible assets.

Where any evidence shows that there is possible investment real estates impairment, the recoverable amount of the investment real estates shall be estimated. If the recoverable amount of the investment real estates is lower than the book value, the impairment loss shall be recognized accordingly.

Once any impairment loss of investment real estates is recognized, it shall not be switched back in the future accounting periods.

(XIV) Fixed assets

1. Recognition of fixed assets

The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: (1) They are held for the sake of producing commodities, rendering labor service, renting or business management; and (2) Their useful life is in excess of one fiscal year.

(1) Financial benefits attached to the fixed asset is possibly inflowing to the Company;

(2) The cost of the fixed asset can be reliably measured.

2. Fixed assets depreciation

Fixed assets are depreciated under the straight line method. The depreciation rate is determined according to the category of assets, the useful life and the expected salvage value.

Fixed assets rented in by finance, if it is reasonably predictable that the property rights can be acquired when the rental period is expired, depreciation will be upon the retained useful life. If it can't be reasonably predictable that the property rights can be acquired when the rent period is expired, depreciation will be upon the shorter one of the rental period and the retained useful life.

Depreciation ages and ratios of fixed assets:

| Categories | Depreciation Period | Salvage Value Rate (%) | Annual depreciation rate (%) |
|-----------------------------|---------------------|------------------------|------------------------------|
| Houses & buildings | 8-30 years | 0 | 3.33-12.5 |
| Equipment & machinery | 4-18 years | 3 | 5.39-24.3 |
| Vehicle and other equipment | 5-18 years | 3 | 5.39-19.4 |

3. Impairment of fixed assets:

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible fixed assets impairment.

Where any evidence shows that there is possible fixed assets impairment, the recoverable amount of the fixed assets shall be estimated. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the expected future cash flow of the fixed assets.

Where the measurement result of the recoverable amount indicates that an fixed asset's recoverable amount is lower than its carrying value, the carrying value of the fixed asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of fixed asset impairment and be recorded as the profit or loss for the current period. Simultaneously, a provision for the fixed asset impairment shall be made accordingly.

After the loss of fixed asset impairment has been recognized, the depreciation or amortization expenses of the impaired fixed asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the fixed asset systematically (deducting the expected net salvage value) within the residual service life of the fixed asset.

Once any loss of fixed asset impairment is recognized, it shall not be switched back in the future accounting periods.

Where there is any evidence indicating a possible impairment of fixed assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the fixed asset belongs.

4. Recognition criteria for fixed asset leased in by finance lease and its valuation

Where a lease satisfies one or more of the following criteria, it shall be recognized as a finance lease:

- (1) The ownership of the leased asset is transferred to the lessee when the term of lease expires;
- (2) The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable.
- (3) The lease term covers the major part of the use life of the leased asset;
- (4) The present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date;

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

(XV) Construction in process

1. Classification of Construction in Progress

Construction in progress is classified and measured by the specific project.

2. The criteria and time of transfer of construction in progress to fixed assets

The cost of fixed assets transferred from a construction in progress includes all the necessary expenses incurred for bringing the asset to the expected conditions for use.

Construction in progress is transferred to fixed asset when it has reached its working condition for its intended use. In case the final project accounts have not been completed or approved, the asset should be transferred to fixed assets at an estimated value by considering project budget, cost or actual cost of the project and etc., and the deprecation of the said fixed assets shall be provided in accordance with the Company's accounting policy since it has reached its working condition for its intended use. After the project accounts have been approved, the estimated values should be adjusted based on the actual cost, but those provided deprecation should not be adjusted.

3. Impairment of Construction in progress:

The Company shall, on the day of balance sheet, make a judgment on whether there is any sign of possible Construction in progress impairment.

If there is evidence indicates that there is possible construction in progress impairment, the recoverable amount of the construction in progress shall determined as higher of the net amount of the fair value of the construction in progress less disposal expenses, and the current value of the expected future cash flow of the construction in progress.

Where an fixed asset's recoverable amount is lower than its carrying value, the carrying value of the fixed asset shall be reduced to the recoverable amount, and the reduced amount shall be recognized as fixed asset impairment loss and be recorded as the profit or loss for the current period. Simultaneously, a provision for the fixed asset impairment shall be made accordingly.

After the impairment has been recognized, the depreciation of the impaired fixed asset shall be adjusted accordingly in the future periods so as to depreciate the adjusted carrying value of the fixed asset systematically (deducting the expected salvage value) over the remaining useful life of the fixed asset.

Impairment loss on construction in progress shall not be reversed in the future accounting periods.

Where there is any evidence indicating a possible impairment of construction in progress, the Company shall, on the basis of single item assets, estimate the recoverable amount. If the recoverable amount of the individual asset is undeterminable, the company shall determine the recoverable amount of the asset group to which the fixed asset belongs.

(XVI) Borrowing Costs

1) Principle of the recognition of capitalized borrowing costs

Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

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

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

- (1) The asset disbursements have already incurred, which shall include cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;
- (2) The borrowing costs has already incurred; and
- (3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

2) The capitalization period of borrowing costs

The capitalization period shall refer to the period from the commencement to the cessation of

capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

Where each part of a qualified asset under acquisition and construction or production is completed separately and is ready for use, the capitalization of the borrowing costs in relation to this part of asset shall be ceased.

Where each part of a asset under acquisition and construction or production is completed separately and is ready for use or sale during the continuing construction of other parts, but it can not be used or sold until the asset is entirely completed, the capitalization of the borrowing costs shall be ceased when the asset is completed entirely.

3) The Suspension of capitalization of borrowing costs

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts.

4) Method of calculating the capitalized amount of borrowing costs

For interest expense (minus the income of interests earned on the unused borrowing loans as a deposit in the bank or investment income earned on the loan as a temporary investment) and the ancillary expense incurred to a specifically borrowed loan, those incurred before a qualified asset under acquisition, construction or production is ready for the intended use or sale shall be capitalized at the incurred amount when they are incurred, and shall be recorded into the costs of the asset eligible for capitalization;

The enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

(XVII) Intangible Assets

1. Measurement of Intangible Assets

(1). Initial measurement is based on cost upon acquisition.

The intangible assets shall be recorded at initial cost.

The cost of an intangible asset on acquisition include the purchase price, relevant taxes and other necessary disbursements which may be directly attributable to bringing the intangible asset to the conditions for the expected purpose. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of the financing nature, the cost of the intangible asset shall be determined on the basis of the current value of the purchase price.

For intangible assets obtained from debt restructuring as settlement of liabilities from debtors, initial recognition is based on its fair value, and the difference between the debt restructured and the fair value of the intangible assets are recognized in the current profit and loss.

For intangible assets obtained from non-monetary transactions with commercial substance, and the fair value of the assets obtained or surrendered can be reliably measured, the initial recognition of the asset obtained is based on the fair value of the asset surrendered, unless there is strong evidence that the fair value of the asset obtained is more reliable. For intangible assets obtained through non-monetary transactions which do not meet the above criteria, the initial recognition is based on the book value of the assets surrendered and the relevant taxes payable. No gain or loss will be recognized.

For the intangible assets are obtained in a business combination under the same control, initial recognition is based on the book value of the party being combined. If the intangible assets are obtained in a business combination not under the same control, initial recognition is based on the fair value.

For self-developed intangible assets, the costs shall include the cost of material consumed in developing the intangible assets, labor costs, registration cost, and amortization of other patents and royalty in the developing process, the capitalized interest expense and other necessary expenditures directly attributable to intangible assets for the expected purpose.

(2). Subsequent Measurement

The Company shall analyze and judge the beneficial period of intangible assets upon acquisition.

Intangible assets with finite beneficial period shall be amortized under the straight-line method during the period when the intangible asset can bring economic benefits to the enterprise. If it is unable to estimate the beneficial period of the intangible asset, it shall be regarded as an intangible asset with uncertain service life and shall not be amortized.

2. Impairment of intangible Assets

For intangible assets with finite beneficial period, impairment test shall be performed at end of the period if there is strong evidence that impairment exists.

Impairment test shall be carried out for intangible assets with uncertain beneficial period at each end of the period.

Impairment test shall be performed for intangible assets, for which the recoverable amount of the intangible assets shall determined as higher of the net amount of the fair value of the intangible assets less disposal expenses, and the current value of the expected future cash flow of the intangible assets.

Where an fixed asset's recoverable amount is lower than its carrying value, the carrying value of the fixed asset shall be reduced to the recoverable amount, and the reduced amount shall be recognized as fixed asset impairment loss and be recorded as the profit or loss for the current period. Simultaneously, a provision for the fixed asset impairment shall be made accordingly.

After the impairment has been recognized, the depreciation of the impaired fixed asset shall be adjusted accordingly in the future periods so as to depreciate the adjusted carrying value of the fixed asset systematically (deducting the expected salvage value) over the remaining useful life of the fixed asset.

Impairment loss on intangible assets shall not be reversed in the future accounting periods.

Where there is any evidence indicating a possible impairment of intangible assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. If the recoverable amount of the individual asset is undeterminable, the company shall determine the recoverable amount of the asset group to which the fixed asset belongs.

3. Classification criteria for internal research phase and development phase

Research phase refers to the phase of creative and planned investigation to acquire and study to acquire and understand new scientific or technological knowledge.

Development phase refers to the phase during which the result of research phase or other knowledge is applied into certain projects or designs for the manufacturing of new or substantially improved material, device and product.

The expenditure of research phase of internal research and development projects shall be recorded into the profit or loss of the current period.

4. Criteria of capitalization of development expenditure

Expenditures during the development phase of internal research and development projects shall be recognized as intangible assets when they meet all the following criteria:

- (1) It is feasible technically to complete the intangible assets for use or sale;
- (2) The intention to complete and use or sell the intangible assets is present;
- (3) The method of which the intangible assets generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- (4) Sufficient technical, financial and other resources to complete the development of the intangible assets, and ability to use or sell the intangible assets and
- (5) The development expenditures of the intangible assets can be reliably measured.

(XVIII) Contingent liabilities

When the Company is involved in litigation, guarantees provided for the debts of other enterprises, loss contract, restructuring and these events will result in future assets transfer or rendering of services and the amount of the obligation can be measured reliably, the contingent liabilities shall be recognized.

1. Recognition of contingent liabilities

The obligation pertinent to a Contingency shall be recognized as an estimated debt when the following conditions are satisfied simultaneously:

- (1) That obligation is a current obligation of the enterprise;
- (2) It is likely to cause any economic benefit to flow out of the enterprise as a result of performance of the obligation; and
- (3) The amount of the obligation can be measured in a reliable way.

2. Measurement of contingent liabilities

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

To determine the best estimate, an enterprise shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash.

The best estimate shall be conducted in accordance with the following situations, respectively:

If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range.

If there is not a sequent range for the necessary expenses and if the outcomes within this range are not equally likely to occur, the best estimate shall be determined as follows:

- (1) If the Contingencies concern a single item, it shall be determined in the light of the most likely outcome.
- (2) If the Contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

When all or some of the expenses necessary for the liquidation of an estimated debts of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of the estimated debts.

(XIX) Revenue

1. Recognition Criteria for the Revenue from sale of goods

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods; and retained neither continuing managerial involvement which usually relates to the ownership nor exerts effective control over the goods sold. The relevant amount of revenue can be measured reliably, the economic benefits related to the transaction will flow into the enterprise; and the relevant costs incurred or to be incurred can be measured reliably. Revenue from the sale of goods may be recognized.

2. Recognition Criteria for the Revenue from alienating of Assets Use Rights

When it is probable that economic benefits in relation to the transaction will flow into the enterprise; and the amount of revenues can be measured reliably. The Company shall ascertain the amount of revenues from the transfer of Assets Use Right based on the following circumstances respectively:

- (1) Interest income shall be calculated based on the duration of which the Company's cash is used by others and the actual interest rate; or
- (2) Royalty revenue shall be calculated based on the period and method of charging as stipulated in the relevant contract or agreement.

3. Recognition Criteria for the Revenue from providing Labor Services and Construction Contracts under percentage of completion method

Revenue from providing labor services are recognized under the percentage of completion method if the outcome of the labor service provision transaction can be reliably measured. Percentage completed is determined by measurement of work completed.

Total revenue from providing of labor services is determined based on the received or receivable amount stipulated in the contract or agreement, unless the received or receivable amount as stipulated in the contract or agreement is unfair.

The Company shall, on the date of the balance sheet, ascertain the current revenue from providing labor services by multiplying the total amount of revenues from providing labor services with the percentage completion, less cumulative revenues recognized in the previous accounting periods. At the same time, the enterprise shall recognize current cost of labor services by multiplying the total estimated cost of providing of labor services with percentage completion less cumulative costs recognized in the previous accounting periods.

If the result of a transaction concerning the providing of labor services cannot be reliably measured at the balance sheet date, it shall be measured as follows:

- (1) If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized to the extent of the cost of labor services incurred, and the cost of labor services shall be recognized; or
- (2) If the cost of labor services incurred is not expected to compensate, the cost incurred should be recognized in the current profit and loss, and no revenue from the providing of labor services shall be recognized.

(XX) Government Subsidies

1. Types of Government subsidies

A government subsidy means the monetary or non-monetary assets obtained free of charge by the Company from the government. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

2. Accounting treatment

The government subsidies pertinent to fixed assets and intangible assets shall be recognized as deferred income and equally recognized over the useful lives of the relevant assets as non operating income;

The government subsidies pertinent to incomes to subsidize future expenses shall be recognized as deferred income and transferred to non operating income in the period during which the expenses subsidized is recognized. Government subsidies to subsidize past expenses or losses shall be recognized

(XXI) Deferred income tax liabilities and assets

1. Recognition of deferred income tax assets

The Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent that it is probable that the deductible temporary differences will be utilized to offset taxable income.

2. Recognition of deferred income tax liabilities

The Company shall recognize the accrued income tax of the taxable temporary differences arising from current and prior periods as a deferred income tax liability. Recognition of deferred income tax liabilities are exclusive of goodwill and temporary differences arising from transaction not resulted from business combinations and such transaction will affect neither accounting profit nor taxable income of the period during which it occurs.

(XXII) Operating lease and finance lease

1. Accounting treatment of Operating lease

(1).The rents paid for operating leases shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs paid by the Company shall be recorded into the profits and losses of the current period

If the leaser has shouldered any expense related to the lease which should have been borne by the Company, the Company shall deduct these expenses from the total rental expense and the remaining rental expense shall be allocated to each period during the lease term

(2). The rents collected from operating leases shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the whole lease term in which free lease period is included. The initial direct costs paid by the Company shall be recorded into the profits and losses of the current period. The initial direct costs shall be capitalized if it is material, and be allocated to each period as per the basis for rental revenue recognition.

If the Company has shouldered any expense related to the lease which should have been borne by the lessee, the company shall deduct these expenses from the total rental revenue and the remaining rental revenue shall be allocated to each period during the lease term.

2. Accounting treatment of Finance lease

(1). Leased in asset

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

The lessee shall adopt the effective interest rate method to calculate and recognize the financing charge in the current period. The unrecognized financing charge shall be amortized to each period during the lease term.

(2). Leased out asset

On the beginning date of the lease term, the balance between the sums of the financing lease values receivable and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income. The unrealized financing income shall be allocated to each period during the lease term. The initial direct costs directly attributable to the leased item shall be included in the initial measurement of financing lease values receivable and reduce the profit recognized during the lease period.

(XXIII)Change of main accounting policies and estimations

1. Changes to accounting policies

No accounting policy change with the Company.

2. Changes to accounting estimates

No accounting estimates change with the Company.

(XXIV)Correction of previous accounting faults

None

(XXV)Other significant accounting policies, accounting estimates and the preparation method of financial statements

None

III. Taxations

(I) Major Taxes and Rates

1. Value added tax: the taxes should be paid by taxable sales at 17% to allow the deduction of input tax.
2. City maintenance and construction taxes: the tax should be paid at 7% of turnover tax actually paid.
3. Enterprise income tax: the tax should be paid at 25% of taxable profit
4. Housing property tax: the tax should be paid at 1.2% of the building's original costs after deduction of 30% of that.
5. Other taxes: to be calculated and paid according to the relevant tax laws.

IV. Enterprise consolidation and consolidated financial statements

The figures in the following two tables are expressed in RMB 0,000.00 unless otherwise stated .

(I) Profiles of subsidiaries

Subsidiaries acquired through incorporation or investment

| Full name of the subsidiary | Ownership of the subsidiary | Reg. Add. | Business property | Registered capital | Business Scope | Actual investment at year end | Balance of other items actually formed net investment in the subsidiaries | Share proportion % | Voting power % | Consolidated? | Minor shareholders' equity | Amount for deducting minor shareholder's equity in the minor shareholder's equity | Balance of owners' equity of the parent company after deducting of the share of loss of current term by minor shareholder over the share of owners' equity in the subsidiary at beginning of term |
|--|-----------------------------|-----------|-------------------|--------------------|----------------------------------|-------------------------------|---|--------------------|----------------|---------------|----------------------------|---|---|
| Guangzhou Bengang Trade Co., Ltd. | Fully-owned | Guangzhou | Sales | 100.00 | Sales of steel | 100.00 | | 100 | 100 | Yes | | | |
| Shanghai Bengang Metallurgy Tech. Ltd. | Fully-owned | Shanghai | Sales | 500.00 | Sales of steel | 500.00 | | 100 | 100 | Yes | | | |
| Bengang Steel Plate Liaoyang Ore Ball Co., Ltd. | Fully-owned | Liaoyuang | Production | 1,000.00 | Production and sales of ore ball | 47,760.76 | | 100 | 100 | Yes | | | |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | Holding | Dalian | Production | 10,000.00 | Sales of steel plates | 6,500.00 | | 65 | 65 | Yes | | | |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | Fully-owned | Dandong | Production | 39,000.00 | Production and sales of steel | 39,000.00 | | 100 | 100 | Yes | | | |

2. The subsidiaries acquired through business combination under common control

| Full name of the subsidiary | Ownership of the subsidiary | Reg. Add. | Business property | Registered capital | Business Scope | Actual investment at year end | Balance of other items actually formed net investment in the subsidiaries | Share proportion % | Voting power % | Consolidated? | Minor shareholders' equity | Amount for deducting minor shareholder's equity in the minor shareholder's equity | Balance of owners' equity of the parent company after deducting of the share of loss of current term by minor shareholder over the share of owners' equity in the subsidiary at beginning of term |
|--|-----------------------------|-----------|-------------------|--------------------|----------------|-------------------------------|---|--------------------|----------------|---------------|----------------------------|---|---|
| Changchun Bengang Steel Sales Ltd. | Fully-owned | Changchun | Sales | 50 | Sales of steel | -135.51 | | 100 | 100 | Yes | | | |
| Haerbin Bengang International Trading Ltd. | Fully-owned | Harbin | Sales | 50 | Sales of steel | 42.34 | | 100 | 100 | Yes | | | |
| Nanjing Bengang Steel Sales Ltd. | Fully-owned | Nanjing | Sales | 115 | Sales of steel | 208.14 | | 100 | 100 | Yes | | | |
| Wuxi Bengang Steel Sales Ltd. | Fully-owned | Wuxi | Sales | 100 | Sales of steel | 93.67 | | 100 | 100 | Yes | | | |
| Xiamen Bengang Steel Sales Ltd. | Fully-owned | Xiamen | Sales | 50 | Sales of steel | 109.57 | | 100 | 100 | Yes | | | |
| Yantai Bengang Steel Sales Ltd. | Fully-owned | Yantai | Sales | 50 | Sales of steel | 1,960.03 | | 100 | 100 | Yes | | | |
| Tianjin Bengang Steel Trading Ltd. | Fully-owned | Tianjin | Sales | 300 | Sales of steel | 3,331.81 | | 100 | 100 | Yes | | | |

(II) Special purpose entity or operational entity controlled through entrusted operation or lease

None

(III) Change on scope of consolidated finance statements.

No change.

(IV) Entities newly included and excluded in the consolidated accounts

1. Subsidiaries being newly included in the consolidation scope this period

None

2. The subsidiaries which have not been consolidated this period

None

(V) The business combination under the common control: None**(VI) The business combination under the different control: None****V. Notes to the Consolidated Financial Statements**

As below, The “beginning balance” means January 1, 2011, “Ending balance” means June 30, 2011, “This period” means from 1 January 2011 to June 30, 2011. The following amount is expressed in Reminbi unless otherwise stated.

(I) Monetary capital

| Items | Ending balance | | | Beginning balance | | |
|---------------------|----------------------------|---------------|-------------------------|----------------------------|---------------|-------------------------|
| | Amount of foreign currency | Exchange rate | Amount RMB | Amount of foreign currency | Exchange rate | Amount RMB |
| Cash | | | | | | |
| RMB | | | 177,127.95 | | | 122,226.22 |
| Sub-total | | | 177,127.95 | | | 122,226.22 |
| Bank deposit | | | | | | |
| RMB | | | 2,883,132,112.32 | | | 1,259,264,621.17 |
| HKD | 860,276.01 | 0.8327 | 716,385.69 | 860,172.87 | 0.8509 | 731,921.10 |
| USD | 4,281,387.05 | 6.4716 | 27,707,424.43 | 32,264.82 | 6.6229 | 213,686.68 |
| EURO | 13,282.30 | 9.3612 | 124,338.27 | 13,275.59 | 8.7677 | 116,396.39 |
| Sub-total | | | 2,911,680,260.71 | | | 1,260,326,625.34 |
| Other monetary fund | | | | | | |
| RMB | | | 80,000,000.00 | | | 214,596,296.99 |
| Sub-total | | | 80,000,000.00 | | | 214,596,296.99 |
| Total | | | 2,991,857,388.66 | | | 1,475,045,148.55 |

Including: Details of other monetary capital:

| Items | Ending balance | Beginning balance |
|----------------------------------|----------------------|-----------------------|
| Fixed deposit | 80,000,000.00 | 4,367,126.26 |
| Deposit of L/C | 0 | 0 |
| Deposit for bank accepted drafts | 0.00 | 210,229,170.73 |
| Total | 80,000,000.00 | 214,596,296.99 |

Notes on monetary capital: Ending balance increased by RMB1,516,812,240.11, which was caused by increase of reserved capital.

(II) Notes receivable

1. Categories of notes receivable

| Categories | Ending balance | Beginning balance |
|-----------------------|-------------------------|-------------------------|
| Bank acceptance | 2,520,421,814.29 | 1,900,062,739.70 |
| Commercial acceptance | | |
| Total | 2,520,421,814.29 | 1,900,062,739.70 |

2. The Company put notes receivable of RMB150,791,144.31 under pledge to Industrial Bank Benxi Branch for issuing of notes payable with small amount.

3. No Notes receivable has been transferred into accounts receivable due to inability of drawer to meet acceptance bill at the end year.

4. No notes receivable from shareholders with 5% or over of the Company's shares at year end.

5. No notes receivable from related parties at the end of the year.

(III) Accounts receivable

1. Accounts receivable by categories

| Category | Ending balance | | | | Beginning balance | | | |
|---|-----------------------|-----------------------|-----------------------|---------------------------|-----------------------|-----------------------|-----------------------|---------------------------|
| | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % |
| Receivables with major individual amount and bad debt provision provided individually | | | | | | | | |
| Receivables provided bad debt provision in groups | 735,951,411.27 | | 410,311,020.05 | 55.75 | 755,168,055.62 | 100.00 | 410,311,020.05 | 54.33 |
| Account receivable with minor individual amount but bad debt provision is provided | | | | | | | | |
| Total | 735,951,411.27 | | 410,311,020.05 | 55.75 | 755,168,055.62 | 100.00 | 410,311,020.05 | 54.33 |

2. Bad debt provisions provided on receivable accounts in groups

| Items | Ending balance | | | Beginning balance | | |
|--------------|-----------------------|--------------------------------------|-----------------------|-----------------------|--------------------------------------|-----------------------|
| | Book balance | Percentage of the total receivable % | Bad debt provision | Book balance | Percentage of the total receivable % | Bad debt provision |
| within 1 yr | 255,239,295.39 | 34.68 | | 273,980,909.25 | 36.28 | |
| 1-2 yrs | 44,910,871.40 | 6.10 | 1,952,646.58 | 39,052,931.65 | 5.17 | 1,952,646.58 |
| 2-3 yrs | 35,886,831.33 | 4.88 | 8,443,960.32 | 42,219,801.57 | 5.59 | 8,443,960.32 |
| Over 3 yrs | 399,914,413.15 | 54.34 | 399,914,413.15 | 399,914,413.15 | 52.96 | 399,914,413.15 |
| Total | 735,951,411.27 | 100.00 | 410,311,020.05 | 755,168,055.62 | 100.00 | 410,311,020.05 |

3. No accounts receivable, which had been fully impaired or made a large proportion of bad debt provision last year, has been fully recovered or taken back a huge proportion this year.

4. No accounts receivable has been written off this year

5. The top five debtors at the year end

| Name of the companies | Relation with the Company | Amount | Ages | Portion in total receivables |
|---|---------------------------|-----------------------|--------------|------------------------------|
| Bengang Group Machinery Ltd. | Related parties | 94,691,055.23 | within 2 yrs | 12.87 |
| Benxi Steel (Group) Industrial Development Ltd. | Related parties | 46,539,875.31 | within 1 yr | 6.32 |
| China Petrol Goods Co. | Client | 17,514,730.46 | within 1 yr | 2.38 |
| No.1 Tractor Factory Ltd. Forge Branch | Client | 17,255,614.26 | within 1 yr | 2.34 |
| Benxi Steel (Group) Repairing & Building Ltd. | Related parties | 15,199,930.94 | within 1 yr | 2.07 |
| Total | | 191,201,206.20 | | 25.98 |

6. The accounts receivables of related parties are disclosed in Note VI.

7. Within the aforesaid balance, there is no amount due from the shareholders that hold 5% or more of the company's voting shares.

(IV) Prepayment

1. Prepayments presented by aging

| | Ending balance | | Beginning balance | |
|--------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | Proportion % | Amount | Proportion % |
| within 1 yr | 768,647,773.21 | 93.70 | 757,568,718.76 | 93.43 |
| 1-2 years | 51,719,309.26 | 6.30 | 53,282,519.51 | 6.57 |
| 2-3 years | | | | |
| Over 3 yrs | | | | |
| Total | 820,367,082.47 | 100.00 | 810,851,238.27 | 100.00 |

2. Top five companies of prepayments

| Name of the companies | Relation with the Company | Amount | Date | Reason of unsettled |
|--|---------------------------|-----------------------|-------------|--------------------------|
| Liaoning Power Supply Co., Ltd. Benxi Branch | Supplier | 255,574,206.07 | within 1 yr | Prepaid for power supply |
| Jiangyin Xiagang Yangtze Ship Disassembling Factory | Supplier | 84,598,296.25 | within 1 yr | Prepayment |
| Benxi Steel (Group) Construction Ltd. | Related parties | 62,871,674.38 | within 1 yr | Prepayment |
| Dalian Zhongtie Foreign Service Cargo Agency Co., Ltd. Bayuquan Branch | Supplier | 53,243,583.18 | within 1 yr | Prepayment |
| Shanxi Xishan Powerplant Co., Ltd. | Supplier | 48,193,648.00 | within 1 yr | Prepayment |
| Total | | 504,481,407.88 | | |

3. Within the aforesaid balance, there is no amount due from the shareholders that hold 5% or more of the company's voting shares.

4. As to the ending balance of prepayments with regard to related parties, please refer to the Note 6.

5. Notes to prepayment: Ending balance increased by RMB9,515,844.20 and 1.17%, which was caused by increase of prepayment for purchasing.

(V) Other receivables

1. Other receivables presented by categories:

| Category | Ending balance | | | | Beginning balance | | | |
|---|-----------------------|-----------------------|----------------------|---------------------------|-----------------------|-----------------------|----------------------|---------------------------|
| | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % |
| Other receivables with major individual amount and bad debt provision provided individually | | | | | | | | |
| Other receivables provided bad debt provision in groups | 273,783,461.69 | 99.37 | 74,426,789.76 | 27.18 | 178,726,805.81 | 99.04 | 74,426,789.76 | 41.64 |
| Other account receivable with minor individual amount but bad debt provision is provided | 1,740,000.00 | 0.63 | | | 1,740,000.00 | 0.96 | | |
| Total | 275,523,461.69 | 100.00 | 74,426,789.76 | 27.18 | 180,466,805.81 | 100.00 | 74,426,789.76 | 41.64 |

2. Other receivables tested for impairment by portfolio:

| Items | Ending balance | | | Beginning balance | | |
|--------------|-----------------------|--------------------------------------|----------------------|-----------------------|--------------------------------------|----------------------|
| | Book balance | Percentage of the total receivable % | Bad debt provision | Book balance | Percentage of the total receivable % | Bad debt provision |
| within 1 yr | 182,015,062.41 | 66.48 | | 86,637,953.98 | 48.48 | |
| 1-2 yrs | 10,483,388.04 | 3.83 | 455,799.48 | 9,115,989.60 | 5.10 | 455,799.48 |
| 2-3 yrs | 9,564,488.94 | 3.49 | 2,250,467.98 | 11,252,339.93 | 6.30 | 2,250,467.98 |
| Over 3 yrs | 71,720,522.30 | 26.20 | 71,720,522.30 | 71,720,522.30 | 40.13 | 71,720,522.30 |
| Total | 273,783,461.69 | 100.00 | 74,426,789.76 | 178,726,805.81 | 100.00 | 74,426,789.76 |

3. Bad debt provision for individually significant other receivables and individually insignificant other receivables for which impairment test has been carried out:

| Name of the companies | Book balance | Bad debt provision | Providing rate % | Reason |
|---|--------------|--------------------|------------------|--------------|
| Japanese Loan Sinking Fund of Finance Bureau of Benxi | 1,740,000.00 | | | sinking fund |
| Total | 1,740,000.00 | | | |

The Finance Bureau of Benxi Japanese Loan Sinking fund is the deposit for paying back Japanese Yan loan. The aging is over three years and no bad debt provision has been made

4. Change of the bad debt provision

| Items | Balance of book value at beginning of term | Provided this term | Decreased this term | | Balance of book value at end of term |
|--------------|--|--------------------|---------------------|-------------|--------------------------------------|
| | | | Written back | Transferred | |
| 2010 | 55,052,791.89 | 19,374,137.87 | 140.00 | - | 74,426,789.76 |
| Jan-Jun 2011 | 74,426,789.76 | | | | 74,426,789.76 |

No other receivables, which had been fully impaired or made a large proportion of bad debt provision last year, has been fully recovered or taken back a large proportion this year.

5. Top five debtors at the year end

| Name of companies | Relation with the Company | Amount | Account age | Portion in total other receivables (%) | Description |
|---|---------------------------|-----------------------|-------------|--|--------------------------|
| China Securities Registration and Clearance Co., Ltd. Shenzhen Branch | Agency | 105,943,574.68 | within 1 yr | 38.45 | Dividend |
| National Tax Bureau Bengang Office | Tax bureau | 40,941,936.61 | within 1 yr | 14.86 | Tax refunding |
| Freight for main clients | Transportation Co. | 7,316,834.00 | within 1 yr | 2.66 | Freight |
| Benxi Steel (Group) Real-estate Development Co., Ltd. | Related parties | 5,712,079.22 | within 1 yr | 2.07 | Payment for energy agent |
| Benxi Steel & Iron Co. No.2 Steel Rolling Factory | Supplier | 4,198,316.69 | over 1 yr | 1.52 | Payment for energy agent |
| Total | | 164,112,741.20 | | 59.56 | |

6. As to the ending balance of other receivables with regard to related parties, please refer to the Note VI.

7. No other receivable has been written-off this year.

8. At end of report period, within the aforesaid balance, the amount due from Benxi Steel (Group) Co., Ltd. who holds 5% or more the voting shares of the Company is RMB1,954,283.85

(VI) Inventories

1. Categories of inventories

| Items | Ending balance | | | Beginning balance | | |
|----------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|-----------------------|--------------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Raw materials and main materials | 8,013,823,647.91 | 22,659,881.77 | 7,991,163,766.14 | 7,248,284,410.99 | 22,659,881.77 | 7,225,624,529.22 |
| Semi-finished Product | 1,495,468,678.92 | 66,531,714.03 | 1,428,936,964.89 | 1,167,538,162.85 | 66,531,714.03 | 1,101,006,448.82 |
| Finished products | 2,405,161,328.84 | 11,873,302.11 | 2,393,288,026.73 | 1,982,843,012.15 | 11,873,302.11 | 1,970,969,710.04 |
| Total | 11,914,453,655.67 | 101,064,897.91 | 11,813,388,757.76 | 10,398,665,585.99 | 101,064,897.91 | 10,297,600,688.08 |

There are no inventories used as mortgage or guarantee at the end of the year.

Increase of finished products was caused by increase of production and unit cost.

2. Inventory impairment provisions

| Categories | Balance of book value at beginning of term | Provided this term | Decreased this term | | Balance of book value at end of term |
|----------------------------------|--|--------------------|---------------------|-------------|--------------------------------------|
| | | | Written back | Transferred | |
| Raw materials and main materials | 22,659,881.77 | | | | 22,659,881.77 |
| Semi-finished Product | 66,531,714.03 | | | | 66,531,714.03 |
| Finished products | 11,873,302.11 | | | | 11,873,302.11 |
| Total | 101,064,897.91 | | | | 101,064,897.91 |

3. Inventory impairment provision

| Items | Basis of providing impairment provision | Reason of written back | The percentage of write-back against the ending balance of inventory |
|----------------------------------|---|------------------------|--|
| Raw materials and main materials | Net realizable value is lower than | | |
| Semi-finished Product | Net realizable value is lower than | | |
| Finished products | Net realizable value is lower than | | |

(VII) Other current assets

| Items | Ending balance | Beginning balance |
|--------------------|-----------------------|-----------------------|
| Prepaid income tax | 182,211,823.73 | 182,211,823.73 |
| Total | 182,211,823.73 | 182,211,823.73 |

(VIII) Long-term equity investment

| Company invested in | Calculating basis | Investment cost | Beginning balance | Changed by | Ending balance | Percentage of share in the firm % | Voting power in the firm % | Statement on differences between the shareholding and voting rights | Impairment provision | Impairment provision provided this term | Cash dividend of the current term |
|---|-------------------|-----------------|-------------------|------------|----------------|-----------------------------------|----------------------------|---|----------------------|---|-----------------------------------|
| Tianjin Bengang Longxing Steel Processing Co., Ltd. | Cost basis | 3,888,980.00 | 3,888,980.00 | | 3,888,980.00 | 20 | 20 | | | | |
| China Steel Shanghai Steel Processing Co., Ltd. | Cost basis | 10,058,250.00 | 10,058,250.00 | | 10,058,250.00 | 15 | 15 | | | | |
| Zhejiang Bengang Jingrui Steel Processing Ltd. | Cost basis | 1,843,800.00 | 1,843,800.00 | | 1,843,800.00 | 20 | 20 | | | | |
| Subtotal on cost basis | | 15,791,030.00 | 15,791,030.00 | | 15,791,030.00 | | | | | | |
| Total | | 15,791,030.00 | 15,791,030.00 | | 15,791,030.00 | | | | | | |

(IX) Original value and accumulated depreciation of fixed assets

1. Fixed assets

| Items | Balance of book value at beginning of term | Increased this term | | Decreased this term | Balance of book value at end of term |
|------------------------------------|--|---------------------|--------------------|---------------------|--------------------------------------|
| I. Total of original book value | 36,476,598,054.78 | 10,168,121.67 | | 517,318.01 | 36,486,248,858.44 |
| Incl. House & Buildings | 8,754,129,609.73 | 3,546,398.00 | | | 8,757,676,007.73 |
| Equipment & machinery | 26,956,814,829.76 | 6,621,723.67 | | | 26,963,436,553.43 |
| Transportation facilities | 765,653,615.29 | | | 517,318.01 | 765,136,297.28 |
| | | Increased this term | Provided this term | | |
| II. Total of accumulative | 17,611,742,153.67 | | 966,751,736.07 | 483,462.64 | 18,578,010,427.10 |
| Incl. House & Buildings | 2,287,616,152.72 | | 210,126,480.27 | | 2,497,742,632.99 |
| Equipment & machinery | 14,859,750,892.80 | | 745,352,578.00 | | 15,605,103,470.80 |
| Transportation facilities | 464,375,108.15 | | 11,272,677.80 | 483,462.64 | 475,164,323.31 |
| III. Total of net book value of | 18,864,855,901.11 | | | | 17,908,238,431.34 |
| Incl. House & Buildings | 6,466,513,457.01 | | | | 6,259,933,374.74 |
| Equipment & machinery | 12,097,063,936.96 | | | | 11,358,333,082.63 |
| Transportation facilities | 301,278,507.14 | | | | 289,971,973.97 |
| IV. Total of impairment | 8,237,689.11 | | | | 8,237,689.11 |
| Incl. House & Buildings | 8,208,087.85 | | | | 8,208,087.85 |
| Equipment & machinery | 29,601.26 | | | | 29,601.26 |
| Transportation facilities | | | | | |
| V. Total of fixed asset book value | 18,856,618,212.00 | | | | 17,900,000,742.23 |
| Incl. House & Buildings | 6,458,305,369.16 | | | | 6,251,725,286.89 |
| Equipment & machinery | 12,097,034,335.70 | | | | 11,358,303,481.37 |
| Transportation facilities | 301,278,507.14 | | | | 289,971,973.97 |

The original value of construction-in-process transferred to fixed assets was RMB3,546,398.00.

The Company has no guaranteed or mortgaged fixed assets at the year end.

2. Fixed leased out

| Items | Book value |
|-----------------------|---------------|
| Houses & buildings | 11,692,025.14 |
| Equipment & machinery | 39,712.41 |
| Total | 11,731,737.55 |

3. Fixed asset not granted property license yet

| Items | Book value | Reason | Expected date of grant |
|--------------------------|------------------|-------------------------------------|------------------------|
| Houses & buildings | 3,143,557,993.14 | Newly built construction | Not applied |
| Transportation equipment | 1,659,076.93 | Newly purchased and not applied yet | Not applied |
| Total | 3,145,217,070.07 | | |

(X) Construction in process

| Items | Ending balance | | | Beginning balance | | |
|---|------------------|----------------------|------------------|-------------------|----------------------|------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Super thin cool rolling plate reformation | 57,083,558.27 | | 57,083,558.27 | 45,694,370.32 | | 45,694,370.32 |
| IT project of the Company | 36,361,417.97 | | 36,361,417.97 | 24,436,789.73 | | 24,436,789.73 |
| Energy saving reconstruction and 180t dephosphorization converter | 207,396,339.44 | | 207,396,339.44 | 101,889,969.96 | | 101,889,969.96 |
| Environmental reengineering | 72,487,680.18 | | 72,487,680.18 | 47,986,839.61 | | 47,986,839.61 |
| Taizihe Transformation Station 66KV cable | 30,287,014.00 | | 30,287,014.00 | 30,095,814.00 | | 30,095,814.00 |
| Recycling steel plant phase Reforming | 112,518,052.83 | | 112,518,052.83 | 111,699,762.22 | | 111,699,762.22 |
| Other small projects | 84,585,729.59 | | 84,585,729.59 | 57,839,443.47 | | 57,839,443.47 |
| Silicon steel project | 396,116,804.10 | | 396,116,804.10 | 381,305,058.86 | | 381,305,058.86 |
| Ancillary facilities reconstruction for iron-making, transportation and logistics | 1,770,975.94 | | 1,770,975.94 | 1,770,975.94 | | 1,770,975.94 |
| Plate flare clearing | 142,264,163.09 | | 142,264,163.09 | 87,162,739.27 | | 87,162,739.27 |
| 2250 mm skin pass mill | 7,434,740.86 | | 7,434,740.86 | 0.00 | | 0.00 |
| electrolytic zinc | 64,190,488.71 | | 64,190,488.71 | 0.00 | | 0.00 |
| Dalian Benruitong | 5,347,326.85 | | 5,347,326.85 | 1,101,007.30 | | 1,101,007.30 |
| Dandong Stainless | 1,008,481,968.39 | | 1,008,481,968.39 | 724,697,933.98 | | 724,697,933.98 |
| Ha' erbin Office | 0.00 | | 0.00 | 3,546,398.00 | | 3,546,398.00 |
| Total: | 2,226,326,260.22 | | 2,226,326,260.22 | 1,619,227,102.66 | | 1,619,227,102.66 |

Note to change of construction-in-process: ending balance of construction-in-process has increased by RMB607,099,157.5 (37.49%) over the beginning balance, which was caused by proceeding of projects not completed yet.

No impairment provision provided on construction-in-process at end of report period.

The change of important construction in progress

| Name of projects | Budget | Beginning balance | Increased this term | Transferred into fixed assets | Other decreases | Ending balance |
|---|------------------|-------------------|---------------------|-------------------------------|-----------------|------------------|
| Super thin cool rolling plate reformation | 1,126,190,000.00 | 45,694,370.32 | 11,389,187.95 | 0.00 | 0.00 | 57,083,558.27 |
| IT project of the Company | 274,440,000.00 | 24,436,789.73 | 11,924,628.24 | 0.00 | 0.00 | 36,361,417.97 |
| Energy saving reconstruction and 180t dephosphorization converter | 1,375,840,000.00 | 101,889,969.96 | 105,506,369.48 | 0.00 | 0.00 | 207,396,339.44 |
| Environmental reengineering | 150,000,000.00 | 47,986,839.61 | 24,500,840.57 | 0.00 | 0.00 | 72,487,680.18 |
| Taizihe Transformation Station 66KV cable | 92,950,000.00 | 30,095,814.00 | 191,200.00 | 0.00 | 0.00 | 30,287,014.00 |
| Recycling steel plant phase Reforming | 188,340,000.00 | 111,699,762.22 | 818,290.61 | 0.00 | 0.00 | 112,518,052.83 |
| Other small projects | 200,000,000.00 | 57,839,443.47 | 26,746,286.12 | 0.00 | 0.00 | 84,585,729.59 |
| Silicon steel project | 603,350,000.00 | 381,305,058.86 | 14,811,745.24 | 0.00 | 0.00 | 396,116,804.10 |
| Ancillary facilities reconstruction for iron-making, transportation and logistics | 95,120,000.00 | 1,770,975.94 | 0.00 | 0.00 | 0.00 | 1,770,975.94 |
| Plate flare clearing | 207,630,000.00 | 87,162,739.27 | 55,101,423.82 | 0.00 | 0.00 | 142,264,163.09 |
| 2250 mm skin pass mill | 96,880,000.00 | 0.00 | 7,434,740.86 | 0.00 | 0.00 | 7,434,740.86 |
| electrolytic zinc | 700,000,000.00 | 0.00 | 64,190,488.71 | 0.00 | 0.00 | 64,190,488.71 |
| Dalian Benruitong | 205,487,800.00 | 1,101,007.30 | 4,246,319.55 | 0.00 | 0.00 | 5,347,326.85 |
| Dandong Stainless | 2,230,000,000.00 | 724,697,933.98 | 283,784,034.41 | 0.00 | 0.00 | 1,008,481,968.39 |
| Ha'erbin Office | 3,994,000.00 | 3,546,398.00 | 0.00 | 3,546,398.00 | 0.00 | 0.00 |
| Total: | 7,550,221,800.00 | 1,619,227,102.66 | 610,645,555.56 | 3,546,398.00 | 0.00 | 2,226,326,260.22 |

| Name of projects | Investment on budget (%) | Progress (%) | Accumulate of interest capitalized | Including: interest capitalized this term | Capitalizing rate of interest % | Fund recourse |
|---|--------------------------|--------------|------------------------------------|---|---------------------------------|---------------|
| Super thin cool rolling plate reformation | 91 | 97 | 881,573.20 | 0.00 | 0% | Independent |
| IT project of the Company | 65 | 70 | 3,234,400.75 | 0.00 | 0% | Independent |
| Energy saving reconstruction and 180t dephosphorization converter | 55 | 65 | 23,578,505.39 | 0.00 | 0% | Independent |
| Environmental reengineering | 50 | 50 | 2,491,450.89 | 0.00 | 0% | Independent |
| Taizihe Transformation Station 66KV cable | 95 | 95 | 1,589,149.75 | 0.00 | 0% | Independent |
| Recycling steel plant phase Reforming | 65 | 65 | 7,180,154.25 | 0.00 | 0% | Independent |
| Other small projects | | | 826,550.83 | 0.00 | 0% | Independent |
| Silicon steel project | 65 | 85 | 14,360,945.48 | 0.00 | 0% | Independent |
| Ancillary facilities reconstruction for iron-making, transportation and logistics | 90 | 95 | 1,140,607.31 | 0.00 | 0% | Independent |
| Plate flare clearing | 70 | 70 | 1,044,913.81 | 0.00 | 0% | Independent |
| 2250 mm skin pass mill | 8 | 10 | 0.00 | 0.00 | 0% | Independent |
| electrolytic zinc | 9 | 10 | 1,860,995.27 | 1,034,444.44 | 6.65% | Independent |
| Dalian Benruitong | 3 | 15 | 0.00 | 0.00 | 0% | Independent |
| Dandong Stainless | 65 | 80 | 29,245,950.00 | 17,426,835.00 | 5.94% | Independent |
| Ha'erbin Office | 89 | 100 | 0.00 | 0.00 | 0% | Independent |
| Total: | | | 87,435,196.93 | 18,461,279.44 | | |

(XI) Project materials

| Items | Beginning of term | Increased this term | Decreased this term | Ending balance |
|-------------------|----------------------|-----------------------|-----------------------|----------------------|
| Special equipment | 15,638,434.32 | 169,506,414.10 | 135,538,022.67 | 49,606,825.75 |
| Total | 15,638,434.32 | 169,506,414.10 | 135,538,022.67 | 49,606,825.75 |

Notes to project materials: project materials increased by RMB33,968,391.43 and 217.21% over the beginning balance, which was caused by in-stock materials purchased for project were not delivered.

(XII) Intangible assets

1. Particulars about intangible assets

| Items | Book balance at beginning of period | Increased this period | Decreased this period | Balance at end of period |
|---|-------------------------------------|-----------------------|-----------------------|--------------------------|
| 1. Total of original book value | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |
| (1) Land using rights | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |
| 2. Total of amortizing | | | | |
| (1) Land using rights | | | | |
| 3. Total of net book value of intangible assets | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |
| (1) Land using rights | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |
| 4. Total of impairment provision | | | | |
| (1) Land using rights | | | | |
| Total of book value of intangible assets | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |
| (1) Land using rights | 46,395,483.80 | | 463,954.86 | 45,931,528.94 |

No intangible assets was on pledge at end of report period

(XIII) Deferred income tax asset and deferred income tax liability

1. Recognized deferred tax asset

| Items | End of term | Beginning of term |
|--|-----------------------|-----------------------|
| Deferred income tax assets: | | |
| Impairment provision | 148,510,099.21 | 148,510,099.21 |
| Welfare for retired employee | 23,404,564.45 | 23,404,564.45 |
| Unrealized profit in inter-company sales | 11,257,733.24 | 11,257,733.24 |
| Employee wages payable | 16,151,581.65 | 16,151,581.65 |
| Reserved expenses | 2,079,016.96 | 2,079,016.96 |
| Total | 201,402,995.51 | 201,402,995.51 |

2. Breakdown of unrecognized deferred tax asset

| Items | Ending balance | Beginning balance |
|---|-----------------------|-----------------------|
| Impairment provision | 594,040,396.83 | 594,040,396.83 |
| Welfare for retired employee | 93,618,257.80 | 93,618,257.80 |
| Unrealized profit in inter-company sales | 45,030,932.95 | 45,030,932.95 |
| Employee wages payable | 64,606,326.58 | 64,606,326.58 |
| Reserved expenses | 8,316,067.83 | 8,316,067.83 |
| Total | 805,611,981.99 | 805,611,981.99 |

(XIV) Asset impairment provision

| Items | Beginning balance | Increased this term | Decreased this term | | Ending balance |
|--|-----------------------|---------------------|---------------------|-------------|-----------------------|
| | | | Written back | Written off | |
| 1. Bad debt provision | 484,737,809.81 | | | | 484,737,809.81 |
| 2. Inventory impairment provisions | 101,064,897.91 | | | | 101,064,897.91 |
| 3. Fixed assets and impairment provision | 8,237,689.11 | | | | 8,237,689.11 |
| Total | 594,040,396.83 | | | | 594,040,396.83 |

(XV) Short term loans

1. Categorizing of short term loans

| Items | Ending balance | Beginning balance |
|----------------|-------------------------|-------------------------|
| Credit loan | 3,761,573,000.00 | 2,295,236,500.00 |
| Guarantee loan | 100,000,000.00 | |
| Total | 3,861,573,000.00 | 2,295,236,500.00 |

For details of guarantees involved by related parties please see Note VI.

2. There is no overdue short-term loan outstanding at the end of term.

3. Ending balance is RMB1,566,336,500 and 68.24% higher than the beginning balance, which was caused by increase of reserved capital.

(XVI) Notes payable

| Category | Ending balance | Beginning balance |
|-----------------------|-------------------------|-------------------------|
| Bank acceptance | 1,748,231,397.35 | 1,260,376,722.11 |
| Commercial acceptance | | |
| Total | 1,748,231,397.35 | 1,260,376,722.11 |

1. There is no notes payable owed to shareholders who hold 5% or above voting shares at the end of

this year.

- As to the ending balance of notes payable with regard to related parties, please see details in Note 6.
- Ending balance is RMB487,854,675.24 and 38.71% higher than the beginning balance, which was caused by increase of financing activities by means of notes payable.

(XVII) Account payable

1. Categories of accounts payable

| Items | Ending balance | Beginning balance |
|--------------|-------------------------|-------------------------|
| within 1 yr | 6,209,221,324.52 | 6,991,708,726.60 |
| 1-2 yrs | 842,723,168.89 | 730,769,310.52 |
| 2-3 yrs | 132,206,763.86 | 143,469,087.21 |
| Over 3 yrs | 53,620,660.39 | 127,244,092.05 |
| Total | 7,237,771,917.67 | 7,993,191,216.38 |

- Within the above balance, there is no amount due to shareholders who hold 5% or more voting shares at the end of this year.
- As to the ending balance of accounts payable with regard to related parties, please refer to the details in Note 6.
- The significant accounts payables with aging over one year:

| Name of the companies | Amount | Reason of not transferred | Notes(those paid back after balance sheet date) |
|---------------------------------------|----------------|---------------------------|---|
| Benxi Steel (Group) Construction Ltd. | 199,516,453.16 | Not settled | |
| Project budget and settlement | 98,836,023.58 | Not settled | |

- Ending balance of account payable decreased by RMB755,419,298.71 and 9.45% from the beginning balance, which was caused by decreasing of settlement payment period.

(XVIII) Advance from customers

1. Categories of advance from customers

| Items | Ending balance | Beginning balance |
|--------------|-------------------------|-------------------------|
| within 1 yr | 3,465,773,363.81 | 3,042,512,439.12 |
| 1-2 yrs | 59,438,467.10 | 61,594,266.42 |
| 2-3 yrs | 8,342,469.21 | 7,254,321.05 |
| Over 3 yrs | 7,323,487.66 | 7,419,946.97 |
| Total | 3,540,877,787.77 | 3,118,780,973.56 |

- Advances from related parties are detailed in Note VI.
- Within the aforesaid balance, there is no amount due to the shareholders that hold 5% or more of the company's voting shares.
- The significant advance from customers with aging above one year

| Name of the companies | Amount | Reason of not transferred | Notes(those paid back after balance sheet date shall be marked) |
|---|---------------|---------------------------|---|
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | 22,228,324.44 | Postpone of purchasing | |

Other advance aged over one year are mainly deposits paid by agreement accounts.

5. Ending balance of advance from customers increased by RMB422,096,814.21 and 13.53%, which was caused by increase of contracts and sales prices.

(XIX) Remunerations payable

| Items | Beginning balance | Increased this term | Decreased this term | Ending balance |
|---|-----------------------|-----------------------|-------------------------|-----------------------|
| (1)Salary, bonus, allowance and subsidy | 64,706,194.58 | 651,861,248.00 | 667,070,236.19 | 49,497,206.39 |
| (2)Employee welfare | | 18,890,964.86 | 18,890,964.86 | 0.00 |
| (3)Social Insurance | 683,419.34 | 259,388,755.93 | 260,072,175.27 | 0.00 |
| Incl. A. Pension fund | | 133,245,713.70 | 133,245,713.70 | 0.00 |
| B. Supplementary pension | | 18,646,424.10 | 18,646,424.10 | 0.00 |
| C. Basic medical insurance | -31,430.00 | 47,419,080.82 | 47,387,650.82 | 0.00 |
| D. Supplementary medical insurance | | | | 0.00 |
| E. Unemployment insurance | 102.9 | 47,419,080.82 | 47,419,183.72 | 0.00 |
| F. Labor safety insurance | 714,746.44 | 12,658,456.49 | 13,373,202.93 | 0.00 |
| G. Maternity insurance | | | | 0.00 |
| (4) Housing fund | 6,851,033.00 | 57,239,179.61 | 57,639,179.61 | 6,451,033.00 |
| (5) Trade union and education fee | 18,910,235.12 | 13,323,686.18 | 15,167,121.02 | 17,066,800.28 |
| (6) Non-monetary welfare | | | | 0.00 |
| (7) Dismissing compensation | 93,618,257.80 | | 26,986,623.78 | 66,631,634.02 |
| (8) Employees' bonus and welfare fund | | | | 0.00 |
| (9) Others | | | | 0.00 |
| Incl. Share payment in cash | | | | 0.00 |
| Total | 184,769,139.84 | 981,812,869.72 | 1,026,935,335.87 | 139,646,673.69 |

(XX) Tax payable

| Tax items | Ending balance | Beginning balance |
|-----------------------|-----------------|-------------------|
| VAT | -238,908,785.58 | -727,562,244.94 |
| Business tax | 48,590.77 | 143,127.71 |
| City construction tax | 74,888.32 | 888,707.60 |
| Enterprise income tax | 15,801,440.05 | 15,386,332.04 |
| Property tax | 60,942.94 | 5,314,042.13 |
| Education surtax | 38,651.39 | 521,852.85 |
| Others | 368,784.02 | 537,839.37 |
| Total | -222,515,488.09 | -704,770,343.24 |

Ending balance of tax payable has increased by RMB482,254,855.15 and 68.43%, which was caused by decrease of input tax not deducted from the VAT.

(XXI) Dividend payable

| Items | Ending balance | Beginning balance |
|------------------|-----------------------|-------------------|
| Dividend payable | 313,600,000.00 | 0.00 |
| Total | 313,600,000.00 | 0.00 |

As approved by the Annual General Meeting 2010 on May 17, 2011: upon the total capital share of 3,136,000,000 at present, cash dividend of RMB1.00 (tax included) was distributed to each 10 shares. Dividend was totaled to RMB313,600,000.00, and was implemented on July 5.

(XXII) Other payables

1. Categories of other payables

| Items | Ending balance | Beginning balance |
|--------------------|-----------------------|-----------------------|
| within 1 yr | 628,341,756.96 | 538,476,810.76 |
| 1-2 yrs | 146,794,559.97 | 127,647,443.45 |
| 2-3 yrs | 19,334,503.55 | 21,724,161.29 |
| Over 3 yrs | 30,412,692.14 | 33,237,914.91 |
| Total | 824,883,512.62 | 721,086,330.41 |

2. There is other payables amounting to RMB182,800,091.00 owed to Benxi Steel (Group) Co., Ltd. who hold 5% or more voting shares at the end of this period.

3. As to the ending balance of accounts payable with regard to related parties, please refer to the details in Note 6.

4. No significant other payables with aging over one year.

5. The details of significant other payables

| Name of the companies | Amount | Description | Note |
|---|----------------|-----------------|------|
| Benxi Steel (Group) Co., Ltd. | 182,800,091.00 | Current account | |
| Bengang Trucking & Transportation Co., Ltd. | 20,194,837.84 | Freight | |
| Bengang Group Thermal Power Development Co., Ltd. | 14,312,056.92 | Heating | |
| Benxi Steel & Iron Co. Steel Rolling Factory | 10,856,896.89 | | |

6. Other payables increased by RMB103,797,182.21 and 14.39%, which was caused by increase of rental of No.3 hot rolling provided in advance and overdue repairing fee.

(XXIII) Non-current liability due in 1 year

| Items | Ending balance | Beginning balance |
|----------------------|-------------------------|-------------------------|
| Long-term borrowings | 1,603,160,000.00 | 1,013,263,228.43 |
| Total | 1,603,160,000.00 | 1,013,263,228.43 |

1. Long-term loans due in one year

| Items | Ending balance | Beginning balance |
|------------------|-------------------------|-------------------------|
| Credit loan | 1,603,160,000.00 | 1,012,320,000.00 |
| Guaranteed loans | | 943,228.43 |
| Total | 1,603,160,000.00 | 1,013,263,228.43 |

2. Breakdown of long-term loans due in one year

| Loan provided by | Commence date | Terminate date | Currency | Interest rates % | Amount at end of term |
|----------------------------------|---------------|----------------|----------|------------------|-------------------------|
| Industry Bank Bengang Branch | 2008.01.27 | 2011.07.20 | RMB | 5.94 | 19,160,000.00 |
| Agriculture Bank Xinhua Branch | 2010.1.22 | 2012.1.21 | RMB | 5.1 | 200,000,000.00 |
| Agriculture Bank Xinhua Branch | 2010.1.25 | 2012.1.24 | RMB | 5.1 | 100,000,000.00 |
| Agriculture Bank Xinhua Branch | 2010.02.04 | 2012.02.03 | RMB | 5.1 | 200,000,000.00 |
| Agriculture Bank Xinhua Branch | 2010.03.12 | 2012.03.10 | RMB | 5.1 | 200,000,000.00 |
| Construction Bank Bengang Branch | 2008.11.18 | 2011.11.17 | RMB | 6.75 | 37,000,000.00 |
| Construction Bank Bengang Branch | 2009.09.11 | 2011.09.10 | RMB | 4.86 | 300,000,000.00 |
| Construction Bank Bengang Branch | 2009.09.08 | 2011.07.07 | RMB | 4.86 | 177,000,000.00 |
| Construction Bank Bengang Branch | 2009.09.09 | 2011.08.08 | RMB | 4.86 | 170,000,000.00 |
| Construction Bank Bengang Branch | 2009.09.22 | 2011.09.21 | RMB | 4.86 | 200,000,000.00 |
| Total | | | | | 1,603,160,000.00 |

(XXIV) Long-term loans

1. Categories of long-term borrowings

| Categories | Ending balance | Beginning balance |
|----------------|-------------------------|-------------------------|
| Credit loan | 2,184,251,600.00 | 1,884,200,000.00 |
| Guarantee loan | 2,572,597,243.30 | 2,939,824,138.39 |
| Total | 4,756,848,843.30 | 4,824,024,138.39 |

Please refer to the Note 6 for the details of the guarantee loan

2. Details of long-term borrowings

| Loan provided by | Currency | Original currency | Annual interest rate | Commence date | Terminate date | Translated to RMB | Means |
|----------------------------------|----------|-------------------|----------------------|---------------|----------------|-------------------|------------|
| Industry Bank Bengang Branch | RMB | 90,000,000.00 | 5.94 | 2010.03.12 | 2013.03.12 | 90,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 90,000,000.00 | 5.94 | 2010.03.12 | 2013.09.12 | 90,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 90,000,000.00 | 5.94 | 2010.03.12 | 2014.03.12 | 90,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 19,160,000.00 | 5.94 | 2008.01.31 | 2013.07.19 | 19,160,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 19,160,000.00 | 5.94 | 2008.01.32 | 2014.01.20 | 19,160,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 19,160,000.00 | 5.94 | 2008.01.33 | 2014.07.21 | 19,160,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 19,240,000.00 | 5.94 | 2008.01.34 | 2015.01.20 | 19,240,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 290,000,000.00 | 5.18 | 2011.01.21 | 2015.07.20 | 290,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 127,000,000.00 | 6.65 | 2011.05.24 | 2014.09.24 | 127,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 73,000,000.00 | 6.65 | 2011.05.24 | 2015.09.24 | 73,000,000.00 | Credit |
| Industry Bank Bengang Branch | RMB | 417,480,000.00 | 6.10 | 2011.03.11 | 2013.03.08 | 417,480,000.00 | Credit |
| Construction Bank Bengang Branch | RMB | 70,000,000.00 | 5.94 | 2007.04.30 | 2014.04.29 | 70,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 130,000,000.00 | 5.94 | 2007.05.06 | 2014.04.29 | 130,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 200,000,000.00 | 5.76 | 2007.12.03 | 2012.07.25 | 200,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 400,000,000.00 | 5.76 | 2008.04.29 | 2013.04.15 | 400,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 100,000,000.00 | 5.02 | 2010.07.01 | 2013.06.30 | 100,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 310,000,000.00 | 5.02 | 2010.07.02 | 2013.07.01 | 310,000,000.00 | Guaranteed |
| Construction Bank Bengang Branch | RMB | 300,000,000.00 | 5.02 | 2010.07.02 | 2013.06.01 | 300,000,000.00 | Guaranteed |
| Bank of China Bengang Branch | RMB | 100,000,000.00 | 5.40 | 2010.04.29 | 2013.04.28 | 100,000,000.00 | Guaranteed |
| Bank of China Bengang Branch | USD | 30,000,000.00 | 3.10 | 2009.09.11 | 2012.09.10 | 194,148,000.00 | Guaranteed |

| | | | | | | | |
|---|-----|----------------|------|------------|------------|-------------------------|------------|
| Bank of China Bengang Branch | USD | 30,000,000.00 | 3.17 | 2009.09.11 | 2012.09.10 | 194,148,000.00 | Guaranteed |
| Bank of China Bengang Branch | USD | 20,000,000.00 | 2.30 | 2009.09.25 | 2012.09.24 | 129,432,000.00 | Guaranteed |
| Bank of China Bengang Branch | USD | 20,000,000.00 | 2.30 | 2009.10.12 | 2012.08.24 | 129,432,000.00 | Guaranteed |
| Bank of China Bengang Branch | USD | 24,000,000.00 | 3.30 | 2009.10.20 | 2012.10.18 | 155,318,400.00 | Guaranteed |
| Bank of China Bengang Branch | USD | 20,000,000.00 | 3.30 | 2009.10.25 | 2012.10.05 | 129,432,000.00 | Guaranteed |
| National Development Bank Liaoning Branch | USD | 5,000,000.00 | 3.51 | 2011.04.07 | 2014.03.19 | 32,358,000.00 | Credit |
| National Development Bank Liaoning Branch | USD | 25,000,000.00 | 3.51 | 2011.04.26 | 2014.03.19 | 161,790,000.00 | Credit |
| National Development Bank Liaoning Branch | USD | 21,000,000.00 | 3.51 | 2011.05.26 | 2014.03.19 | 135,903,600.00 | Credit |
| Finance Bureau | JPY | 382,423,928.57 | 1.75 | 1999.10.10 | 2027.09.10 | 30,686,843.30 | Guaranteed |
| Communication Bank Dandong Branch | RMB | 600,000,000.00 | 4.46 | 2010.02.03 | 2021.11.05 | 600,000,000.00 | Credit |
| Total | | | | | | 4,756,848,843.30 | |

(XXV) Other non-recurring liabilities

| Items | Beginning balance | Increased this term | Decreased this term | Ending balance | Remarks |
|---|-----------------------|----------------------|---------------------|-----------------------|---------|
| 3 government technology financing funds | 929,224.00 | | 65,000.00 | 864,224.00 | Note 1 |
| 6#7#coke oven of dry Quenching coke | 5,972,222.22 | | | 5,972,222.22 | Note 2 |
| Discarding of out-of-date production | 34,800,000.00 | | | 34,800,000.00 | Note 3 |
| Industrial energy management center demonstrative project | 11,600,000.00 | | | 11,600,000.00 | Note 4 |
| Automobile zinc plate production line | 41,040,000.00 | | | 41,040,000.00 | Note 5 |
| Restoring of Bengang No.2 Power Plant | 14,128,000.00 | | | 14,128,000.00 | Note 6 |
| Iron Factory 2*265 square meter Sintering Flue Gas Desulphurization Project | 5,000,000.00 | | | 5,000,000.00 | Note 7 |
| Iron Factory 2*265 square meter Sintering Flue Gas Desulphurization Project | 3,000,000.00 | | | 3,000,000.00 | Note 8 |
| Provincial environmental protection fund project | 4,000,000.00 | | 4,000,000.00 | 0.00 | Note 9 |
| Special fund for furnace reconstruction | | 23,630,000.00 | | 23,630,000.00 | Note 10 |
| Environment treatment project fund | | 8,400,000.00 | | 8,400,000.00 | Note 11 |
| Special fund for auto plate lab | | 300,000.00 | | 300,000.00 | Note 12 |
| Fund for introducing of overseas R&D team | | 3,500,000.00 | | 3,500,000.00 | Note 13 |
| MES project fund | | 8,600,000.00 | | 8,600,000.00 | Note 14 |
| Government subsidy for Dandong Stainless Steel Project | | 2,060,000.00 | | 2,060,000.00 | Note 15 |
| Total | 120,469,446.22 | 46,490,000.00 | 4,065,000.00 | 162,894,446.22 | |

1. The “3 government technology financing funds” was the fund granted by Liaoning Provincial

Bureau of Finance for the thin plate billet, continuous casting, and short circle continuous rolling project of the Company. (Liao-cai-zhi-qi) (2006)341) “Circular about granting of 3 technology financing funds”.

2. Funds for the project of dry extinguishing coke of 6#, 7#coke furnace were issued by the Liaoning province Finance Administration Department “2008 the budget of energy saving project notice” which was received in 2008.

3. According to Liao Cai Zi Qi (2008) No.1079 and Cai Jian(2008) 904 “2008 The contral finance award fund for eliminating outdated industrial capacity”, 34.80 million award has been received in January 2010 for eliminating three coke furnaces and a ferroalloy furnace of Iron-making plant project and build a new No. 8 Coke Furnace.

4. According to Liao Cai Zi Qi (2009) No.868“The notice for the distribution of finance subsidy fund for the 2009 Industrial enterprise energy management center construction demonstration project”, 11.6 million finance subsidy fund has been received in March 2010 for the 2009 Industrial enterprise energy management center construction demonstration project. The project has not started yet.

5. According to “The notice for key industry revitalization and first technology transformation project contraction expansion and national debt investment budget”, 41.04 million subsidy fund has been received in June 2010 for automobile high-class electrolytic zinc steel plate production line project . The project has just started.

6. According to “The reply for resuming the heat source production of the Second power plant of Bengang Group”, 16 million is the compensation for the resuming of the hear source production of second power plant and operating heating cost. The relevant expenses of second power plant will be paid from the special accounts payables, and till the year end the total amount of RMB 1,872,000.00 has been paid.

7. According to “The notice of second environmental protection special fund project of 2009 in Liaolin province ”, 5 million will be distributed to Bengang Steel Plates Co., Ltd. for environmental protection project of the 2*265 Square meter Sintering machine desulfuration project of blast furnace plant

8. According to “The notice of central pollution discharge special fund project of 2009 ”, 16.9 million will be distributed to Bengang Steel Plates Co., Ltd. for pollution discharge project of the 2*265 Square meter Sintering machine desulfuration project of blast furnace plant. 3 million has been received up to the report period.

9. According to “The notice of first environmental protection special fund project of 2008 in Liaolin province”, 4 million will be distributed to Bengang Steel Plates Co., Ltd. for the 220t/h boiler desulfuration of the power plant. This project has been completed, thus transferred to non-operational income.

10. According to “Notice of government award for energy saving technical reconstruction of 2007-2009 and 2010”, the Company has received RMB23.63 million for furnace reconstruction project in this period.

According to “Response to construction of provincial engineering center and lab of 2007, the Company received RMB300 thousand this period.

12. According to “Notice on special fund for introducing of overseas R&D team for year 2010”, RMB3.5 million was received this period.

13. According to “Notice for national budget for key industrial reconstruction (the 3rd batch) of 2010”, the Company received RMB8.60 million for the EMS project.

14. In March 2011, Bengang Stainless Steel Dandong Co., Ltd. received RMB2.06 million of government subsidy from the local authority.

(XXVI) Share capital

The paid-in share capital of the company is as follows:

| Items | Ending balance | | Beginning balance | |
|----------|------------------|------------------|-------------------|------------------|
| | Amount of shares | Amount | Amount of shares | Amount |
| A shares | 2,736,000,000.00 | 2,736,000,000.00 | 2,736,000,000.00 | 2,736,000,000.00 |
| B shares | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 |
| Total | 3,136,000,000.00 | 3,136,000,000.00 | 3,136,000,000.00 | 3,136,000,000.00 |

| Items | Beginning balance | Changed this term (+,-) | | | | | Ending balance |
|---|-------------------|-------------------------|--------------|---------------------------|--------|-----------|------------------|
| | | Issuing of new shares | Bonus shares | Transferred from reserves | Others | Sub-total | |
| 1. Shares with restricted sales condition | | | | | | | |
| (1). State-owned shares | | | | | | | |
| (2). National legal person shares | 2,038,400,000.00 | | | | | | 2,038,400,000.00 |
| (3). Other domestic shares | 10,050.00 | | | | | | 10,050.00 |
| In which: | | | | | | | |
| Domestic legal person shares | | | | | | | |
| Domestic natural person shares | 10,050.00 | | | | | | 10,050.00 |
| (4). Foreign shares | | | | | | | |
| In which: | | | | | | | |
| Foreign legal person shares | | | | | | | |
| Foreign natural person shares | | | | | | | |
| Total of conditional shares | 2,038,410,050.00 | | | | | | 2,038,410,050.00 |
| 2. Shares without sales restriction | | | | | | | |
| (1). RMB common shares | 697,589,950.00 | | | | | | 697,589,950.00 |
| (2). Foreign shares listed at home | 400,000,000.00 | | | | | | 400,000,000.00 |
| (3). Foreign shares placed abroad | | | | | | | |
| (4). Others | | | | | | | |
| Total of unrestricted current shares | 1,097,589,950.00 | | | | | | 1,097,589,950.00 |
| Total | 3,136,000,000.00 | | | | | | 3,136,000,000.00 |

(XXVII) Capital reserves

| Items | Beginning balance | Increased this term | Decreased this term | Ending balance |
|---|-------------------------|---------------------|---------------------|-------------------------|
| 1. Additional paid-in capital | | | | |
| (1) Capital input by investors | 8,706,903,665.94 | | | 8,706,903,665.94 |
| Sub-total | 8,706,903,665.94 | | | 8,706,903,665.94 |
| 2. Other capital reserves | | | | |
| (1) Government award for energy saving tech | 83,787,468.82 | | | 83,787,468.82 |
| Sub-total | 83,787,468.82 | | | 83,787,468.82 |
| Total | 8,790,691,134.76 | | | 8,790,691,134.76 |

(XXVIII) Surplus reserves

| Items | Beginning balance | Increased this term | Decreased this term | Ending balance |
|----------------------------|-----------------------|---------------------|---------------------|-----------------------|
| Statutory surplus reserves | 921,277,509.22 | | | 921,277,509.22 |
| Total | 921,277,509.22 | | | 921,277,509.22 |

(XXIX) Undistributed profit

| Items | Amount | Percentage of drawing or allocation |
|---|-------------------------|-------------------------------------|
| Undistributed profits of last year before adjustment | 2,162,390,668.07 | |
| Total amount of adjustment of beginning undistributed profits (increase+, decrease -) | | |
| After adjusted beginning undistributed profits | | |
| Add: undistributed profit belongs to parent company | 595,456,110.27 | |
| Less: Statutory surplus reserves | | |
| Optional surplus reserves | | |
| Reserves | | |
| Enterprise development fund | | |
| Providing of employees' bonus and welfare fund | | |
| Common risk provisions | | |
| Common share dividend payable | 313,600,000.00 | |
| Retained profit at the end of term | 2,444,246,778.34 | |

(XXX) Operating income and operating cost

1. Turnover

| Items | Occurred current term | Occurred in previous term |
|-------------------------|-----------------------|---------------------------|
| Major business turnover | 22,079,613,372.50 | 19,791,554,636.00 |
| Other business income | 1,970,643,284.64 | 2,562,830,774.54 |
| Total | 24,050,256,657.14 | 22,354,385,410.54 |
| Operation cost | 21,573,460,001.27 | 19,639,448,948.70 |

2. Main business (industry segment)

| Name of industry | Occurred current term | | Occurred in previous term | |
|------------------|-----------------------|-------------------|---------------------------|-------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| Industry | 22,079,613,372.50 | 19,654,859,481.73 | 19,791,554,636.00 | 17,325,653,039.19 |
| Total | 22,079,613,372.50 | 19,654,859,481.73 | 19,791,554,636.00 | 17,325,653,039.19 |

3. Main business (product segment)

| Products or services | Occurred current term | | Occurred in previous term | |
|----------------------|-----------------------|-------------------|---------------------------|-------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| Steel plate | 21,683,831,120.93 | 19,303,811,124.86 | 19,462,509,782.00 | 17,041,124,716.21 |
| Steel billet | 3,928,917.19 | 3,235,556.50 | 1,061,485.60 | 774,784.32 |
| Others | 391,853,334.38 | 347,812,800.37 | 327,983,368.40 | 283,753,538.66 |
| Total | 22,079,613,372.50 | 19,654,859,481.73 | 19,791,554,636.00 | 17,325,653,039.19 |

4. Main business (geographic segment)

| Name of districts | Occurred current term | | Occurred in previous term | |
|-------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| North-east | 8,404,449,601.30 | 7,481,484,079.82 | 6,986,800,199.95 | 6,116,289,414.59 |
| North | 3,175,710,110.63 | 2,826,957,833.28 | 2,950,157,361.71 | 2,582,586,552.70 |
| East | 5,118,029,315.56 | 4,555,974,116.20 | 4,430,136,638.33 | 3,878,169,841.81 |
| Northwest | 270,843,737.15 | 241,100,036.73 | 69,825,217.73 | 61,125,440.52 |
| Mid-south | 2,391,892,555.51 | 2,129,218,083.71 | 1,815,448,967.06 | 1,589,255,593.72 |
| Export | 2,718,688,052.35 | 2,420,125,332.00 | 3,539,186,251.22 | 3,098,226,195.84 |
| Total | 22,079,613,372.50 | 19,654,859,481.73 | 19,791,554,636.00 | 17,325,653,039.19 |

5. Top five clients' principal operating revenue is as follows

| Name of clients | Total of principal turnover | % in total main business income |
|--|-----------------------------|---------------------------------|
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 3,758,411,808.87 | 17.02 |
| Hengxin National Resources Co., Ltd. | 582,860,642.00 | 2.64% |
| STEMCOR (UK) | 325,344,337.50 | 1.47 |
| DUFERCO SA | 322,484,097.00 | 1.46 |
| Wukuang Steel & Iron Co., Ltd. | 299,778,504.03 | 1.36 |
| Total | 5,288,879,389.40 | 23.95 |

6. Business revenue is RMB1,695,871,246.60 and 7.59% higher than the previous term, which was mainly caused by increase of sales price.

(XXXI) Business tax and surcharge

| Items | Occurred current term | Occurred in previous term | Rate |
|------------------------|-----------------------|---------------------------|------|
| Business tax | 597,152.46 | 600,867.18 | 5% |
| City construction tax | 1,396,236.50 | 56,240,531.58 | 7% |
| Education surtax | 759,182.03 | 24,052,591.14 | 3% |
| Local education charge | 554,651.36 | 7,981,256.62 | 1% |
| Total | 3,307,222.35 | 88,875,246.52 | |

The explanation of business tax and surcharges: The amount of business tax and surcharge has decreased by RMB85,568,024.17 compared with last period. The increase rate is 96.28%, which is mainly caused by the decrease of tax payable of VAT.

(XXXII) Sales expenses

| Items | Occurred current term | Occurred in previous term |
|----------------------------|-----------------------|---------------------------|
| Outsourced transportation | 152,292,977.09 | 132,941,156.61 |
| Port fee | 24,070,088.99 | 39,286,754.53 |
| Import & export agency fee | 30,000,000.00 | 18,000,000.00 |
| Packaging | 26,035,802.26 | 28,389,347.95 |
| Wage | 8,330,566.49 | 7,622,758.80 |
| Internal transportation | 4,112,008.77 | 2,641,521.72 |
| Others | 4,830,634.19 | 3,586,535.18 |
| Total | 249,672,077.79 | 232,468,074.79 |

Sales expenses of the period was RMB249,672,077.79, which increased by RMB17,204,003 and 7.4% over the same period of last year, which was caused by increase of freight and import & export agency expenses.

(XXXIII) Administrative expense

| Items | Occurred current term | Occurred in previous term |
|-----------------------------|-------------------------|---------------------------|
| Maintaining | 695,836,796.17 | 1,074,569,856.12 |
| Social insurance | 205,435,696.80 | 187,654,790.83 |
| Wage and remuneration | 86,704,145.32 | 75,034,065.05 |
| Rental | 150,922,531.20 | 785,666.93 |
| Repairing fee | 124,438,900.00 | 73,565,200.00 |
| Taxes | 36,322,896.79 | 27,759,364.62 |
| Land using rights | 28,713,000.00 | 30,000,000.00 |
| Heating | 7,051,377.51 | 18,722,262.86 |
| Transportation | 15,477,621.19 | 14,667,999.60 |
| Sewage expense | 10,474,625.00 | 11,057,708.00 |
| Depreciation | 24,484,378.75 | 7,392,319.97 |
| Water resource fee | 3,000,000.00 | 3,000,000.00 |
| Business reception expenses | 3,695,339.78 | 3,112,026.56 |
| Housing fund | 4,794,760.00 | 3,221,830.00 |
| Technical development fee | 2,178,727.64 | 1,904,022.67 |
| Others | 61,637,571.29 | 56,410,267.76 |
| Total | 1,461,168,367.44 | 1,588,857,380.97 |

Administrative expense was RMB1,461,168,367.44 in the report term, which has decreased by RMB127,689,013.53 and 8.04% over the same period of last year, which was caused by decrease of repairing expenses.

(XXXIV) Financial expenses

| Category | Occurred current term | Occurred in previous term |
|--------------------------|-----------------------|---------------------------|
| Interest expense | 206,753,289.08 | 141,268,903.08 |
| Less: Incoming interests | 7,357,205.07 | 12,570,931.29 |
| Exchange gains/losses | -55,842,800.09 | -12,737,169.34 |
| Others | 1,462,921.33 | 1,966,381.18 |
| Total | 145,016,205.25 | 117,927,183.63 |

Financial expenses increased by RMB27,089,021.62 and 22.97% comparing with previous period, which was caused by increase of loans and loan interests.

(XXXV) Asset impairment loss

| Items | Occurred current term | Occurred in previous term |
|--------------------------------|-----------------------|---------------------------|
| 1. Bad debt loss | 0.00 | 0.00 |
| 2. Inventory impairment losses | 0.00 | 0.00 |
| 3. Fixed asset impairment | | |
| Total | 0.00 | 0.00 |

(XXXVI) Non-operational income

1. Details

| Items | Occurred current term | Occurred in previous term | Carried to current contingent gain/loss |
|---|-----------------------|---------------------------|---|
| 1. Total of gains from disposal of non-current assets | 105,882.56 | 723,293.15 | 105,882.56 |
| Incl. Gains from disposal of fixed assets | 105,882.56 | 723,293.15 | 105,882.56 |
| Gains from disposal of intangible assets | | | |
| 2. Gains from non-monetary capital exchange | | | |
| 3. Gains from debt reorganizing | 1,602,521.42 | 5,595,455.72 | 1,602,521.42 |
| 4. Government subsidies | 5,072,967.00 | 317,493.00 | 5,072,967.00 |
| 5. Gains from inventory overage | | | |
| 6. Gains from donation | | | |
| 7. Payable account practically not payable | 3,840,143.50 | | 3,840,143.5 |
| 8. Gains from penalties | | | |
| 9. Others | 225,060.00 | 58,770.55 | 225,060.00 |
| Total | 10,846,574.48 | 6,695,012.42 | 10,846,574.48 |

None operational income increased by RMB4,151,562.06 and 62.01% comparing with previous period, which was caused by increase of government subsidy and payable accounts practically not able to be disbursed.

(XXXVII) Non-operational expenditure

| Items | Occurred current term | Occurred in previous term | Carried to current contingent gain/loss |
|--|-----------------------|---------------------------|---|
| 1. Total of loss from disposal of non-current assets | | 994.85 | |
| Incl. Loss from disposal of fixed assets | | 994.85 | |
| Loss from disposal of intangible assets | | | |
| 2. Loss from non-monetary capital exchange | | | |
| 3. Loss from debt reorganizing | | | |
| 4. Donations paid | | | |
| 5. Non-recurring losses | | | |
| 6. Penalties paid | | 9,329.78 | |
| 7. Compensation paid | 113,900.00 | | 113,900.00 |
| 8. Breach of faith | | | |
| 9. Loss from inventory shortage | | | |
| 10. Others | | | |
| Total | 113,900.00 | 10,324.63 | 113,900.00 |

(XXXVIII) Income tax expenses

| Items | Occurred current term | Occurred in previous term |
|--|-----------------------|---------------------------|
| Income tax calculated according to the law and regulations of current term | 33,008,831.48 | 4,886,498.68 |
| Adjustment of differed income tax | | |
| Total | 33,008,831.48 | 4,886,498.68 |

Income tax has increased by RMB28,122,332.80 and 575.51% from the previous term, which was caused by increase of profit realized by subsidiaries.

(XXXIX) Calculation formula of basic earnings per share and diluted earnings per share

Formula of weighted average net income on asset:

$$\text{Weighted average income on net asset ratio} = \frac{P_0}{(E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)}$$

P_0 is respectively corresponding to the net profit attributable to the common shareholders of the Company, and the net profit attributable to the common shareholders after deducting of non-recurring gain/loss;

NP = net profit attributable to common shareholders

E_0 = net asset at the beginning of term attributable to common share holders

E_i = newly added net asset attributable to common share holders due to placing of new shares or transferred from debt in the report term

E_j = net asset attributable to common share holders decreased due to repurchasing or cash dividend

M_0 = number of months of the report term

M_i = number of months from the next month of the newly added asset to the end of report term;

M_j = number of months from the next month of the newly deducted net asset to the end of report term;

E_k = change of net asset due to other trade or event

M_k = number of months from the next month of other change of net asset to the end of report term.

Basic earnings per share is calculated as following:

$$\text{Basic earnings per share} = \frac{P_0}{S} \quad S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k, \text{ in which:}$$

P_0 = net profit attributable to common shareholders of the Company, or net profit attributable to common shareholders after deducting of non-recurring gain/loss

S = weighted average of common shares placed in the market

S_0 = Total shares at the beginning of term

S_1 = increased shares due to capitalizing of common reserves or dividend

S_i = shares increased due to placing of new shares or transferred from debt in the report term

S_j = shares decreased due to actions such as repurchasing in the report term

S_k = the amount of shares reduced

M_0 = number of months of the report term

M_i = accumulative number of months from the next month of share increasing to the end of report term;

M_j = accumulative number of months from the next month of share decreasing to the end of report

term.

Diluted earning per share= $P1 / (S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0 - Sk + \text{weighted average of common shares increased by means of subscription certificates, share future options, or convertible bonds})$

P1 = net profit attributable to common shareholders of the Company, or net profit attributable to common shareholders after deducting of non-recurring gain/loss, with considering the influences of diluting potential common shares, and adjusted according to Enterprise Accounting Standard and related regulations. At calculating of diluted earnings per share, the Company has considered the influences of the entire dilute potential common shares, until the diluted earnings per share had reached the minimum level.

(XXXX) Notes to Cash Flow Statements

1. Other cash inflow related to operation

Other cash inflow related to operation was RMB58,724,812.38, with details as following:

| Items | Amount of the Current Term | Amount of the Previous Term |
|--|----------------------------|-----------------------------|
| 1. Retrieving of current accounts, advance money for another | 4,877,607.31 | 3,265,934.27 |
| 2. Interest income | 7,357,205.07 | 12,570,931.29 |
| 3. Special subsidy and allowance | 46,490,000.00 | 317,493.00 |
| Total | 58,724,812.38 | 16,154,358.56 |

2. Other cash paid related to operation

Other cash paid related to operation was RMB629,175,543.32

| Items | Amount of the Current Term | Amount of the Previous Term |
|---------------------------|----------------------------|-----------------------------|
| 1. Freight | 171,882,607.05 | 150,250,677.93 |
| 2. Ports fee | 24,070,088.99 | 39,286,754.53 |
| 3. Land using rights | 28,713,000.00 | 30,000,000.00 |
| 4. Labor service | 3,166,796.52 | 2,447,183.22 |
| 5. Processing fee | 662,205.85 | 404,450.68 |
| 6. Packaging fee | 26,035,802.26 | 28,389,347.95 |
| 7. Quality warranty | 12,441,745.21 | 8,752,176.43 |
| 8. Water resource fee | 3,000,000.00 | 3,000,000.00 |
| 9. Other current accounts | 359,203,297.44 | 301,708,761.73 |
| Total | 629,175,543.32 | 564,239,352.47 |

(XXXXI) Appendix of Cash Flow Statement

1. Supplementary data of cash flow statement

| Items | Amount of the Current Term | Amount of the Previous Term |
|---|----------------------------|-----------------------------|
| 1. Net profit adjusted to cash flow of business operation | | |
| Net profit | 595,356,626.04 | 688,606,765.04 |
| Plus: Asset impairment provision | | |
| Fixed asset depreciation, gas and petrol depreciation, production goods depreciation | 966,751,736.07 | 1,046,845,092.26 |
| Amortizing of intangible assets | 463,954.86 | |
| Amortizing of long-term expenses | | |
| Loss from disposal of fixed assets, intangible assets, and other long-term assets (“-“ for gains) | | |
| Loss from fixed asset discard (“-“ for gains) | | |
| Loss from fair value fluctuation (“-“ for gains) | | |
| Financial expenses (“-“ for gains) | 145,016,205.25 | 117,927,183.63 |
| Investment losses (“-“ for gains) | | |
| Decrease of deferred income tax asset (“-“ for increase) | | |
| Increase of deferred income tax liability (“-“ for decrease) | | |
| Decrease of inventory (“-“ for increase) | -1,515,788,069.68 | -307,503,646.38 |
| Decrease of operational receivable items (“-“ for increase) | -499,297,855.44 | -20,471,935.93 |
| Increase of operational payable items (“-“ for decrease) | 1,449,254,422.55 | -923,295,410.91 |
| Others | | |
| Cash flow generated by business operation, net | 1,141,757,019.65 | 602,108,047.71 |
| 2. Payments of investment and fund-raising activities do not involve cash : | | |
| Liabilities converted to capital | | |
| Convertible bond expire in 1 year | | |
| Fixed assets leased through financing | | |
| 3. Net change of cash and cash equivalents | | |
| Balance of cash at period end | 2,991,857,388.66 | 2,570,517,350.82 |
| Less: Balance of cash at beginning of year | 1,475,045,148.55 | 2,842,961,050.60 |
| Plus: Balance of cash equivalents at the period end | | |
| Less: Balance of cash equivalents at beginning of term | | |
| Net increasing of cash and cash equivalents | 1,516,812,240.11 | -272,443,699.78 |

VI. Related parties and transactions

(1) Parent company of the Company (RMB100 million)

| Name of the parent co. | Relationship | Ownership type | Reg. Add. | Legal representative | Business property | Registered capital |
|-------------------------------|----------------|-------------------|-----------|----------------------|-------------------|--------------------|
| Benxi Steel (Group) Co., Ltd. | Parent company | Fully state-owned | Benxi | Zhang Xiaofang | Production | 53.69 |

(Continued)

| Name of the parent co. | Shareholding portion of the parent co. | Voting power of the parent co. | Substantial holder of the Company | Organization code |
|-------------------------------|--|--------------------------------|--|-------------------|
| Benxi Steel (Group) Co., Ltd. | 82.07 | 82.07 | Liaoning Provincial State-asset Administration | 11972626-3 |

(2) Subsidiaries of the Company

In RMB 10 thousand

| Name of the subsidiaries | Ownership of the subsidiary | Ownership type | Reg. Add. | Legal representative | Business property |
|--|-----------------------------|-------------------|-----------|----------------------|-------------------|
| Xiamen Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Xiamen | Zhang Guoming | Sales |
| Wuxi Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Wuxi | Wen Yonggang | Sales |
| Tianjin Bengang Steel Trading Ltd. | Fully-owned subsidiary | Limited liability | Tianjin | Liu Chuang | Sales |
| Nanjing Bengang Material Sales Ltd. | Fully-owned subsidiary | Limited liability | Nanjin | Pang Zonghua | Sales |
| Yantai Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Yantai | Wang Lixin | Sales |
| Harbin Bengang Steel & Iron Sales Ltd. | Fully-owned subsidiary | Limited liability | Harbin | Fei Jixi | Sales |
| Changchun Bengang Steel Sales Ltd. | Fully-owned subsidiary | Limited liability | Changchun | Wang Jun | Sales |
| Guangzhou Bengang Trade Co., Ltd. | Fully-owned subsidiary | Limited liability | Guangzhou | Wu Shaogang | Sales |
| Shanghai Metallurgy Tech Co., Ltd. | Fully-owned subsidiary | Limited liability | Shanghai | Fei Jixi | Sales |
| Bengang Steel Plate Liaoyang Orel Ball Co., Ltd. | Fully-owned subsidiary | Limited liability | Liaoyuang | Wang Zhengzhi | Production |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | Controlled subsidiaries | Limited liability | Dalian | Wang Shu | Production |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | Fully-owned subsidiary | Limited liability | Dandong | Yu Tianchen | Production |

(Continued)

| Name of the subsidiaries | Registered capital | Share portion % | Voting power % | Organization code |
|--|--------------------|-----------------|----------------|-------------------|
| Xiamen Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 73788827-8 |
| Wuxi Bengang Steel Sales Ltd. | 100.00 | 100.00 | 100.00 | 73654820-4 |
| Tianjin Bengang Steel Trading Ltd. | 300.00 | 100.00 | 100.00 | 74135658-1 |
| Nanjing Bengang Material Sales Ltd. | 115.00 | 100.00 | 100.00 | 75945466-5 |
| Yantai Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 74451514-6 |
| Harbin Bengang Steel & Iron Sales Ltd. | 50.00 | 100.00 | 100.00 | 73137417-X |
| Changchun Bengang Steel Sales Ltd. | 50.00 | 100.00 | 100.00 | 74841484-4 |
| Guangzhou Bengang Trade Co., Ltd. | 100.00 | 100.00 | 100.00 | 68328959-4 |
| Shanghai Metallurgy Tech Co., Ltd. | 500.00 | 100.00 | 100.00 | 68408762-8 |
| Bengang Steel Plate Liaoyang Orel Ball Co., Ltd. | 1,000.00 | 100.00 | 100.00 | 68968094-9 |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | 10000.00 | 65.00 | 65.00 | 55498444-3 |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | 16,000.00 | 100.00 | 100.00 | 69941004-5 |

(3) Other related parties

| Name of the related parties | Relationship with the Company | Organization code |
|---|-------------------------------|-------------------|
| Benxi Steel (Group) Machinery Co., Ltd. | Same parent | 701577718 |
| Bengang Group International Trading Ltd. | Same parent | 701581055 |
| Benxi Steel (Group) Tengda Holdings Ltd. | Same parent | 11968922-0 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | Same parent | 231289622 |
| Shanghai Bengang Steel & Iron Trading Co., Ltd. | Same parent | 784796085 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | Same parent | 78458403-1 |
| Dalian Boluole Steel Tube Ltd. | Same parent | 60480260-2 |
| Benxi Steel (Group) Steel Process and Logistics Co., Ltd. | Same parent | 752795993 |
| Benxi Steel (Group) Construction & Repairing Co., Ltd. | Same parent | 701578219 |
| Bengang Fire-resistance Material Co. | Same parent | 78124925-8 |
| Benxi Steel (Group) Metallurgy Residues Co., Ltd. | Same parent | 701578155 |
| Liaoning Metallurgy Technician College | Same parent | 463564144 |
| Benxi Steel (Group) Industrial Development Co., Ltd. | Same parent | 701578120 |
| Benxi Steel (Group) Construction Co., Ltd. | Same parent | 119726538 |
| Yinkou Bengang International Logistics Co., Ltd. | Same parent | 74712716-5 |
| Benxi Steel (Group) Real-estate Development Co., Ltd. | Same parent | 819664921 |
| Benxi Steel (Group) Education Center | Same parent | 463567636 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | Same parent | 74710835-1 |
| Benxi Steel (Group) Designing Institute | Same parent | 78510290-3 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Same parent | 752798182 |
| Benxi Steel (Group) News Center | Same parent | 774640431 |
| Benxi Steel (Group) New Industrial Development Co., Ltd. | Same parent | 701578198 |
| Benxi Steel (Group) Mining Co., Ltd. | Same parent | 701577726 |
| Benxi Steel (Group) Electronics Co., Ltd. | Same parent | 781648511 |
| Benxi Steel (Group) Thermal Power Development Co., Ltd. | Same parent | 701579297 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Same parent | 717851072 |
| Benxi Steel & Iron (Group) Inspection Co., Ltd. | Same parent | 736708677 |

(4) Related party transactions

1. For those subsidiaries with holding relationship have been included in the consolidated financial statement, thus the trade among them and with the parent company have been neutralized.

2. Related transactions of product sales and providing of services In RMB 10 thousand

| Related parties | Subjects of the related transactions | Amount of the Current Term | | Amount of the Previous Term | |
|---|--------------------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| | | Amount | Portion in similar trade % | Amount | Portion in similar trade % |
| | | RMB0'000 | | RMB0'000 | |
| Benxi Steel & Iron (Group) Ltd. | Material and parts | 525.77 | 0.02 | 19,269.33 | 0.86 |
| Benxi Steel & Iron (Group) Ltd. | Power supply | 477.77 | 0.02 | 62.39 | 0 |
| Dalian Boluole Steel Tube Ltd. | Products | 3,418.00 | 0.14 | 2,234.11 | 0.1 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | Products | 0.00 | 0.00 | 2,265.29 | 0.1 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | Products | 13,002.13 | 0.54 | 17,095.78 | 0.76 |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | Products | 17,807.54 | 0.74 | 15,127.06 | 0.68 |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | Power supply | 48.26 | 0.00 | 56.23 | 0 |
| Bengang Group Dahe Industry Co., Ltd. | Power supply | 49.68 | 0.00 | 18.17 | 0 |
| Benxi Steel (Group) Industrial Development Ltd. | Material and parts | 4,244.18 | 0.18 | 3,654.62 | 0.16 |
| Benxi Steel (Group) Industrial Development Ltd. | Power supply | 120.79 | 0.01 | 111.95 | 0.01 |
| Benxi Steel (Group) Construction Ltd. | Material and parts | 5,058.73 | 0.21 | 14.63 | 0 |
| Benxi Steel (Group) Construction Ltd. | Power supply | 401.68 | 0.02 | 447.73 | 0.02 |
| Bengang Group Machinery Ltd. | Power supply | 1,339.91 | 0.06 | 1,807.37 | 0.08 |
| Bengang Group Mineral Co., Ltd. | Material and parts | 55,517.41 | 2.31 | 83,266.60 | 3.72 |
| Bengang Group Mineral Co., Ltd. | Power supply | 39,370.62 | 1.64 | 21,102.64 | 0.94 |
| Bengang Group Mineral Co., Ltd. | Freight income | 459.91 | 0.02 | 499.76 | 0.02 |
| Bengang Group New Industry Development Co., Ltd. | Power supply | 45.51 | 0.00 | 32.95 | 0 |
| Benxi Steel (Group) Repairing & Building Ltd. | Material and parts | 87.76 | 0.00 | 169.73 | 0.01 |
| Benxi Steel (Group) Repairing & Building Ltd. | Power supply | 61.30 | 0.00 | 112.26 | 0.01 |
| Bengang Group Metallurgy Residue Ltd. | Material and parts | 8,999.65 | 0.37 | 6,808.84 | 0.3 |
| Bengang Group Metallurgy Residue Ltd. | Power supply | 280.37 | 0.01 | 3,637.7 | 0.16 |
| Bengang Electronics Co., Ltd. | Power supply | 33.25 | 0.00 | 137.98 | 0.01 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Products | 378,172.84 | 15.72 | 322,960.34 | 14.45 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Material and parts | 23,385.46 | 0.97 | 25,427.75 | 1.14 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Power supply | 19,266.90 | 0.80 | 19,211.78 | 0.86 |
| Bengang Group Thermal Power Development Co., Ltd. | Power supply | 4,245.53 | 0.18 | 5,274.33 | 0.24 |
| Bengang Group Thermal Power Development Co., Ltd. | Material and parts | 2,976.63 | 0.12 | 4,036.66 | 0.18 |
| Bengang Group Property Co., Ltd. | Power supply | 264.35 | 0.01 | 227.22 | 0.01 |
| Bengang Fire-resistance Material Co. | Material and parts | 2,322.33 | 0.10 | | |
| Bengang Fire-resistance Material Co. | Power supply | 672.60 | 0.03 | 3,825.04 | 0.17 |
| Bengang Fire-resistance Material Co. | Freight income | 68.52 | 0.00 | 1,334.8 | 0.06 |
| Tianjin Bengang Steel Plate Processing and Delivery Co., Ltd. | Products | 112.37 | 0.00 | 0.00 | 0.00 |
| Total | | 582,837.74 | 24.23 | 560,231.01 | 25.06 |

3. Related transactions of purchasing of products and accepting of services In RMB 10 thousand

| Related parties | Subjects of the related transactions | Amount of the Current Term | | Amount of the Previous Term | |
|--|--------------------------------------|----------------------------|-------------------------|-----------------------------|-------------------------|
| | | Amount | Portion in annual trade | Amount- { }- | Portion in annual trade |
| | | RMB0'000 | % | RMB0'000 | % |
| Benxi Steel & Iron (Group) Ltd. | Raw materials | 18.92 | 0.00 | 128.12 | 0.01 |
| Benxi Steel & Iron (Group) Ltd. | Land using rights | 2,871.30 | 0.13 | 0.00 | 0.00 |
| Benxi Steel & Iron (Group) Ltd. | Maintaining | 12,443.89 | 0.58 | 7356.52 | 0.37 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | Raw materials | 194,583.46 | 9.02 | 124,100.99 | 6.32 |
| Bengang Group Mineral Co., Ltd. | Repairing services | 94.18 | 0.00 | 176.31 | 0.01 |
| Bengang Group Mineral Co., Ltd. | Raw materials | 244,431.62 | 11.33 | 181,706.58 | 9.25 |
| Bengang Group Mineral Co., Ltd. | Transportation | 0.00 | 0.00 | 3.59 | 0.00 |
| Bengang Group Metallurgy Residue Ltd. | Raw materials | 4,247.47 | 0.20 | 4,360.01 | 0.22 |
| Bengang Group Steel Process & Logistics Ltd. | Process fee | 56.65 | 0.00 | 220.74 | 0.01 |
| Bengang Group Property Development Ltd. | Raw materials | 2,040.83 | 0.09 | 3217.25 | 0.16 |
| Bengang Group Property Co., Ltd. | Rental | 0.00 | 0.00 | 3.76 | 0.00 |
| Bengang Group Property Co., Ltd. | Property management fee | 8.72 | 0.00 | 164.73 | 0.01 |
| Bengang Group Property Management Center | Property management fee | 61.66 | 0.00 | 0.00 | 0.00 |
| Bengang Group Machinery Ltd. | Spare parts | 15,785.40 | 0.73 | 16,767.73 | 0.85 |
| Bengang Group Machinery Ltd. | Repairing services | 2,579.39 | 0.12 | 518.55 | 0.03 |
| Bengang Group Machinery Ltd. | Raw materials | 92.69 | 0.00 | 132.29 | 0.01 |
| Bengang Group Construction Ltd. | Spare parts | 4,498.07 | 0.21 | 547.32 | 0.03 |
| Bengang Group Construction Ltd. | Repairing services | 28,081.12 | 1.30 | 22,163.08 | 1.13 |
| Bengang Group Construction Ltd. | Raw materials | 139.46 | 0.01 | 527.88 | 0.03 |
| Bengang Group Construction Ltd. | Transportation | 102.35 | 0.00 | 214.25 | 0.01 |
| Benxi Steel (Group) Industrial Development Ltd. | Spare parts | 18.47 | 0.00 | 26.26 | 0.00 |
| Benxi Steel (Group) Industrial Development Ltd. | Raw materials | 14,189.66 | 0.66 | 7,099.90 | 0.36 |
| Benxi Steel (Group) Industrial Development Ltd. | Repairing services | 898.15 | 0.04 | 656.02 | 0.03 |
| Benxi Steel (Group) Industrial Development Ltd. | Transportation | 264.20 | 0.01 | 585.3 | 0.03 |
| Benxi Steel (Group) Construction Ltd. | Material and parts | 277.03 | 0.01 | 1272.22 | 0.06 |
| Benxi Steel (Group) Construction Ltd. | Maintaining | 4,884.46 | 0.23 | 7,501.75 | 0.38 |
| Bengang Electronics Co., Ltd. | Raw materials | 6,516.22 | 0.30 | 4779.39 | 0.24 |
| Bengang Electronics Co., Ltd. | Repairing services | 447.64 | 0.02 | 1022.71 | 0.05 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | Spare parts | 982.03 | 0.05 | 926.69 | 0.05 |
| Bengang Group New Industry Development Co., Ltd. | Labour security fee | 59.89 | 0.00 | 103.92 | 0.01 |
| Liaoning Metallurgy Technician College | Spare parts | 544.49 | 0.03 | 837.69 | 0.04 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Spare parts | 52.97 | 0.00 | 349.45 | 0.02 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | Repairing services | 3,129.27 | 0.15 | 2268.76 | 0.12 |
| Bengang Group Thermal Power Development Co., Ltd. | Heating fee | 100.16 | 0.00 | 11.74 | 0.00 |
| Bengang Fire-resistance Material Co. | Raw materials | 14,521.98 | 0.67 | 18,277.22 | 0.93 |
| Bengang Designing & Researching Institute Ltd. | Repairing services | 204.60 | 0.01 | 846.1 | 0.04 |
| Benxi Steel (Group) Trucking Ltd. | Freight | 2,663.85 | 0.12 | 0.00 | 0.00 |

| | | Amount of the Current Term | | Amount of the Previous Term | |
|--------------|--|----------------------------|--------------|-----------------------------|--------------|
| | | Amount | | Amount- { }- | |
| Total | | 561,892.25 | 26.05 | 408,874.82 | 20.81 |

Pricing policies at trading with related parties:

(1) On December 28, 2005 and June 26, 2008, and April 15, 2009, the Company entered the “ Land Rent Contract ” , “ Land Rent Contract Supplementary ” , “ Land Rent Contract Supplementary II ” and “ Material and Service Providing Agreement ” on April 18, 2011 with Bengang Group, which set out the providing of raw materials, supplementary materials, supporting serves, trade mark, patent, and land renting by the Group to the Company; as well as sales of products, supplementary materials, power, spare parts, and waste materials to the Group.

A: The pricing of subjects purchased from Bengang Group:

Pricing of raw materials:

Price of fine iron ore will not higher than the average customs C&F price from countries like Brazil and Australia in the last half year, plus inland freight, port fee, and quality adjustment price.

Quality adjustment on prices will be basing on the weighted average of imported fine iron ore in the first half of year, and on the basis of 10 yuan per ton to 1% of quality difference.

The price for iron ore pellets is according to the market price at same quality.

The price for recycled steel will not be higher than the weighted average of the recycled steel the Company purchased from the independent 3rd parties in the previous month, and to be decided upon negotiation.

The prices for steel billet are on current market price. In case of no market price available, the full cost plus tax and reasonable profit will be adopted.

The price for cool hard plate is decided at the weighted average of the hot rolled plate the Company sold to the independent 3rd parties in the previous month plus processing fee, the processing fee is revised once a year, which is RMB363 (tax excluded) per ton for 2011.

Cool plate and galvanized sheet are on market prices.

Fine iron ore supplied by the subsidiary of the Group located in HK to the Company are priced as sum of purchase price of the subsidiary of the Group and the financial expenses occurred during the credit period. Such prices shall not higher than the average price of fine iron ore in similar quality the Company could purchase from the market plus the interest paid for domestic loans at the same period.

Pricing of auxiliary materials: limestone, fire resistance material and auxiliary materials provided by Bengang Group will be at market price.

Pricing of spare parts: the spare parts manufactured by the Group itself will be at market price.

Rental for the 2300mm hot rolling line is decided by the “Lease Agreement”.

Trucking service: on market price.

Pricing of the heating service of the dwelling house for staff and workers: carried out according to the price set forth by the national government.

Workshop and equipment maintaining services: maintaining services are priced upon negotiation. Designing and engineering service will be at national government price.

Construction service: construction services provided by Bengang Group to the Company will be at market price.

Printing, newspapers, media and other publications: on national government price.

Education facilities and services: education facilities, vocational education programs, and onsite training courses provided by Bengang Group are at market price.

Agent service: before the Company is authorized to do import & export trade, the international business is done by Bengang Group. All business are on normal commercial operation. Commissions are decided through negotiation within the range of 0.5%-1.5% of the total value of the goods.

When the Company is authorized to do import & export trade, the agent service can be terminated on beforehand notice. Bengang Group is not the sole agent of the Company, namely the Company has the right to choose another party to do the agent.

Pricing of telephone, fax and the TV service: carried out according to the price set forth by the national government.

Office spaces: on market price during the effective period of this agreement.

Car service: on market price during the effective period of this agreement.

Property management: on market price during the effective period of this agreement.

Packing service: on market price during the effective period of this agreement.

Labor safety services: on market price during the effective period of this agreement.

Pricing of trademark: Bengang Group allows the Company to use “Bengang” trademark by free. However the Company can’t allow any other parties to use it. The Company has the right to register its own trademark at any time.

For the hot plate processing services provided by Bengang Group to the Company, the price is fixed to RMB73 per ton, which is the practical processing cost of Bengang Group. The price will be reconsidered once a year.

For the low-grade ore powder processing service provided by the Group to the Company, the price is fixed to RMB50 per ton, which is the practical processing cost of Bengang Group. The price will be reconsidered once a year.

For the iron resource (for instance steel residue or residue mud) processing service provided by the Group to the Company, the price is decided according to the practical processing cost of Bengang Group as the followings:

Refined steel residue powder: RMB325 per ton;

Dried residue mud: RMB154 per ton;

Minor type combined materials: RMB64 per ton;

Processing fees are reconsidered once a year.

Steel materials: For steel products provided by Bengang Group to the Company (including but not limited to plates, long steels, and cast pipes), the prices shall be the weighted average of prices sold by the Group to the 3rd parties in the previous month

Fuel and energy, supporting materials, equipment, spare parts: For the raw materials, fuel, supplementing materials, equipment, and spare parts provided by Bengang Group to the Company, the prices will be decided by the purchasing prices of the Group plus 0.5-1.5% of purchasing expenses.

B: Pricing of sales to Bengang Group:

Hot-rolled steel sheet: carried out according to the weighting average price of the same quality products which our company sold to the independent third party in the previous month.

Coke, ore ball, and chemical products manufactured by Bengang Steel Plates and provided to Bengang Group are on market prices.

For steel billet provided by the Company to the Group, prices shall be decided by the market price of the same month.

If no current market price available, the price shall be decided upon the complete cost of the month plus national taxes and reasonable profit.

Steel and iron residue is on market price.

Pricing of public service: Power supply to the Group was on the market price plus transferring cost. The supplies from the Company to Bengang Group, i.e. oxygen, nitrogen, argon, blast furnace gas, coke furnace gas, steam, clean water, fresh water, recycling water, and soft water, are at complete costs plus national surplus tax and reasonable profit.

Railway transportation, quality test, measuring, weighting: at national price.

Iron and steel scrap, including the iron material: carried out according to the market price.

Raw material, supplementary material and spare parts: based on purchase price of the Company plus 0.5%-1.5% purchasing fee.

R&D service: R&D that Bengang Group can't do by itself are provided by the Company. The expenses shall be the national price.

Land rent from Bengang Group to the Company, it was agreed to carry forward the Land Using Right Rent Agreement " which is effective at present. Namely the price is RMB6.24 /m2/year.

4. Leasing to and from related parties

Remarks on the rental with related party:

In 2009, the Company leased 2300mm hot rolling mill production line from shareholder Benxi Steel (Group) Co., Ltd. The value of the whole line amounts to 5 billion RMB. The stage from the effective date of the lease contract to December 31st, 2009 is a testing period. Benxi Steel (Group) Co., Ltd charged no rent and any loss related to the lease subject is borne by Benxi Steel (Group) Co., Ltd and the profit belongs to the company if there is any. The second stage: From January 1st 2010 to the end of the lease period, the company will pay 30% of the profit to Benxi Steel (Group) Co., Ltd as rent, and the annual rent will be no more than 5%(excluding 5%) of the audited net assets, and any loss related to the lease subject will be borne by the company. During Jan – Jun 2011, the 2300mm hot rolling line has primarily contributed profit of RMB500 million. RMB150 million of rental provided in advance.

5. Guarantees provided amongst related parties

| The guarantor | The beneficiary | Amount guaranteed | Start date | Due date | Completed or not |
|---------------------------|--------------------------------|--------------------|------------|------------|------------------|
| Guarantees for bank loans | | | | | |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2011-3-4 | 2012-3-3 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2007-12-3 | 2012-7-25 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥70,000,000.00 | 2007-4-30 | 2014-4-29 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥130,000,000.00 | 2007-4-30 | 2014-4-29 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2007-12-3 | 2012-7-25 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥400,000,000.00 | 2008-4-29 | 2013-4-15 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2010-7-1 | 2013-6-30 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥300,000,000.00 | 2010-7-2 | 2013-6-1 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥310,000,000.00 | 2010-7-2 | 2013-7-1 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | ¥100,000,000.00 | 2010-4-29 | 2013-4-28 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$60,000,000.00 | 2009-9-11 | 2012-9-10 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-9-25 | 2012-9-24 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-10-12 | 2012-8-24 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$24,000,000.00 | 2009-10-20 | 2012-10-18 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | \$20,000,000.00 | 2009-10-21 | 2012-10-5 | No |
| Benxi Steel (Group) Ltd. | Bengang Steel Plates Co., Ltd. | JPY 382,423,928.57 | 1997-9-10 | 2027-9-10 | No |

Notes to guarantees amongst related parties: Benxi Steel & Iron (Group) Co., Ltd. provides guarantees for long-term and short-term loans.

6. Receivable and payables due with related parties

Receivable accounts due from related parties

| Related parties | End of term RMB0'000 | | Beginning of term RMB0'000 | |
|--|----------------------|--------------------|----------------------------|--------------------|
| | Book balance | Bad debt provision | Book balance | Bad debt provision |
| Account receivable | | | | |
| Bengang Group Machinery Ltd. | 9,469.11 | 698.83 | 8,729.28 | 698.83 |
| Bengang Group Thermal Power Development Co., Ltd. | 1,111.65 | | 1,650.90 | |
| Benxi Steel (Group) Repairing & Building Ltd. | 1,519.99 | | 1754.4 | |
| Benxi Steel (Group) Construction Ltd. | 669.53 | 13.00 | 1,691.40 | 13.00 |
| Benxi Steel (Group) Industrial Development Ltd. | 4,653.99 | 24.54 | 6,540.99 | 24.54 |
| Bengang Group New Industry Development Co., Ltd. | 387.46 | 282.76 | 651.91 | 282.76 |
| Bengang Group Metallurgy Residue Ltd. | 1,422.27 | | 2,176.32 | |
| Benxi Steel (Group) Medical Co. Ltd. | 54.72 | 2.28 | 54.72 | 2.28 |
| Sub-total | 19,288.72 | 1,021.41 | 23,249.92 | 1021.41 |
| Prepayments | | | | |
| Benxi Steel (Group) Repairing & Building Ltd. | 901.21 | | 0.00 | |
| Benxi Steel (Group) Construction Ltd. | 6,287.17 | | 2,295.51 | |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 0.00 | | 516.94 | |
| Sub-total | 7,188.38 | 0.00 | 2,812.45 | 0.00 |
| Other account receivable | | | | |
| Bengang Group Inspection Co., Ltd. | 25.00 | 25.00 | 25.00 | 25.00 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 106.87 | | 14.54 | - |
| Benxi Steel (Group) Real-estate Development Co., Ltd. | 571.21 | 11.15 | 700.4 | 11.15 |
| Benxi Steel (Group) Electronics Co., Ltd. | 230.76 | | 163.63 | |
| Benxi Steel (Group) Education Center | 27.1 | | 27.1 | |
| Benxi Steel (Group) Co., Ltd. | 195.43 | | 52.2 | |
| Sub-total | 1,156.36 | 36.15 | 982.87 | 36.15 |

Account payable due to related parties

| Related parties | End of term RMB0'000 | Beginning of term RMB0'000 |
|--|-------------------------|-------------------------------|
| Account payable | | |
| Bengang Group International Trading Ltd. | 117,774.78 | 183,896.93 |
| Bengang Fire-resistance Material Co. | 9,579.67 | 9,844.87 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 283.66 | 457.33 |
| Liaoning Metallurgy Technician College | 323.51 | 979.03 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 209.34 | 280.13 |
| Bengang Group New Industry Development Co., Ltd. | 3.86 | 775.14 |
| Bengang Group Property Co., Ltd. | 413.33 | 921.53 |
| Bengang Group Construction Inspection Co., Ltd. | 0.00 | 8.80 |
| Bengang Group Machinery Ltd. | 7,750.30 | 3,849.04 |
| Benxi Steel (Group) Construction Ltd. | 29,901.85 | 52,105.38 |
| Bengang Group Mineral Co., Ltd. | 59,279.62 | 45,136.74 |
| Benxi Steel (Group) Industrial Development Ltd. | 9,121.28 | 12,418.05 |
| Benxi Steel (Group) Repairing & Building Ltd. | 9,073.85 | 16,682.52 |
| Bengang Group Metallurgy Residue Ltd. | 889.49 | 2,118.73 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 4,143.85 | 3,436.69 |
| Bengang Group Electronics Co., Ltd. | 613.32 | 1,811.18 |
| Benxi Steel (Group) Designing Institute | 2,763.02 | 5,784.26 |
| Benxi Steel (Group) Education Center | 34.15 | 372.47 |
| Benxi Steel (Group) Thermal Power Development Co., Ltd. | 319.56 | 115.29 |
| Sub-total | 252,478.44 | 340,994.11 |
| Notes payable | | |
| Benxi Steel (Group) Construction Ltd. | 87.76 | 69.60 |
| Benxi Steel (Group) Industrial Development Ltd. | 286.57 | 994.69 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 0.00 | 59.98 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 0.00 | 123.84 |
| Bengang Group New Industry Development Co., Ltd. | 0.00 | 16.63 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 96.18 | 14.50 |
| Bengang Group Machinery Ltd. | 0.00 | 15.04 |
| Bengang Group Property Co., Ltd. | 0.00 | 21.45 |
| Bengang Electronics Co., Ltd. | 15.41 | 32.00 |
| Bengang Group Construction and Repairing Co., Ltd. | 14.20 | 35.50 |
| Liaoning Metallurgy Technician College | 0.00 | 34.56 |
| Sub-total | 500.11 | 1,417.79 |
| Other account payable | | |
| Bengang Group Machinery Ltd. | 120.55 | 4.53 |
| Benxi Steel (Group) Repairing & Building Ltd. | 8.00 | 56.69 |
| Benxi Steel (Group) Industrial Development Ltd. | 185.47 | 354.13 |
| Benxi Steel (Group) Construction Ltd. | 523.01 | 783.98 |
| Benxi Steel (Group) Information and Automatic Tech. Ltd. | 49.45 | 87.54 |
| Bengang Group New Industry Development Co., Ltd. | 282.28 | 1.00 |
| Benxi Electronics Co., Ltd. | 21.23 | 1.00 |
| Bengang Group Training Center | 2.78 | 2.78 |
| Bengang Group Mineral Co., Ltd. | 82.97 | 3.54 |
| Benxi Steel (Group) Ltd. | 18,280.01 | 28,125.70 |
| Benxi Steel (Group) News Center | 216.79 | 422.69 |
| Bengang Trucking & Transportation Co., Ltd. | 2,019.48 | 2,047.21 |
| Bengang Group Thermal Power Development Co., Ltd. | 1,431.21 | 1,438.56 |
| Sub-total | 23,223.22 | 33,329.35 |
| Advances received | | |
| Dalian Boluole Steel Tube Ltd. | 702.14 | 1,146.25 |
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 37,838.87 | |
| Benxi Steel (Group) Steel Process & Logistics Ltd. | 1,810.54 | 634.04 |
| Benxi Steel (Group) Construction Ltd. | 17.58 | 17.58 |
| Benxi Steel (Group) Industrial Development Ltd. | 17.86 | 1.85 |
| Guangshou Free Trade Zone Bengang Sales Co., Ltd. | 2,354.58 | 2,745.58 |
| Benxi Steel (Group) Drilling Tools Co., Ltd. | 1.02 | 120.18 |
| Liaoning Bengang Steel & Iron Trading Co., Ltd. | 5,057.01 | 3,932.11 |
| Shanghai Bengang Steel & Iron Trading Co., Ltd. | 1,848.13 | 548.13 |
| Tianjin Bengang Steel Plate Processing and Delivery Co., | 2,024.36 | 2,386.46 |

| Related parties | End of term RMB0'000 | Beginning of term RMB0'000 |
|---|-------------------------|-------------------------------|
| Ltd. | | |
| Benxi Steel (Group) Machinery Co., Ltd. | 57.17 | 233.05 |
| Tianjin Bengang Longxing Steel Processing Co., Ltd. | 1,599.14 | 300.00 |
| Sub-total | 53,328.38 | 12,065.23 |

VII. Contingent Events

No contingent event to be disclosed up to the date of this report.

VIII. Commitment Events

No commitment issues to be disclosed up to the date of this report.

IX. Post-balance sheet issues

No post balance sheet non-adjustment issues to be disclosed up to the date of this report.

X. Other Material Statements

(I) Non-monetary asset exchange

No such non-monetary asset exchange to be disclosed up to the date of this report.

(II) Other material issues to be disclosed

No such other material issues to be disclosed up to the date of this report.

XI. Notes to the main items of the financial statements of the parent company

(I) Account receivable

1. Account receivable

| Category | Ending balance | | | | Beginning balance | | | |
|---|-----------------------|-----------------------|-----------------------|---------------------------|-----------------------|-----------------------|-----------------------|---------------------------|
| | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % |
| Receivables with major individual amount and bad debt provision provided individually | | | | | | | | |
| Receivables provided bad debt provision in groups | 789,019,703.33 | 100.00 | 408,105,274.76 | 51.72 | 808,236,347.68 | 100.00 | 408,105,274.76 | 50.49 |
| Account receivable with minor individual amount but bad debt provision is provided | | | | | | | | |
| Total | 789,019,703.33 | 100.00 | 408,105,274.76 | 51.72 | 808,236,347.68 | 100.00 | 408,105,274.76 | 50.49 |

2. Bad debt provisions provided on receivable accounts in groups

| Items | Ending balance | | | Beginning balance | | |
|--------------|-----------------------|--------------------------------------|-----------------------|-----------------------|--------------------------------------|-----------------------|
| | Book balance | Percentage of the total receivable % | Bad debt provision | Book balance | Percentage of the total receivable % | Bad debt provision |
| within 1 yr | 309,072,834.17 | 39.17 | | 329,323,169.55 | 40.75 | |
| 1-2 yrs | 35,030,478.79 | 4.44 | 1,952,646.53 | 39,052,930.65 | 4.83 | 1,952,646.53 |
| 2-3 yrs | 47,190,666.96 | 5.98 | 8,426,904.82 | 42,134,524.07 | 5.21 | 8,426,904.82 |
| Over 3 yrs | 397,725,723.41 | 50.41 | 397,725,723.41 | 397,725,723.41 | 49.21 | 397,725,723.41 |
| Total | 789,019,703.33 | 100 | 408,105,274.76 | 808,236,347.68 | 100 | 408,105,274.76 |

3. No accounts receivable, which had been fully impaired or made a large proportion of bad debt provision last year, has been fully recovered or taken back a huge proportion this year.

4. No accounts receivable has been written off this year

5. Top five receivable accounts

| Name of the companies | Relation with the Company | Amount | Ages | Portion in total receivables |
|--|---------------------------|-----------------------|--------------|------------------------------|
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | Subsidiary | 119,331,577.67 | within 1 yr | 15.12 |
| Bengang Group Machinery Ltd. | Related parties | 94,691,055.23 | within 2 yrs | 12.00 |
| Benxi Steel (Group) Industrial Development Ltd. | Related parties | 46,539,875.31 | within 1 yr | 5.90 |
| China Petrol Goods Co. | Supplier | 17,514,730.46 | within 1 yr | 2.22 |
| No.1 Tractor Factory Ltd. Forge Branch | Supplier | 17,255,614.26 | within 1 yr | 2.19 |
| Total | | 295,332,852.93 | | 37.43 |

6. Within the aforesaid balance, there is no amount due from the shareholders that hold 5% or more of the company's voting shares.

7. For accounts receivable due from related parties please go to Note VI.

(II) Other receivables

1. Other account receivable.

| Category | Ending balance | | | | Beginning balance | | | |
|---|----------------|-----------------------|--------------------|---------------------------|-------------------|-----------------------|--------------------|---------------------------|
| | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % | Book balance | Percentage in total % | Bad debt provision | Bad debt provision rate % |
| Other receivables with major individual amount and bad debt provision provided individually | | | | | | | | |
| Other receivables provided bad debt provision in groups | 368,862,779.64 | 99.53 | 73,933,493.35 | 20.04 | 292,919,204.96 | 99.41 | 73,933,493.35 | 25.24 |
| Other account receivable with minor individual amount but bad debt provision is provided | 1,740,000.00 | 0.47 | | | 1,740,000.00 | 0.59 | | |
| Total | 370,602,779.64 | 100.00 | 73,933,493.35 | 20.04 | 294,659,204.96 | 100 | 73,933,493.35 | 25.24 |

2. Bad debt provision provided upon other receivables in portfolios

| Items | Ending balance | | | Beginning balance | | |
|-------------|----------------|--------------------------------------|--------------------|-------------------|--------------------------------------|--------------------|
| | Book balance | Percentage of the total receivable % | Bad debt provision | Book balance | Percentage of the total receivable % | Bad debt provision |
| within 1 yr | 278,143,663.03 | 75.05 | | 201,454,501.88 | 68.77 | |
| 1-2 yrs | 10,248,029.57 | 2.77 | 455,467.98 | 9,109,359.62 | 3.11 | 455,467.98 |
| 2-3 yrs | 10,952,391.19 | 2.96 | 2,219,329.52 | 11,096,647.61 | 3.79 | 2,219,329.52 |
| Over 3 yrs | 71,258,695.85 | 19.23 | 71,258,695.85 | 71,258,695.85 | 24.33 | 71,258,695.85 |
| Total | 370,602,779.64 | 100.00 | 73,933,493.35 | 292,919,204.96 | 100.00 | 73,933,493.35 |

3. Other receivables with insignificant amount but bad debt provision provided individually

| Name of the companies | Book balance | Bad debt provision | Providing rate % | Reason |
|-------------------------------|--------------|--------------------|------------------|--------------|
| Japanese Loan Sinking Fund of | 1,740,000.00 | | | sinking fund |
| Total | 1,740,000.00 | | | |

4. No other receivable account which has been fully provided of bad debt provision or in great portion in previous period, whereas retrieved or written back in full or in great portion in current period.

5. No other receivable account practically deducted at end of period.

6. Top five debtors of other receivable accounts

| Name of the companies | Relation with the Company | Description | Amount | Ages | Portion in total other receivables (%) |
|---|---------------------------|-----------------|-----------------------|-------------|--|
| China Securities Depository & Clearing Corporation Ltd. Shenzhen Branch | Agency | Current account | 105,943,574.68 | within 1 yr | 28.59 |
| Yantai Bengang Steel Sales Ltd. | Subsidiary | Current account | 58,127,128.68 | within 1 yr | 15.68 |
| National Tax Bureau Bengang Office | Tax bureau | Tax | 40,941,936.61 | within 1 yr | 11.05 |
| Nanjing Bengang Steel Material Sales Ltd. | Subsidiary | Current account | 15,225,999.59 | within 1 yr | 4.11 |
| Changchun Bengang Steel Sales Ltd. | Subsidiary | Current account | 12,078,102.02 | within 1 yr | 3.26 |
| Total | | | 232,316,741.58 | | 62.69 |

7. As of end of period, within the aforesaid balance, there is no amount due from the shareholders who holds 5% or more the voting shares of the Company.

8. Please see Note VI for other account due from related parties.

(III) Long-term equity investment

| Company invested in | Calculating basis | Investment cost | Beginning balance | Changed by | Balance at the end of year | Percentage of share in the firm % | Voting power in the firm % | Statement differences between shareholding and voting rights | on the and | Impairment provision | Impairment provision provided this term | Cash dividend of the current term |
|--|-------------------|------------------|-------------------|----------------|----------------------------|-----------------------------------|----------------------------|--|------------|----------------------|---|-----------------------------------|
| Haerbin Bengang International Trading Ltd. | Cost basis | 423,398.23 | 423,398.23 | | 423,398.23 | 100.00 | 100.00 | | | | | |
| Changchun Bengang Steel Sales Ltd. | Cost basis | -1,355,124.64 | -1,355,124.64 | | -1,355,124.64 | 100.00 | 100.00 | | | | | |
| Tianjin Bengang Steel Trading Ltd. | Cost basis | 33,318,095.80 | 33,318,095.80 | | 33,318,095.80 | 100.00 | 100.00 | | | | | |
| Yantai Bengang Steel Sales Ltd. | Cost basis | 19,600,329.41 | 19,600,329.41 | | 19,600,329.41 | 100.00 | 100.00 | | | | | |
| Nanjing Bengang Steel Material Sales Ltd. | Cost basis | 2,081,400.65 | 2,081,400.65 | | 2,081,400.65 | 100.00 | 100.00 | | | | | |
| Wuxi Bengang Steel Sales Ltd. | Cost basis | 936,718.57 | 936,718.57 | | 936,718.57 | 100.00 | 100.00 | | | | | |
| Xiamen Bengang Steel Sales Ltd. | Cost basis | 1,095,711.66 | 1,095,711.66 | | 1,095,711.66 | 100.00 | 100.00 | | | | | |
| Guangzhou Bengang Trade Co., Ltd. | Cost basis | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 100.00 | 100.00 | | | | | |
| Shanghai Bengang Metallurgy Tech. Ltd. | Cost basis | 5,000,000.00 | 5,000,000.00 | | 5,000,000.00 | 100.00 | 100.00 | | | | | |
| Bengang Steel Plate Liaoyang Orel Ball Co., Ltd. | Cost basis | 477,607,647.49 | 477,607,647.49 | | 477,607,647.49 | 100.00 | 100.00 | | | | | |
| Bengang Stainless Cool-rolling (Dandong) Co., Ltd. | Cost basis | 390,000,000.00 | 260,000,000.00 | 130,000,000.00 | 390,000,000.00 | 100.00 | 100.00 | | | | | |
| Dalian Benruitong Automobile Material Technologies Co., Ltd. | Cost basis | 65,000,000.00 | 65,000,000.00 | | 65,000,000.00 | 65.00 | 65.00 | | | | | |
| Tianjin Bengang Longxing Steel Processing Co., Ltd. | Cost basis | 3,888,980.00 | 3,888,980.00 | | 3,888,980.00 | 20.00 | 20.00 | | | | | |
| China Steel Shanghai Steel Processing Co., Ltd. | Cost basis | 10,058,250.00 | 10,058,250.00 | | 10,058,250.00 | 15.00 | 15.00 | | | | | |
| Total | | 1,008,655,407.17 | 878,655,407.17 | 130,000,000.00 | 1,008,655,407.17 | | | | | | | |

(IV) Operating income and operating cost

1. Operation income

| Items | Occurred current term | Occurred in previous term |
|-------------------------|--------------------------|---------------------------|
| Major business turnover | 20,722,113,757.54 | 18,526,041,285.83 |
| Other business income | 2,748,616,805.63 | 2,562,830,774.54 |
| Total | 23,470,730,563.17 | 21,088,872,060.37 |
| Operation cost | 21,218,162,916.22 | 18,444,526,168.35 |

2. Main business (industry segment)

| Items | Occurred current term | | Occurred in previous term | |
|--------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| Industry | 20,722,113,757.54 | 18,521,588,875.69 | 18,526,041,285.83 | 16,130,730,258.84 |
| Total | 20,722,113,757.54 | 18,521,588,875.69 | 18,526,041,285.83 | 16,130,730,258.84 |

3. Main business (product segment)

| Items | Occurred current term | | Occurred in previous term | |
|--------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| Steel plate | 20,326,331,505.97 | 18,170,540,518.82 | 18,196,996,431.83 | 15,846,201,935.86 |
| Steel billet | 3,928,917.19 | 3,235,556.50 | 1,061,485.60 | 774,784.32 |
| Others | 391,853,334.38 | 347,812,800.37 | 327,983,368.40 | 283,753,538.66 |
| Total | 20,722,113,757.54 | 18,521,588,875.69 | 18,526,041,285.83 | 16,130,730,258.84 |

4. Main business (geographic segment)

| Areas | Occurred current term | | Occurred in previous term | |
|--------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | Turnover | Operation cost | Turnover | Operation cost |
| North east | 7,046,949,986.34 | 6,298,619,532.82 | 5,721,286,849.78 | 4,921,366,634.24 |
| North | 3,175,710,110.63 | 2,838,474,768.82 | 2,950,157,361.71 | 2,582,586,552.70 |
| East | 5,118,029,315.56 | 4,574,535,008.62 | 4,430,136,638.33 | 3,878,169,841.81 |
| Northwest | 270,843,737.15 | 242,082,270.55 | 69,825,217.73 | 61,125,440.52 |
| Mid-south | 2,391,892,555.51 | 2,137,892,449.89 | 1,815,448,967.06 | 1,589,255,593.72 |
| Export | 2,718,688,052.35 | 2,429,984,844.98 | 3,539,186,251.22 | 3,098,226,195.84 |
| Total | 20,722,113,757.54 | 18,521,588,875.69 | 18,526,041,285.83 | 16,130,730,258.83 |

5. Top five clients' principal operating revenue is as follows

| Name of clients | Total of principal turnover | % in total main business income |
|--|-----------------------------|---------------------------------|
| Bengang Puxiang Cool Rolling Steel Sheet Co., Ltd. | 3,758,411,808.87 | 18.14 |
| Shanghai Bengang Metallurgy Tech. Ltd. | 823,795,055.56 | 3.98 |
| Hengxin National Resources Co., Ltd. | 582,860,642.00 | 2.81 |
| Yantai Bengang Steel Sales Ltd. | 554,121,572.19 | 2.67 |
| Tianjin Bengang Steel Trading Ltd. | 461,416,320.07 | 2.23 |
| Total | 11,706,698,226.21 | 56.49 |

(V) Appendix of Cash Flow Statement

| Items | Amount of the Current Term | Amount of the Previous Term |
|---|----------------------------|-----------------------------|
| 1. Net profit adjusted to cash flow of business operation | | |
| Net profit | 491,945,046.02 | 685,501,932.68 |
| Plus: Asset impairment provision | | |
| Fixed asset depreciation, gas and petrol depreciation, production goods depreciation | 950,754,929.64 | 1,027,830,862.93 |
| Amortizing of intangible assets | | |
| Amortizing of long-term expenses | | |
| Loss from disposal of fixed assets, intangible assets, and other long-term assets (“-“ for gains) | | |
| Loss from fixed asset discard (“-“ for gains) | | |
| Loss from fair value fluctuation (“-“ for gains) | | |
| Financial expenses (“-“ for gains) | 145,561,883.79 | 118,122,309.04 |
| Investment losses (“-“ for gains) | | |
| Decrease of deferred income tax asset (“-“ for increase) | | |
| Increase of deferred income tax liability (“-“ for decrease) | | |
| Decrease of inventory (“-“ for increase) | -1,485,822,924.27 | -198,655,504.01 |
| Decrease of operational receivable items (“-“ for increase) | -102,389,137.60 | -6,296,499.92 |
| Increase of operational payable items (“-“ for decrease) | 1,019,307,500.70 | -1,031,566,662.83 |
| Others | | |
| Cash flow generated by business operation, net | 1,019,357,298.28 | 594,936,437.89 |
| 2. Payments of investment and fund-raising activities do not involve cash : | | |
| Liabilities converted to capital | | |
| Convertible bond expire in 1 year | | |
| Fixed assets leased through financing | | |
| 3. Net change of cash and cash equivalents | | |
| Balance of cash at period end | 3,861,573,000.00 | 2,295,771,447.81 |
| Less: Balance of cash at beginning of year | 2,295,236,500.00 | 2,795,043,926.41 |
| Plus: Balance of cash equivalents at the period end | | |
| Less: Balance of cash equivalents at beginning of term | | |
| Net increasing of cash and cash equivalents | 1,566,336,500.00 | -499,272,478.60 |

XII. Supplementary Info.

(I) Details of non-recurring profit and loss of current term

| Items | Amount | Remarks |
|--|---------------|---------|
| Gain/loss of non-current assets | 105,882.56 | |
| Tax refunding or exemption without official certification or exceeded authority | | |
| Gains and losses included in the current period of government subsidies, excluding those government grants which are closely related to normal business and in line with national policy , or in accordance with fixed standards or quantities | 5,072,967.00 | |
| Capital adoption fee collected from non-financial organizations and accounted into current gain/loss | | |
| Gain/loss from differences between the cost of enterprise merger and the fair value of recognizable net asset of the invested entities | | |
| Gain/loss from non-monetary assets | | |
| Gain/loss from commissioned investment or assets | | |
| Asset impairment provisions provided for force-majeur | | |
| Gain/loss from debt reorganization | 1,602,521.42 | |
| Enterprise reorganizing expenses, such as employee placement fee and integration fee | | |
| Gain/loss from trade departing from fair value | | |
| Current net gain/loss of subsidiaries under same control from beginning of term till date of consolidation | | |
| Gain/loss generated by contingent liabilities without connection with main businesses | | |
| Gain/loss from change of fair value of transactional asset and liabilities, and investment gains from disposal of transactional financial assets and liabilities and sellable financial assets, other than valid period value instruments related to the Company ' s common businesses | | |
| Restoring of receivable account impairment provision tested individually | | |
| Gain/loss from commissioned loans | | |
| Gain/loss from change of fair value of investment property measured at fair value in follow-up measurement | | |
| Influence of one-time adjustment made on current gain/loss account according to the laws and regulations regarding tax and accounting | | |
| Consigning fee received for cosigned operation | | |
| Other non-business income and expenditures other than the above | 3,951,303.50 | |
| Other gain/loss items satisfying the definition of non-recurring gain/loss account | | |
| Influenced amount of income tax | -2,683,168.62 | |
| Total | 8,049,505.86 | |

(II) Net asset yield and Earnings per Share

| Profit of the report period | Weighted average net income/asset ratio (%) | Earnings per share | |
|---|---|--------------------------|----------------------------|
| | | Basic earnings per share | Diluted earnings per share |
| Net profit attributable to common shareholders of the Company | 3.93 | 0.190 | 0.190 |
| Net profit attributable to the common owners of the PLC after deducting of non-recurring gains/losses | 3.88 | 0.187 | 0.187 |

XIII. Approval and releasing of the financial statements

The Financial Statements were approved to be released by all of the directors of the Company on August 22, 2011.

Bengang Steel Plates Co., Ltd.

August 24, 2011