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2007
Annual Report

BAOSHAN IRON & STEEL CO., LTD.

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To Our Investors

The steel industry in China in 2007 witnessed a year of structural adjustment and optimization as well as a year of stable and relatively fast growth following its rapid development in previous years. The prices of steel products fluctuated but rose steadily due to strong demands in both the domestic and international markets and the continuous cost rise of raw materials. Against this background, effective and timely measures were taken by the management to minimize the impacts of the substantial cost rise in raw materials and volatile steel prices. Priority was given to the implementation of the key projects of the Company while better performance was achieved in operation, manufacturing, profitability and integration synergy. Thanks to these efforts, we managed to fulfill our annual plan in production and marketing; the annual sales of steel products totaled 22.60 million tons, a rise of 6.5% as compared to that of the previous year; and the revenue reached Rmb 191.56 billion, a record high in the history and a rise of 18.0% against that of the last year. The pre-tax profit amounted to Rmb 19.31 billion, a rise of 0.5% over that of the previous period, with a total net profit of Rmb 13.42 billion.

2007 was also a fruitful year for the Company in its marketing service, research and management. Baosteel was recognized as one of the "National Enterprises with Quality Culture" at the first Quality Culture Forum sponsored by China Association for Quality and as one of the "National Enterprises for Customer Satisfaction in 2006". "A new technique of metal inspection and automatic iron picking" by Han Mingming, a Baosteel technical expert, won the second prize of National Science & Technology Progress Awards at the 2006 Annual National Conference of Science and Technology of China held in February 2007 in the Great Hall of the People. In September 2007, Baosteel Special Steel Branch received an award and a commemorative board of "First Image of Lunar Surface Obtained by China's Lunar Orbiter Project" due to its contribution to the first "Lunar Orbiter Project".

"Establishing the best Baosteel equipment management model: protective maintenance-based equipment management", a management model proposed by the Company, was awarded first prize by China Iron and Steel Association and second prize in "National Achievements in Management Innovation". In December, Baosteel was awarded the title of "National Enterprise in 6 Sigma Promotion" for the fourth time in a run.

In February, Baosteel was awarded "Enterprise of Credibility in China" by China Enterprise Confederation and China Enterprise Directors Association. In October, Standard & Poor's announced that the long-term credit of Baosteel was rated A-, revising its outlook on the Company's credit from "stable" to "positive".

Despite the overall progress made in the year 2007, the stainless steel unit is yet to improve its consistent quality management, process control and improvement as it suffered significant loss consequent on plummeting nickel price and stainless product price. The unit is to expected to steadily increase its profit-gaining power by intensive management endeavours in unifying its internal operations, strengthening the dynamic interactions between manufacture, supply, and research, introducing new product varieties, optimizing furnace materials, bettering the product quality, and shortening the inventory turnover period.

While American sub-prime crisis slows its growth rate, the world economy is expected to maintain its mild growth as new emerging market economies have sustained strong momentum for further growth. Despite the pressure from economic macro-control, China's economy in 2008 is expected to feature a stable but relatively fast growth and therefore the total demand for steel in the country is still on the increase. However, as China's economic development pattern is changing, steel makers in China are facing problems of sustainable development, including optimizing industry structure and layout, providing more energy-saving and environmentally friendly products, and harmonious development with resources availability and market demand in mind.

China's steel market foresees supply-demand balance in 2008. As leading industries of the national economy, ranging from construction, machinery, automobile, ship-building, home appliance, to oil and natural gas, and major steel-consuming industries maintain a fast growth rate, the domestic steel demand continues to increase despite slowed growth in overall steel output.

A pivotal year for our project implementation, the Company is to embark on a new journey of strategic development while maintaining its competitive edge. While emphasis is laid on innovation, reform and further integration of our steel business, the Company endeavors to tap its potential in business management, enhance the soft power and core competitiveness and promote breakthrough developments in production scale, product quality, technology, and circular economy. New growth is to be achieved through improved system integration and sustainable development realized through enhanced core competitiveness.

Following its "focused target" strategy, the Company continues its efforts in the development of such strategic products as automobile steel plates, electrical steel, pipeline steel, energy pipes, ship-building plates, stainless steel, and high alloy steel, and with its strengthened overall competitiveness, will continue to assert itself as a leading player in domestic steel plates market. In light of the concept of scientific development, the Company has created a unique model of industrialization and sustainable development and it has been and will always be our top priority to create values for the shareholders, customers, employees, suppliers, and communities.

Important Notice

The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as the Company), along with their directors, supervisors and senior management, hereby warrant that there is no misrepresentation nor misleading expression obtained or deliberate omission in this Annual Report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information presented in this report.

Mr. Xu Lejiang, Chairman of the Board of Directors, Ms. Chen Ying, Financial Controller of the Company, and Ms. Yuan Lei, Director of the Finance Department of the Company, attest to the truthfulness and accuracy of the financial statements contained in this report.

Table of Contents

I. Company Profile

1. Chinese Name: 宝山钢铁股份有限公司

   Chinese Abbreviation: 宝钢股份

   English Name: Baoshan Iron & Steel Co., Ltd.

   English Abbreviation: Baosteel

2. Legal Representative: 徐乐江

3. Secretary to Board of Directors: Chen Ying

   Representative of Securities Affairs: Yu Hong

   Address: Board of Directors' Office, Baoshan Iron & Steel Co., Ltd., South Building, Baoshan Hotel, 1813 Mudanjiang Road, Baoshan District, Shanghai

   Zip Code: 201900

   Telephone: 86-21-26647000

   Fax: 86-21-26646999

   Email: ir@baosteel.com

4. Registered Address: South Building, 1813 Mudanjiang Road, Baoshan District, Shanghai

   Office Address: South Building, Baoshan Hotel, 1813 Mudanjiang Road, Shanghai

   Zip Code: 201900

   Official Website: http://www.baosteel.com

   Email Address: ir@baosteel.com

5. Company Announcements or Disclosures published in *China Securities News*, *Shanghai Securities News*, and *Securities Times*

   Annual Report Website: http://www.sse.com.cn

   Copies of the Report can be obtained by mail from Board of Directors' Office, Baoshan Iron & Steel Co., Ltd., South Building, Baoshan Hotel, 1813 Mudanjiang Road, Baoshan District, Shanghai.

6. Stock Listed at: Shanghai Stock Exchange

   Stock Name: 宝钢股份

   Stock Code: 600019

7. Date of Incorporation: 3 February 2000

   Place of Incorporation: Guoyuan, Fujin Road, Baoshan District, Shanghai

   Date of Change of Registration: 18 January 2008

   Corporate Business License Number: 310000000074519

   Tax Identification Number: 310046631696382

   Organization Code: 63169638-2

   Accounting Firm: Ernst & Young Hua Ming

   Office Address of Accounting Firm: F16, Unit E3, Economics & Trade Tower, Oriental Plaza, 1 East Changan Avenue, Dongcheng District, Beijing, China

II. Financial Highlights

Notice: The new Accounting Standards for Business Enterprises has been adopted by the Company since January 1, 2007, and the financial statement has been retroactively adjusted in accordance with the requirements of Accounting Standard for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises.

(I) Major Financial Data

(Rmb million)

Item	Amount
Operating profit	19,478
Pre-tax profit	19,308
Net profit attributable to shareholders of listed company	12,718
Net profit attributable to shareholders of listed company less non-recurring gains and losses	12,545
Net cash flow from operating activities	19,506

Non-recurring gains and losses

(Rmb million)

Item	Amount
Losses from disposal of non-current assets	(166)
Net gains or losses of subsidiaries from business consolidation under common control since beginning of the year to date of consolidation	17
Subsidies income	145
Net gains/losses from other non-operating activities	(39)
Reversal of remaining welfare payable	324
Impact from income taxes	(107)
Total of non-recurring gains and losses	174

II. Financial Highlights

(II) Summary of Three-year Financial and Operating Data

(Rmb million)

Item	2007	2006		Change (% YOY)	2005	
		Adjusted	Non-adjusted		Adjusted	Non-adjusted
Revenue	191,559	162,326	157,791	18.01	124,192	126,608
Pre-tax profit	19,308	19,204	19,008	0.54	18,560	18,311
Net profit attributable to shareholders of listed company	12,718	13,077	13,010	-2.75	12,785	12,666
Net profit attributable to shareholders of listed company less non-recurring gains and losses	12,545	13,400	13,247	-6.38	12,898	12,743
Net cash flow from operating activities	19,506	25,213	21,596	-22.64	31,327	22,722
Net cash flow per share from operating activities (Rmb)	1.11	1.44	1.23	-22.92	1.79	1.30
Basic earnings per share (Rmb)	0.73	0.75	0.74	-2.67	0.73	0.72
Diluted earnings per share (Rmb)	0.73	0.75	0.74	-2.67	0.73	0.72
Average Return-on-Equity (%) (fully diluted)	14.37	16.09	15.87	-1.72%	17.38	17.01
Average Return-on-Equity (%) (weighted)	15.22	17.13	16.84	-1.91%	20.80	20.63
Return on equity excluding non-recurring gains and losses (%) (fully diluted)	14.17	16.49	16.16	-2.32%	17.54	17.11
Return on equity excluding non-recurring gains and losses (%) (weighted)	15.01	17.55	17.15	-2.54%	20.99	20.75

(Rmb million)

Item	By the end of 2007	By the end of 2006		Change (% YOY)	By the end of 2005	
		Adjusted	Non-adjusted		Adjusted	Non-adjusted
Total assets	188,336	164,847	151,060	14.25	151,713	142,024
Shareholders' equity attributable to shareholders of listed company	88,504	81,286	81,961	8.88	73,544	74,475
Net asset per share attributable to shareholders of listed company (Rmb)	5.05	4.64	4.68	8.84	4.2	4.25

III. Capital and Shareholders

(I) Changes in Capital

1. Changes in capital

(Unit: 10 thousand shares)

	Beginning of year		Changes in the period (+,-)		End of year	
	Number of shares	Percentage	Expiry of lockup period	Sub-total	Number of shares	Percentage
I. Shares subject to conditional sales						
1. Government	1,277,651.74	72.96%	- 87,560	- 87,560	1,190,091.74	67.96%
2. Domestic state-owned institutions						
3. Other domestic investors	2.25	0.00013%	0	0	2.25	0.00013%
Including:						
Domestic legal persons						
Domestic natural persons	2.25	0.00013%	0	0	2.25	0.00013%
4. Foreign investors						
Including:						
Foreign legal persons						
Foreign natural persons						
II. Shares not subject to conditional sales						
1. Rmb common shares	473,546.01	27.04%	87,560	87,560	561,106.01	32.04%
2. Domestic listed foreign investment shares						
3. Overseas listed foreign investment shares						
4. Others						
III. Total	1,751,200	100%	0	0	1,751,200	100%

2. Shares subject to conditional sales

(Share)

Shareholder	Conditional shares at beginning of year	Expiry of lockup period	Conditional shares added	Conditional shares at end of year	Reason for lockup	Date of expiry
Baosteel Group	12,776,517,441	875,600,000	0	11,900,917,441	Commitment in non-tradable share reform	20 August, 2007
Li Li	22,500	0	0	22,500	Supervisor shareholding	
Total	12,776,539,941	875,600,000	0	11,900,939,941		

(II) Share Issuing and Listing

Following the approval by the China Securities Regulatory Commission (CSRC), as provided in the approval document No. [2005]15, on 27 April 2005, the Company issued five billion new shares at an offer price of Rmb 5.12 per share, including three billion state-owned shares to Baosteel Group and two billion to the general public. The 1,649,857,731 shares of preemptive rights offering to existing shareholders were listed on 9 May 2005 at Shanghai Stock Exchange. As indicated in the public subscription notice, the off-line offerings of 350,142,269 shares to institutional investors on the pro-rata basis bear lock-up periods: the 7,986,000 shares to C-type investors, with a lock-up period of a month, were listed at Shanghai Stock Exchange on June 9, 2005; the 299,036,269 shares to B-type investors, with a lock-up period of two months, and the 43,120,000 shares to A-type investors, which bear a three-month lock-up period, were listed at the same stock exchange on July 11 and August 18, 2005, respectively.

In accordance with the reform program approved on the 2005 First Interim Shareholders' Meeting held on 12 August 2005 and enacted on 18 August 2005, Baosteel Group made tradable its shares in the consideration of a payment to the tradable shareholders and the non-tradable shares of the Group circulated on market when credits were made to the accounts of the shareholders. After the implement of the program, the total capital stock of the Company remains to be 17,512,000,000. Due to the reform program, Baosteel Group issued a total of 387,700,000 call warrants as considerations paid to existing tradable shareholders. The warrants, abbreviated as "Baosteel JTB1" and with the stock code 580000, listed at Shanghai Stock Exchange on 22 August 2005. On 30 August 2006, altogether 5,542,559 JTB1 warrants were exercised and a total of 5,542,559 shares were transferred from the account of Baosteel Group to the holders of the warrants. The shares began to be traded on August 31, 2006, and the total share of the Company remained unchanged. The list of the warrants was terminated and delisted at Shanghai Stock Exchange on 4 September 2006.

(III) Shareholders

1. Shareholders and shareholdings

(Unit: Share)

Number of shareholders	753,074

Top 10 shareholders

Name	Type of investor	Percentage	Total shares	Shares subject to conditional sales	Shares pledged or frozen
Baosteel Group Corp.	State-owned	73.97%	12,953,517,441	11,900,917,441	None
Bank of Communications—E Fund 50 Index Fund	Others	0.59%	103,999,907	0	None
Chinalife Insurance Company Ltd.—Dividends—Personal Insurance—005L—FH002	Others	0.51%	88,505,000	0	None
Chinalife Insurance (Group) Company Ltd.—Traditional Common Insurance Products	Others	0.47%	82,174,213	0	None
Industrial and Commercial Bank of China—Invesco Great Wall Blue Chip Investment Fund	Others	0.42%	74,119,068	0	None
Industrial and Commercial Bank of China—E-Fund Fund of Stable Growth	Others	0.41%	71,499,886	0	None
Bank of China—Harvest Stable Open Stock Fund	Others	0.40%	70,826,003	0	None
Agriculture Bank of China—China Post & Capital Stock Fund of Central and Growth Investment	Others	0.39%	67,870,789	0	None
Industrial Bank—Industrial Trend Mixed Stock Investment Fund	Others	0.38%	66,200,000	0	None
Industrial and Commercial Bank of China—BOC International Investment Stock Fund of Stable Growth	Others	0.37%	65,615,754	0	None

Top 10 tradable shareholders

Shareholders	Shareholdings of unconditional share	Share type
Baosteel Group	1,052,600,000	Rmb common share
Bank of Communications—E Fund 50 Index Fund	103,999,907	Rmb common share
Chinalife Insurance Company Ltd.—Dividends—Personal Insurance—005L—FH002	88,505,000	Rmb common share
Chinalife Insurance (Group) Company Ltd.—Traditional Common Insurance Products	82,174,213	Rmb common share
Industrial and Commercial Bank of China—Invesco Great Wall Blue Chip Investment Fund	74,119,068	Rmb common share
Industrial and Commercial Bank of China—E-Fund Fund of Stable Value Growth	71,499,886	Rmb common share
Bank of China—Harvest Stable Open Stock Fund	70,826,003	Rmb common share
Agriculture Bank of China—China Post & Capital Stock Fund of Central and Growth Investment	67,870,789	Rmb common share
Industrial Bank—Industrial Trend Mixed Stock Investment Fund	66,200,000	Rmb common share
Industrial and Commercial Bank of China—BOC International Investment Stock Fund of Stable Growth	65,615,754	Rmb common share

Remarks on affiliation, alliance or collusion among the aforementioned top ten shareholders	1. Chinalife Insurance Company Ltd. is a subsidiary of Chinalife Insurance (Group) Company Ltd; 2. E Fund 50 Index Fund and E-Fund Fund of Stable Value Growth are managed by E Fund Management Co., Ltd.

2. Trading dates of shares subject to conditional sales

Unit: Share

Date	New tradable shares after the expiry of lockup period	Balance of the shares subject to conditional sales	Balance of the shares not subject to conditional sales (Existing shares and new shares)	Notes
August 19, 2008	11,900,917,441	0	17,512,000,000	Within the 12 months after the 24-month non-trading period since Baosteel Group obtained the circulation right, the shares to be traded at stock exchanges shall not exceed 5% of the total shares and the shares traded shall be at a price no less than Rmb 5.63 per share. Within the three years after the company's shares got the circulation right, the Group's shareholding would not be lower than 67% of the total shares.

3. Holding company and controlling shareholder

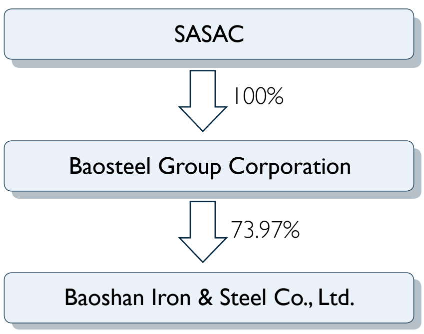
(1) Holding company

Name	Baosteel Group Corporation
Legal representative	Xu Lejiang
Date of incorporation	17 November 1998
Registered capital	Rmb 49.478571 billion
Principal businesses and operations	As a governmental authorized investment vehicle and a state-owned holding company, Baosteel Group Corporation mainly deals with state-owned assets within the authorized scope set by the State Council. The Corporation has also been involved in investments in areas of iron & steel manufacturing, metallurgy and mineral and mining, non-toxic chemicals, electricity, piers, warehousing, transportation, and steel-related business, technological development, technology transfer, technical supporting, and technical management consulting, as well as in areas of import and export businesses approved by the Ministry of Foreign Trade & Economic Cooperation , domestic and international trading and services where allowed.

(2) Controlling shareholder

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

(3) Relationship between the Company and its controller



IV. Directors, Supervisors, Senior Management and Employees

(I) Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Term of office	Shares held	Compensation from shareholding company or affiliated companies
Xu Lejiang	Chairman of Board of Directors	M	48	2007.12-2009.05	0	Yes
Ouyang Yingpeng	Vice Chairman of Board of Directors	M	57	2006.05-2009.05	0	Yes
Fu Zhongzhe	Director, President	M	47	2007.04-2009.05	0	No
Li Haiping	Director, Vice President	M	57	2006.05-2009.05	0	No
He Wenbo	Director	M	52	2006.05-2009.05	0	Yes
Wu Yaowen	Director	M	64	2006.05-2009.05	0	Yes
Laura Cha	Independent Director	F	58	2006.05-2009.05	0	No
Buck Pei	Independent Director	M	50	2006.05-2009.05	0	No
Katherine Tsang	Independent Director	F	50	2006.05-2009.05	0	No
Sun Haiming	Independent Director	M	51	2006.05-2009.05	0	No
Edward C. Tse	Independent Director	M	51	2006.05-2009.05	0	No
Li Li	Chairwoman of Board of Supervisors	F	54	2006.05-2009.05	30,000	No
Zhou Zhuping	Supervisor	M	44	2006.05-2009.05	0	Yes
Zhou Guiquan	Supervisor	M	52	2007.04-2009.05	0	Yes
Liu An	Supervisor	M	46	2006.05-2009.05	0	No
Han Guojun	Supervisor	M	52	2006.05-2009.05	0	No
Zhao Zhouli	Vice President	M	51	2006.05-2009.05	0	No
Cui Jian	Vice President	M	47	2006.05-2009.05	0	No
Zhu Junsheng	Vice President	M	47	2006.05-2009.05	0	No
Chen Ying	Financial Controller, Secretary to Board of Directors	F	36	2006.05-2009.05	0	No
Chen Shouqun	Assistant to President	M	57	2006.10-2009.05	0	No
Li Yongxiang	Assistant to President	M	47	2006.05-2009.05	0	No
Xie Wei	Assistant to President	M	43	2006.05-2009.05	0	No
Lou Dingbo	Assistant to President	M	45	2006.05-2009.05	0	No
Wang Li	Assistant to President	M	51	2006.10-2009.05	0	No

Notes: The term of office will end at the date when the 2009 Annual Shareholders' Meeting is held.

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

Xu Lejiang, Chairman of the Board of Directors of the Company since December 2007. Director of the Company from February 2000 to May 2006; Chairman of the Board of Directors of the Company from May 2006 to March 2007. Director and Vice President of Shanghai Baosteel Group Corporation (hereinafter referred to as BGC) from November 1998, to December 2004. Director and President of BGC from December 2004 to October 2005; Director and President of Baosteel Group Corporation since January 2007.

Ouyang Yingpeng: Vice Chairman of the Board of Directors of the Company since February 2000. Director of BGC from February 2003, to October 2005. Chairman of the Board of Directors of Baosteel Development Co., Ltd. since January 2007.

Fu Zhongzhe: President of the Company since March 2007; Director of the Company since April 2007. Assistant to President of BGC from June 1999 to June 2003; Chairman of the Board of Directors and President of Shanghai No.1 Iron and Steel Co., Ltd. since November 1999. Chairman of the Board of Directors and President of Shanghai No.1 Steel and Iron Co., Ltd. from June 2003 to March 2005. Vice President of the Company from May 2005 to March 2007; President of Baosteel Branch of the Company from May 2005 to May 2007.

Li Haiping: Director and Vice President of the Company since February 2000. Assistant to President of BGC from 1995 to November1998; Vice President of BGC from December 1998 to February 2000.

He Wenbo: Director of the Company since February 2000. Director and Vice President of BGC from November 1998 to October 2005. Vice President of Baosteel Group Corporation since October 2005.Chairman of Shanghai Baosteel International Economic & Trading Co., Ltd. and Chairman of the Board of Directors of Bao-Island Enterprises Ltd. concurrently.

Wu Yaowen: Director of the Company since May 2006; concurrently External Director of Baosteel Group Corporation. Vice President of China National Petroleum Company since December 1996; Vice President of China National Petroleum Corporation since December, 1998; Director and Vice Chairman of the Board of Directors of Petro-China from October 1999 to December 2003.

Laura Cha (Shi Meilun): Independent Director of the Company since May 2006; Chairwoman of University Grants Committee of Hong Kong Special Administrative Region since April 2007; Member of International Consultant Committee of Shanghai International Finance Center since September 2007; Member of International Consultant Committee of Marsh & McLennan Companies, Inc. since October 2007; Currently Non-official Member of the Executive Council of Hong Kong Government, Deputy Chairwoman of Hong Kong & Shanghai Banking Corporation Limited, and Vice Chairwoman of the International Consultant Committee of China Securities Regulatory Commission (CSRC); Member of the Standing Committee of the 11th Chinese People's Political Consultative Conference of Shanghai and Hong Kong Representative of the 11th National People's Congress. Vice Chairwoman of CSRC from 2001 to September 2004.

Buck Pei (Bei Kewei): Independent Director of the Company since May 2006; concurrently Associate Dean of the W. P. Carey School of Business, Arizona State University. Director of the MBA Program, Arizona State University, from June 1998 to May 2003.

Katherine Tsang (Zeng Jingxuan): Independent Director of the Company since May 2006; concurrently Chief Executive Officer of Standard Chartered Bank (China). Group Head of Organization Learning Department, Standard Chartered Bank, from 2001 to 2004.

Sun Haiming: Independent Director of the Company since May 2006; concurrently Chairman of the Professor's Committee, School of International Business Administration, Shanghai University of Finance and Economics (SUFE) and Member of the Consultation Board of Shanghai Municipal Government; Director of Finance and Economics Center, SUFE from 1994 to 2002; Chairman of School of International Business Administration, SUFE, from 2002 to 2006.

Edward C. Tse (Xie Zuchi): Independent Director of the Company since May 2006; concurrently President of Booz Allen Hamilton (Greater China). Executive Vice President of Hong Kong Telecom from February 2000 to October 2001; Vice President of AT Kearney from January 2002 to September 2002.

Li Li: Chairwoman of the Board of Supervisors of the Company since May 2006. Partner of Wende International Law Firm from 2000 to 2002; Adviser and Managing Partner of Debevoise & Plimpton LLP and Chief Representative of Debevoise & Plimpton LLP (Shanghai) since 2002.

IV. Directors, Supervisors, Senior Management and Employees

Zhou Zhuping: Supervisor of the Board of Supervisors of the Company since May 2006. Director and Vice President of Shanghai Baosteel International Economic & Trading Co., Ltd. from November 2001 to February 2006; Director of Finance Department of Baosteel Group Corporation from February to July 2006; Business Director and Director of Finance Department of Baosteel Group since July 2006 to May 2007; President of Baosteel Enterprise Development Company since May 2007 to December 2007; President of Baosteel Development Co., Ltd. since December 2007.

Zhou Guiquan: Supervisor of the Board of Supervisors of the Company since April 2007. Party Secretary of the Hot-rolling Mill of the Company since February 2002 to May 2005; Party Secretary of the Hot-rolling Mill of Baosteel Branch of the Company from May 2005 to May 2006; Vice Secretary of the Commission for Discipline Inspection and Director of the Supervision Department of Baosteel Group Corporation as well as Vice Secretary of the Commission for Discipline Inspection of the Company since May 2006.

Liu An: Supervisor of the Board of Supervisors of the Company since May 2006. President of Ningbo Baoxin Stainless Steel Co. Ltd. from July 1998 to August 2004. Executive Vice President of Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd. from August 2004 to March 2005. Executive President of Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd. from March to June, 2005; Executive Vice President of the Stainless Steel Branch of the Company From June 2005 to May 2006. President of the Stainless Steel Branch of the Company from May 2006 to August 2007; Vice President of the Stainless Steel Product Management Department of the Company since August 2007.

Han Guojun: Supervisor of the Board of Supervisors of the Company since May 2006. Director of the Corporate Cultural Department of the Company from September 2003 to May 2005. Secretary of the Commission for Discipline Inspection and Head of the Trade Union of Baosteel Branch of the Company since May 2005.

Zhao Zhouli: Vice President of the Company since May 2000. Party Secretary of Baosteel Branch of the Company from May 2005 to May 2007; President as well as Party Secretary of Baosteel Branch of the Company since May 2007.

Cui Jian: Assistant to President of the Company and Vice Director of the Company's R& D Center from May 2001 to June 2003. Vice President of the Company as well as President of Shanghai Baosteel Research Institute and Director of the R & D Center from June 2003 to May 2006. Vice President of the Company since May 2006.

Zhu Junsheng: Assistant to President of the Company from May 2001 to June 2003. Vice President of the Company since June 2003.

Chen Ying: Director of the Cost Management Department of the Company from May 2001 to November 2003. Secretary to the Board of Directors and Financial Controller since October 2003.

Chen Shouqun: Assistant to President of the Company from August 2002 to May 2005. Vice President of the Baosteel Branch of the Company since May 2005 to October 2006. Assistant to President of the Company since November 2006.

Li Yongxiang: Director and Vice President of Baosteel Group Shanghai Meishan Co., Ltd. from November 1998 to August 2004. Director and Vice President of Baosteel Group Shanghai Meishan Co., Ltd. as well as President of Shanghai Meishan Iron & Steel Co., Ltd. from August 2004 to February 2005. Chairman of the Board of Directors and President of Shanghai Meishan Iron & Steel Co., Ltd.. Assistant to President of the Company and Chairman of the Board of Directors and President of Shanghai Meishan Iron & Steel Co., Ltd. since May 2006.

Xie Wei: President of the Special Steel Branch of the Company from June 2005 to May 2006. Assistant to President of the Company as well as President of the Special Steel Branch of the Company since May 2006.

Lou Dingbo: Assistant to President of the Company from September 2003 to March 2005. President of the Sales Center of the Company from March 2005 to May 2006. Assistant to President as well as President of the Sales Center of the Company since May 2006.

Wang Li: Vice President and Senior Vice President of Shanghai Baosight Software Co., Ltd. since March 2003 to July 2005. Director and Vice President of Shanghai Baosight Software Co., Ltd. since July 2005 to September 2006. Director of the System Innovation Department of the Company from September 2006 to November 2006; Assistant to President as well as Director of the System Innovation Department of the Company since November 2006.

(III) Annual Remuneration

The compensation of the directors, supervisors and senior executives for the year 2007 totaled Rmb15,500,000 (pre-tax, same as the below mentioned figures), among which three people ranged from Rmb1,100,000 to 1,450,000; ten from Rmb800,000 to 1,100,000; seven from Rmb200,000 to 300,000. The total of the three highest paid directors and senior executives was Rmb 3,950,000.

The pre-tax annual allowance for outside directors (including independent directors) and supervisors other than those from controlling shareholders is Rmb250,000. Expenses and fees for travel and accommodation incurred by directors, supervisors and other senior executives due to board meetings and shareholders' meetings are borne by the Company.

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

The following resolutions concerning recruitment and termination of directors, supervisors and senior executives were approved in the fifth meeting of the third Board of Directors of the Company held on 29 March 2007 and submitted to 2006 Shareholders' Meeting for approval: accepting Mr. Xu Lejing's resignation as Chairman of the Board of Directors, Director and other positions in the Board of Directors and electing Mr. Ai Baojun Chairman of the third Board of Directors; accepting Mr. Ai Baojun's resignation as President of the Company and Mr. Fu Zhongzhe was appointed as President of the Company and elected Director of the third Board; electing Mr. He Wenbo and Mr. Fu Zhongzhe as Executive Directors of the third Board, Mr. Ai Baojun as Chairman of the Strategic Committee of the Board and Mr. Fu Zhongzhe as member of the Strategic Committee of the Board.

In the fifth meeting of the third Board of Supervisors of the Company held on 29 March 2007, Supervisor Zhong Yongqun's written resignation, due to his change of job, as member of the third Board of Supervisors was accepted.

In the 2006 General Shareholders' Meeting held on 26 April 2007, Mr. Fu Zhongzhe was elected as member of the third Board of Directors and Mr. Zhou Guiquan as member of the third Board of Supervisors.

In the seventh meeting of the third Board of Directors of the Company held on 29 August 2007, Mr. Jia Yanlin's resignation as Assistant to President of the Company was accepted.

Mr. Dai Zhihao resigned as Vice President of the Company due to his change of job on 19 September 2007.

Mr. Xu Lejiang was elected Director of the third Board in the 2007 first interim General Shareholders' Meeting held on 27 December 2007.

Mr. Ai Baojun resigned as Chairman of the Board of Directors, Director and other positions in the Board of Directors on 27 December 2007.

The resolution was passed in the tenth meeting of the third Board of Directors of the Company held on 27 December 2007 to elect Mr. Xu Lejiang Chairman of the Board of Directors, Executive Director and Chairman of the Strategic Committee of the Board.

(V) Employees

Up to the period covered by the Report, the total number of the employees of the Company and its subsidiaries were 40,059, including 24,421 who were involved in production, 11,760 in technical functions, and 3,878 in administration and management. Among them, 21,971 held three-year college degrees or higher ones. The staff of the Company totaled 25,464, including 17,037 that were involved in production, 6,101 in technical functions, and 2,326 in administration and management. Among them, those held three-year college degrees or higher ones totaled 13,135. The company did not incur any expense for the retired employees in 2007.

V. Corporate Governance

(I) Progress in Corporate Governance

Ever since listed at the stock exchange in 2000, the Company has endeavored to create and execute, by means of standardizing its management and regulating its operation, a thorough and comprehensive corporate governance system, which features operational transparency in information disclosure, interactive relationship with investors, and strict and effective internal auditing and monitoring system, risk-controlling systems, sound credit and transparency in management, in strict compliance with the Company Law, the Securities Law, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the requirements set in the listing regulations by the Shanghai Stock Exchange. Efforts have also been made for further improvement in its corporate governance by means of keeping abreast with domestic and international progress in management while focusing on creativity and innovation.

In the reported period, the Company completed its basic management framework and drafted or revised significant management regulations in all business areas of the Company for approval of the Board of Directors, laying a solid foundation for further improvement of the corporate governance system. According to the Corporate Charter of the Company, a top-down approval procedure must be followed in making decisions of great significance. The Shareholders' Meeting, the Board of Directors, the Executive Directors, and the management have their own distinctive and respective rights, making an interactive and balanced system among the departments of power, decision-making, management, and supervision, who have their own duties and responsibilities.

The Company attaches great importance to the Board of Directors and efforts have been made to improve the operating efficiency of the Board. The new Board has 11 directors, including five Independent Directors, which take up 45 per cent of the total. The Board of Directors of the Company is to a great extent independent, playing an important role in further optimizing corporate governance of the Company. In addition, Mr. Wu Yaowen has been entrusted by the State-owned Assets Supervision and Administration Commission of the State Council as the Outside Director as well as one of the Directors, which makes him more independent from the Company.

For better efficiency, the new Board elects Executive Directors, who have been entitled to decide on certain affairs, helping the Company better deal with the changing market and the competitive industry. At present there are five Executive Directors in the Board.

Efforts have also been made to help the interaction between the Board and the management. In the reported period, several meetings involving the directors and senior executives were held to exchange opinions about production, management, techniques and innovation, which have helped the directors to better understand the Company and the management to better understand the expectations of the directors, having greatly improved the communication between the Board and the management.

On 9 March 2007, China Securities Regulatory Commission (CSRC) made public "Notice on the Matters Concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies", requiring all the listed companies in the country to improve their corporate governance. The Company up to date has completed, in accordance with the CSRC notice, the three stages of self-examining, public assessing, and rectifying and improving.

In accordance with the CSRC notice, the Company held its second 2007 interim meeting of the Board on 28 March 2007, approved the "Proposal of Baoshan Iron and Steel Co., Ltd. Concerning Carrying out a Special Campaign to Strengthen the Corporate Governance", and disclosed the resolution of the Board meeting, with a telephone number and an email address for soliciting opinions from investors and the general public, and the "Self-examining Report of Baoshan Iron and Steel Co., Ltd. Concerning Campaign to Strengthen the Corporate Governance".

An on-spot examination of the work in the Company was conducted by CSRC Shanghai Regulatory Bureau on 29-30 April 2008. The Company received on 7 June 2007 a response from Shanghai Regulatory Bureau entitled "Examination Report to Baoshan Iron and Steel Co., Ltd. Concerning the Special Campaign to Strengthen the Corporate Governance", in which the corporate governance was considered to be sound and its operation up to standard and suggestions were made regarding improvements of the current systems of independent directors, internal control and incentive scheme so as to further improve the corporate governance of the Company.

On 8 August 2007, Shanghai Stock Exchange sent its suggestions regarding the corporate governance of the Company in "Assessment Report to the Corporate Governance of Baoshan Iron and Steel Co., Ltd.": as no violations of the rules and regulations that the stock exchange focused on were reported in terms of information disclosure, shareholders' meeting and directors' performance, and internal control, further efforts of the Company were encouraged in these aspects.

On 30 August 2007, the Company published its "Rectification and Reform Report of Baoshan Iron and Steel Co., Ltd. Concerning Campaign to Strengthen the Corporate Governance", in which proposals are made as to how to improve its systems of independent directors, internal control and medium- and long-term incentive and disciplining scheme.

In accordance with "Notice on Selecting Procedures of SSE Corporate Governance Sector" by China Securities Index Co., Ltd of Shanghai Stock Exchange, the Company involved itself in the selection and became one of the 199 SSE composite stocks. The SSE Corporate Governance index was published for the first time on the first trading day, reflecting the trend of the SSE Corporate Governance Sector.

Being a member of the SSE Corporate Governance Sector has helped the Company to optimize its corporate governance and to improve its image in the capital market.

The Company continued to enjoy praises in the capital market in 2007. It was selected by Shanghai Securities News as one of the "Top Ten Listed Companies that Influenced China in 2006", awarded by Securities Times and Zhonglian Group as "2006 Top 100 Valuable Listed Companies" and "Top Ten Management Team in Chinese Main Board", awarded by New Finance & Economics Monthly as one of the Blue Chip Listed Companies of Growth in the Next Ten Years in the third session of Top 50 selection in China. It was also awarded one of the companies with "Best Investor Relations in 2006" by Hexun.com and "Top 100 Investor Relations Management", "Best Large Companies", "Best Communicator" and "Best Disclosure" by China Securities News and Nanjing University in 2006.

(II) Performance of Independent Directors

1. Performance of Independent Directors

As one of the first few companies in China which introduced the practice of independent directors, the Company attaches great importance to the role of independent directors and enjoys a mature system of independent directors both in institution and practice. The five independent directors, senior experts in security, finance and accounting, and management at home or abroad, are well-known professionals in corporate strategy, enterprise management, finance, accounting and human resources.

The Independent Directors attended, with a sense of responsibility and commitment, the Board meetings in the past year, making professional suggestions and advice to the Company in making decisions of significance and supervising the work of management in the interests of the Company and its shareholders.

The Independent Directors made comments on issues of related party transactions, guarantees provided by the Company, and the share incentive scheme according to the special rights of Independent Directors as stated in the laws, regulations and the Charter. All significant related party transactions should get the approval from independent directors in written form before the Board of Directors Meeting or Shareholders' Meeting approves it.

The Independent Directors are found to be active in the construction of the special committees of the Board, playing an important role in the special committees of the third Board of Directors. With Mr. Xu Lejiang as the Chairman of the Strategic Committee, one sixth of its members are Independent Directors. Mr. Buck Pei, an independent director, acts as the Chairman of the Auditing Committee, whose Independent Directors take up two thirds of its members. Ms. Laura Cha is the Chairwoman of the Remuneration and Appraisal Committee, whose members are all outside directors, with three fourths of its members are Independent Directors.

In the reported period, Independent Directors attended one of the meeting held by the Strategic Committee, five meetings held by the Auditing Committee and one meeting held by the Remuneration and Appraisal Committee. Their independent stands, professional perspectives and rich experiences have contributed greatly to the management, significant decision-making and corporate governance system of the Company.

The Company has established the scheme to hold a communication meeting by external directors before every Board Meeting. The communication meeting is held by Independent Directors and Director Wu Yaowen, with no internal directors and any director who hold a position in Baosteel Group, the Company's controller, involved. Proposals to be discussed in a Board Meeting and significant topics are reviewed by Independent Directors, helping the external directors to communicate with one another, which helps, in turn, with the roles of external directors to supervise and to control. In the reported period, the external directors of the third Board met for four times.

Independent Directors	Number of board meetings convened in the period	Attendance in person	Attendance by representative	Absence	Note
Laura Cha	8	7	1	0	
Buck Pei	8	8	0	0	
Katherine Tsang	8	6	2	0	
Sun Haiming	8	8	0	0	
Edward C.Tse	8	6	2	0	

2. Dissents from Independent Directors

No Independent Director has voiced their dissents on proposals of the Board of Directors and other proposals in the reported year.

(III) Separation of Company's and Holding Company's Interests

(1) Sales and operations: The Company has full authority over its sales and operations management.

(2) Personnel: The Company is totally independent of and separate from Baosteel Group Corporation in regard to production, human resources and payroll management. The senior executives, including President, Vice Presidents, Financial Controller and Board Secretary, have not hold any concurrent positions in Baosteel Group.

(3) Assets: The Company owns all of its production processes, including raw materials processing, sintering, coking, iron making, steel making and steel rolling, as well as related infrastructure and facilities, such as ships and ports. The Company also exercises complete authority over its research and technology, manufacturing, procurement and sales systems.

(4) Organizational structure: The Company is totally independent of and separate from Baosteel Group Corporation with none of the Company's departments overlapping with those of the holding company.

(5) Finance: Equipped with its own finance and accounting department, the Company has independent accounting, auditing and financial management systems. All bank accounts of the Company are independent of the holding company and taxed separately.

(IV) Internal Control System

The internal control system was further improved in 2007 and its management was reformed and self-evaluating system of internal control established.

In order to meet the requirements for listed companies as stipulated by domestic regulatory institutions and other government departments, the Board of the Company decided in the year to introduce a famous accounting firm to evaluate and review, in accordance with related regulatory rules and with reference to best international practice, the performance of the management of the Company as well as those of 12 business procedures in terms of internal control. The task involved the Company's legal person entity and three of its subsidiaries—Meishan Steel, Baosteel International and Baosteel Chemical, with the assets and sales income involved accounting for 80% of those presented in the consolidated financial statements of the Company in the year.

Among the items evaluated and reviewed were closing of accounts and financial statements, procurement and payment, sales and receipt, inventory management, fixed asset management, human resource and remuneration management, investment management, expense and expenditure management, capital management, budget management, general computer control and management of subsidiaries. Results show that no significant deficiency were discovered regarding internal control of the Company and the suggestions for improvement were reported to the Auditing Committee in time. The work has helped to optimize internal control system of the Company, ensure the efficiency of internal control and contribute to the healthy development of the system.

Self-evaluation of internal control was also conducted in the Company to help promote the effective execution of internal control and optimize continuous improvement scheme. It has also been decided that self-evaluation will be conducted every year in the Company.

(V) Disclosure of Board of Directors' Self-evaluation Report on Internal Control and Auditor's Review Report

Refer to the attachments to the Report.

VI. Shareholders’ Meetings

(I) 2006 Shareholders’ General Meeting

The 2006 Shareholders’ General Meeting of the Company was held on 26 April 2007, in Shenzhen, and the public notice of the resolution was posted in China Securities News, Shanghai Securities News, and Securities Time on 27 April 2007.

(II) 2007 First Interim Shareholders’ Meeting

The 2007 Interim Shareholders’ Meeting of the Company was held on 27 December 2007, in Shanghai, and the public notice of the resolution was posted in China Securities News, Shanghai Securities News, and Securities Time on 28 December 2007.

VII. Board of Directors' Report

(I) Review of the Company's Operation

Under the guide of Steel Industry Policy and the Government's macrocontrol policy of "controlling fixed assets investment while promoting energy-saving and environment-friendly programs", Chinese steel industry in 2007 experienced a year of structural optimization as well as stable and relatively fast growth after the quick development in previous years. The strategic consolidation inside the industry has been further strengthened and cross-regional competition trend was witnessed among the leading steel enterprises; steel price experienced a fluctuant but sharp rise as a result of strong demands in both domestic and international markets and the continuous cost rise of raw materials. While the prices of imported ores had rose by 19 per cent in the year of 2006, an increase of 9.5 per cent was experienced in the reported year. While cost of freight rate continued to increase, raw materials for stainless steel, coke, coal, alloy and other auxiliary materials also experienced a continuous growth. The sharp fluctuation of nickel price resulted in a loss of profit in stainless steel business of the Company. To deal with the situation, effective and timely measures were taken by Company management to minimize the impacts of cost rises in raw materials and the sharp fluctuation of the market by means of focusing on key projects and strengthening synergy among different units, system operating ability, manufacturing performance and profitability. As a result, the Company managed to realize all the production and operation targets and the annual sales volume totaled 22.60 million tons, revenue reached Rmb 191.56 billion, with a pre-tax profit of Rmb 19.31 billion, which marked a record high.

1. Business scope and company strategies

With steel industry as its focus and carbon steel, stainless steel and special steel as its major classifications of products, the Company also engages in business areas such as trade, shipping, coal chemical industry, information services, and finance. The principle products of the Company include hot-rolled sheet and coil, wide and heavy plate, commercial grade cold-rolled sheet, galvanized steel sheet, tin plate, color-coated sheet, silicon steel, seamless tube, hot-rolled pickling plate, high-speed wire rod, stainless steel and special steel, which are widely applied and used in industries such as automobile, home appliance, oil industry, machinery manufacturing, energy and transportation, construction and decoration, metal ware products, aviation, nuclear power and electronic panels.

The Company commits itself to "become a top steel manufacturer in the world and offer premium products and service to society". Taking "trustworthiness, cooperation, innovation, and aim for the maximum enterprise values" as its core value, and "to be the most competitive steel enterprise in the world" as its strategic goal, the Company, on the basis of scale and technology, implements the leapfrogging development strategy featuring such major strategic measures as the development of recycling economy, following the new trail of industrialization, adherence to management innovation, enhancement of the Company's soft power, and strengthening its core competence. The Company carries out the competitive strategy of "objective focus" on its principle businesses, concentrating on the development of such strategic products as auto sheets, steel for home appliances, silicon steel, pipeline steel, steel pipes for energy use, ship-building plates, stainless steel and high alloy steel, in an effort to enhance the comprehensive competitiveness of such products and maintain the Company's leading position in the domestic flat product market. It will adhere to the scientific concept of development and follow a road of industrialization featuring sustainable development with Baosteel features.

2. Major tasks of the Company

(1) Promoting the integration of the backbone steel business

The Company focuses on promoting 43 integrated synergy programs in seven major categories such as integrated production, sales and research, concentrated procurement, concentrated sales, technology popularization and transplanting, management technology popularization and informatization construction, realizing an annual synergy of Rmb 2.34 billion, completing 156% of the annual target.

All the integrated synergy work is proceeding smoothly. The production, sales and research of the nine major categories of products are further deepened, the marketing and service network covering the whole country and radiating the rest of the world has been basically completed, and unified negotiation, channels, technical standards and production scheduling for some products have been realized. Efforts are made to consolidate the integration of steel production unit purchase business in Shanghai through conducting unified source searching and unified delivery, increasing the proportion of concentrated purchasing of bulk materials and spare parts, and accelerating the consolidation and optimization of suppliers. The Company, with the help of the technology popularization platform, cultivates the productivity of major steel production units for unique leading high-end products, boosts the technology of the old production lines and cultivation of core talents and improved the overall technological level of the Company. The framework of accelerating informatization construction to support the integrated management information system of cross-regional and multi-manufacturing units is basically formed.

(2) Boosting the systematic operation capability of the Company

Adapting itself to the new requirement of cross-regional development with multiple bases and production lines and in accordance with such principles as stable transition, unification and consistency, assets optimization and efficiency maximization, the Company further optimizes and improves the professional management system of steel business and relevant diversified businesses.

The Company constructs the system of strategic performance management and pushes forward a new round of planning on a full scale. It compiles, improves, issues and implements Baosteel Development Plan 2007-2012, forming a management system that takes competitiveness as the core and six subsystems, namely, product development, technology innovation, supply chain management, recycling economy and management innovation, as the platform for implementation.

The Company promotes products management system in good order and deepens the operation of integrated production, sales and research. Adapting itself to market competition and customer responses and the changes in the target of management and scope of business after additional share issuance, it basically specifies the business operation mode, management division and relevant management methods of the products management department. In August 2007, trial operation began to be conducted in Steel Tube Products Management Department and Stainless Steel Products Management Department.

Centering the boosting of the capability for independent integrative innovation and optimizing the pattern of the management of construction system, the Company basically strengthens out the relevant business processes and management division, improves the project management system and fundamentally completes the integration of the construction system.

The Company reorganizes and optimizes technological quality and scientific management system, basically constructs the management system of scientific and technological quality featuring relatively concentrated business and optimized processes, which effectively promotes the establishment of the Company's technological innovation system and the strategic system of intellectual property and establishes a complete and unified platform to enhance the Company's overall manufacturing capability.

(3) Enhancing the overall risk management of the Company

In order to further strengthen internal control and risk management, the Company establishes cross-department project teams on the basis of the best international practices to conduct full-scale assessment of internal control. It has completed one after another the assessment of 12 management processes such as financial statement and account closing, purchase and payment, investment, personnel and salary. The assessment covers major assets and business units of the Company. For any points to improve found in the assessment, the Company strengthens supervision, guidance and examination by adopting the mode of "specified responsibilities and combination of strips and chunks" to ensure the implementation of the rectification plans. On this basis, it conducts full-scale internal control assessment and strives to establish a self-evaluation reporting system.

The Company further designs the risk management promotion plan for 2008-2009, specifies the overall idea of gradually establishing a risk management system geared to marketing, laws and regulations and strategic execution. Through the improvement of the construction of the risk management and internal control systems, the Company eventually forms its own full-scale risk management system and boosts the level of overall risk management.

(4) Continuing to optimize the product mix

The Company makes great efforts to develop the market for its Only 1 and No. 1 high-end products and new products, strengthens the cooperation between departments of sales, manufacturing, research and development, and seeks for the most rational product structure. While ensuring the match between product structure and allocation of production lines, it strives to expand the sales of its Only 1 and No. 1 products. In 2007, the total sales volume of the Only 1 and No. 1 products reached 7.39 million tons, making up 117.8% of the annual sales target, a 35.8% increase than the previous year. Among them, the sales volumes of electro-galvanized products, hot-dip galvanized products, wide and heavy plate, color coated sheets, and commercial grade cold-rolled products make up over 50% of the sales of carbon steel products.

In terms of carbon steel, the Company's cold-rolled automobile sheets, wide and heavy ship-building plates, X70 series pipeline steel, high-efficiency and high-grade non-oriented silicon steel all see striking increase than the previous year. Besides, it has achieved breakthroughs in the use of such Only 1 and No. 1 products as double cold rolled steel strip for shadow mask, high-strength hot-rolled weather resistant plates, and JIS series ship used steel pipes, among which the sales volume of double cold rolled steel strip for shadow mask has doubled for a consecutive 2 years, with the market share of 28.5%. 356,000 tons of products have been ordered for major projects in the year, of which, the Company's Only 1 and No. 1 products make up as high as 65%.

In terms of stainless steel, facing the large market fluctuation, the Company adjusts the product mix timely by raising the proportion of ferrite stainless steel to over 40%, a 13% increase than the previous year, and increasing grinded products, BA plates, thin sheets, and 400 series products. The Company has realized mass-production for 0.3-0.4mm BA products, successfully developed super-thin BA products with a thickness of 0.25mm, and organized the production according to contracts of high-end BA2 products.

In addition, the Company has continuously raised the proportion of special metallurgy series and stainless series, both of which belong to special steel products.

(5) Major projects completed one after another

A series of major projects has put into production within the year, including the project of No.3 hot rolling mill, the second phase of Majishan Port expansion project, cold-rolled stainless steel strips project (phase I), and the project of special steel-making and continuous casting (steel-making part).

The preliminary work of a number of projects is proceeding smoothly, including the revamping project of the No.1 blast furnace of Baosteel Branch, the heat extrusion project of Special Steel Branch, the follow-up project of Meisteel, the Yantai Baosteel steel pipe project. Another group of key projects have reached the set standards, such as the on-the-spot revamping project of the No.2 blast furnace of Baosteel Branch, No. 4 continuous casting machine, the reformation project of No.2 steel making plant, No.3 hot rolling mill, and upgrading of Meisteel's hot-rolling machine.

With the completion and put into production of a series of major projects, the production capacity and category development target of current steel bases have been ascertained and the production capacity and market share of automobile steel, stainless steel, home appliance steel, packing materials and special steel products has further expanded.

(6) Making efforts to promote the construction of technological innovation system

Centering the construction of the technological innovation system, the Company has made efforts to raise the efficiency of its innovated achievements to be translated into productivity. It invests 1.05% of its revenue in R&D, applies 800 patents, among which 350 are invention patents, forms 1,962 technology know-hows, and realizes academic economic profits of over Rmb 1.3 billion. The Company's innovation develops very rapidly. Besides, it fully strengthens the competitiveness of its products centering high-end and strategic products, meanwhile further enhances research in key common technology, and continues to expand and increase core technology. It makes great efforts to trace the development of the world's metallurgical development and new technologies and intensifies its endeavor for cutting-edge technology research.

(7) Making effort to reduce cost and increase efficiency

Faced with the severe pressure caused by the rise of raw material price, the Company conducts full-scale and in-depth cost reduction and efficiency increase by means of competition among employees for such work, cross-plant bench-marking for the same working process and the three-year plan for bench-marking upgrading. All the production units continue to explore the best production and organizational mode under the low pig iron ratio and make efforts to raise the production of iron and steel, so as to ensure stable and high production on major production lines. Meanwhile, efforts have been made to find gaps, improve the target for technological and operational maintenance, optimize operation and strengthen the capability of process control. Besides, efforts are made to coordinate production, supply and sales, study the technology of using low-quality raw materials, optimize the burden mixture of furnace, reduce the energy consumption level of the processes, strengthen the recycling and reuse of resources, and rationally control consumption and expenditure. Through full-scale promotion of cost reduction and efficiency increase, the Company has made good economic returns on cost reduction and efficiency increase of Rmb 2.87 billion.

(8) Continuously improving energy saving and consumption reducing level

Faced with the ever-increasingly serious energy and environmental protection situation and the extremely challenging energy saving and environmental protection targets, the Company further implements the three-year environmental protection action plan and the "One Thousand Enterprises Energy Saving Action Plan" launched respectively by Shanghai Municipal government and the State and the targets for energy saving and environmental protection are better than the previous year. The overall energy consumption per ton of steel is 718.6Kg standard coal, a 2.1% decrease than the previous year; the energy consumption for every Rmb 10 thousand of output value is 1.1 tons of standard coal, a 10.2% decrease than the previous year; the consumption of new water per ton of steel is 5.1 ton, 15.2% lower than the previous year; the atmospheric dust fall dropped by 20.1% as against the previous year; indexes such as the total amount of sulfur dioxide emission, the emission of smoke and other airborne particles, waste water drainage, waste water COD emission have all dropped.

(9) Improving investor relations management

The Company constantly increases voluntary information disclosure and strengthens service to investors, which boosts the influence of the Company on the capital market. It gives timely publicity its operation status and future development through various means such as investors meetings, company website and news media, increasing the influence of the Company in the investment area both at home and abroad. In 2007, the Company gained the recognition of the capital market with its standardized information disclosure, fine relation with the investors, excellent management performance and good corporate governance. It was granted many awards in 2007 by authoritative organizations, such as "Best Investor Relations Award", Investor Relations "Best Large-Scale Corporation Award", "Best Communication Award" and "Best Information Disclosure Award".

(10) Credit rating

In October 2007, Standard & Poor's announced that the long-term credit of Baoshan Iron & Steel Co., Ltd. was rated A-, revising its outlook on the Company's credit from "stable" to "positive". The rise in the credit rating was another step forward from its historic A- in December 2006.

(II) Analysis of the Company's Operation in the Reported Period

1. Operational results

In the reported period, with its management focus on promotion of integrated synergy and efforts to reduce cost and increase efficiency, the Company fully completed its objectives and tasks. In 2007, the sales of finished products and billets reached 22.60 million tons, a 6.5% increase as against the previous year; the revenue amounted to Rmb 191.56 billion, a new high in its history and a 18.0% rise as against the previous year; the pre-tax profit was Rmb 19.31 billion, 0.5% increase as against the previous year; the net profit was Rmb 13.42 billion (among which Rmb 12.72 billion are attributable to the shareholders of the listed Company). Due to impact of the new law of enterprise tax to be implemented in 2008, the Company adjusted at the end of 2007 its deferred income assets and liabilities and the income tax was raised by Rmb 0.16 billion. As a result, the net profit of the Company revealed a 1.3% drop as against the previous year.

Due to the cost increase impact, the revenue and the increase in cost of the Company in 2007 were 20% higher than those in its annual operational plan.

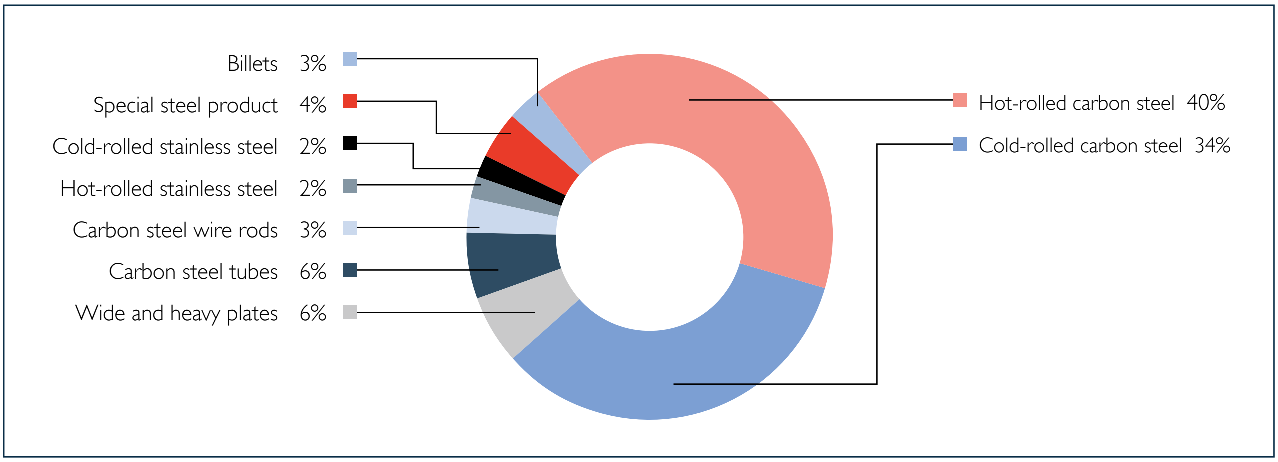
2. Distribution of income from principal businesses in 2007

(Rmb Million)

Industry	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin YoY
Steel	150,185	127,256	15.27%	20.50%	24.05%	Down 2.42 percentage point
Trade	156,112	152,195	2.51%	7.78%	8.37%	Down 0.53 percentage point
Others	9,148	6,702	26.74%	22.73%	22.90%	Down 0.11 percentage point
Deducted	-123,251	-122,802	0.37%	7.71%	8.11%	Down 0.37 percentage point
Total	192,194	163,352	15.01%	18.27%	21.10%	Down 1.99 percentage point

3. Distribution of principal products in 2007

Distribution of sales volume of finished products and billets in the period reported:



(1) Carbon steel

Carbon steel products of the Company include hot-rolled flat products such as hot-rolled steel and heavy plates, cold-rolled flat products such as commercial grade cold-rolled products, hot-dip galvanized sheets, electro-galvanized sheets, color-coated sheets, tin plates and silicon steel, as well as steel tubes, wire rods and billets

Hot-rolled products

The hot-rolled products of the Company include pipeline steel, cold-formed steel and structural and auto used structural steel, steel for gas containers, anti-erosion structural steel, structural steel for ship building, steel for boilers and pressure vessels, which are used for industries as oil and natural gas transportation, shipbuilding, auto, bridge building, construction, mechanical equipments and pressure container. In the period reported, the Company completed the development program of X80 heavy-gauge pipeline steel with production in batches; the developments of high-intensity auto sheets, high-intensity steel for machinery industry, new generation of high intensity container plate B600GNQR, for hydroelectricity used steel and steel for clutch. The sales of the hot-rolled products in 2007 reached 9.17 million tons, accounting for 43.8 per cent of the total sales of carbon steel products of the Company, while the sales of pipeline steel (including wide and heavy plates) amounted 925,000 tons, 34.5% of the market share in domestic market and sales of steel for machinery industry reached 210,000 tons, accounting for 10.8% of China's domestic market.

Wide and heavy plates

Wide and heavy plates include ship-building plates, energy use plates, pipeline steel and structural steel plates, which are used in industries of shipping building, pressure contains, oil and natural gas transportation, machinery, bridge building and construction. The X120 pipeline steel, manufactured by Baosteel and approved by national authoritative testing institute, made the Company the first manufacturer in the country and one of the four in the world who are able to manufacture the type. The K70 pipeline steel of the Company meets the technical requirements for East Siberia-Pacific Oil Transportation Line, making the Company the first in manufacturing high-intensity pipeline steel of class K70. The Company is also the only enterprise which has been able to produce high-intensity steel plate B610E for large oil storage tanks of 100,000 m^3 and 150,000 m^3, helping the Company become the top supplier in domestic market for high-intensity steel plate used for large oil tanks. Efforts in trial productions in smaller scale of super high strength steel plates of BHT130 and BHT150 were crowned with success, while the TMCP enjoyed a stable technical procedure and TMCP ship building plates, pipeline plates, TMCP high-strength steel have been manufactured in batches. The shipment of wide and heavy plates in 2007 reached 1.444 million tons, accounting for 6.9% of total carbon steel products sold by the Company, including 674,000 tons of ship building plates, covering 8.1% of the home market, and 119,000 tons of steel for pressure containers, 6.8% of the domestic market share.

Cold-rolled products

Cold-rolled products include commercial grade cold-rolled plates, hot-dip galvanized sheets, electro-galvanized sheets, color-coated sheets, tin plates, silicon steel, and full hard rolled coils for use in industries as automobile, home appliance, construction, packaging and transformer manufacturing. Baosteel auto sheets have been widely used in joint ventures and domestic auto makers in the country and have been started to be used in luxury cars like BMW and Benz. The Company has also found itself in the international market, providing sheets for leading automakers in the world. Following the conceptualization of "pace-keeping" —with development speed, with environmental protection, with technological innovation, and with lean operation, under the guideline of "passenger vehicle • outer panel • hot-dip galvanized sheet • high-strength steel", efforts were made in the year to develop the most competitive supply chain of auto sheet in the world, catering the changing demands of auto industry while keeping pace with the development of the industry. The Company's home appliance steel has been widely used in industries of the air conditioner, refrigerator, washer, micro-oven, color television, DVD player, and computer. Among them, the development and application of high value-added high-tech products such as the refrigerator front and side plates, high strength atmospheric corrosion resisting plates, and fingerprint resistant sheet meet the demand of domestic and international high-end home appliance manufacturers. The shipment of cold-rolled products in 2007 reached 7.704 million tons, accounting for 36.8% of total carbon steel products sold. Among them, the Company sold 2.566 million tons of cold-rolled auto sheets, which made up 50.3% of the domestic market share; the home appliance sheets enjoyed 36.8% of the domestic market share, or 2.03 million tons; and the sales of non-oriented silicon steel reached 0.908 million tons with a market share of 16.8%, including 121, 000 tons of high-efficiency, high grade non-oriented silicon steel.

Steel tubes

Steel tubes are of two types: seamless tubes and HFW pipes, such as oil casing tubes, ship-use tubes, pipeline steel and boiler tube, which are found to be used in industries like petrochemical and boiler building. Targeting at high-quality and high value-added products, the Company has been striving for producing world-class oil casing tubes, among which 13Cr tubulars, anti-corrosion steel and premium threads have reached a scale production and the high-end products such as T91 and T23 are found to be the first choice in boiler industry in the county. In addition, T29 has been successfully manufactured in batches and JIS tubes for ship enjoys great popularity among large ship-building manufacturers in China. Breakthroughs have been achieved in manufacturing oil drilling rigs and high-pressure BG110T has gained its popularity among international oil companies. Low grade steel casing tubes of HFW pipes has been widely used in oil industry and pipeline has been applied in long-distance pipe transportation in and outside China. The HFW tube series have been produced in batches and entered the Middle East and USA market. Total steel tubes sold in 2007 reached 1.417 million tons, accounting for 6.8% of the Company's total sales volume of carbon steel products, including 0.64 million tons of tubes for oil wells, with a domestic market share of 20.9%.

Wire rods

The Company's major wire rod products include tire cords, high grade spring steel, high grade cold forging steel, high strength steel strands, steel for bridge cable and micro-alloy welded wires, which are mainly consumed in fields as auto manufacturing, radial tire manufacturing, bridge building, fastener and mechanical manufacturing. The Company's self-developed bridge cables were used in Xihoumen Suspension Bridge, Siduhe Bridge, Tianxingzhou Bridge, and Sutong Bridge, the longest stayed-cable in the world. The reported period also witnessed the entry of Baosteel's bridge cables into the international market; it won the tender for the main cable of San Francisco-Oakland Bay Bridge, the first single-central tower, single-cable, self-archored suspension bridge in the world. The shipment of wire rods totaled 0.588 million tons in 2007, making up 2.8% of the Company's total sales volume of carbon steel products, including 96,000 tons of low-alloy cold forging steel, with 17% of the domestic market share.

Billets

Billets mainly include auto axle steel, oxygen bottle steel, die steel and other high value-added products. The Company was honored as the leading producer in the country of the self-developed B series of non-quenched and tempered steel. The shipments of billets totaled 0.612 million tons in 2007, making up 2.9% of the Company's total sales volume of carbon steel products.

(2) Stainless steel

Hot-rolled stainless steel

While focusing on the austenitic stainless steel, the Company has also been involved in the production of ferrite stainless steel, martensite stainless steel, 13Cr stainless steel, duplex stainless steel, ultra-low carbon stainless steel and ultra-low nitrogen stainless steel, which are mainly consumed by industries of cold rolling materials, manufacturing and metal ware. In the period reported, the Company developed 301L stainless steel for railway vehicles and stainless 439 for elevator panel sheets, which have been used in the country to replace imported products and meet customers' demands. The sales volume of hot-rolled stainless steel products of the Company totaled 0.559 million tons in 2007, with a domestic market share of 20.9%, which accounted for 55.3% of the total sales volume of stainless products of the Company.

Cold-rolled stainless steel

Cold-rolled stainless steel products are primarily BA, grinding products and thin sheets, which are mainly for industries of home appliance, manufactured goods, decoration, elevators, and kitchen utensils and industry. The shipment of cold-rolled stainless steel products, totaled 0.436 million tons in 2007, taking up 43.1% of the Company's sales of stainless steel, with a domestic market share of 6.5%.

(3) Special steel

Special steel products includes special metallurgical series, stainless steel series and structural steel series, with bars, seamless steel tubes, wires, steel pies, steel clasps, steel discs and shaped steel, which widely used in aeronautics, aviation, energy, auto making, railroad, ship building, machinery, power station, electronic meters and oil & petroleum industry. As an important base of research and development in hi-tech metal material of the country, the Company has been an owner of series of universally competitive products with its own intellectual rights after years of efforts in research and innovation.

The sales volume of special steel products totaled 0.934 million tons in 2007, including 0.134 million tons of stainless steel products, or 25% of the domestic market share; 55,000 tons of special metallurgical products, or 16% of the domestic market share; and 0.745 million tons of structural steel products, or 15% of the domestic market share.

The revenue and cost of major steel products of the Company are as follows:

(Unit: Rmb Million)

Products	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (% YoY)
Cold-rolled carbon steel	32,454	25,201	22.35%	6.84%	6.32%	Up by 0.38 percentage point
Hot-rolled carbon steel	42,341	32,195	23.96%	39.23%	38.21%	Up by 0.56 percentage point
Wide and heavy plate	7,937	5,283	33.44%	59.21%	35.79%	Up by 11.48 percentage point
Stainless steel	20,582	21,771	-5.78%	5.40%	25.99%	Down by 17.29 percentage point
Special steel	10,561	10,756	-1.85%	21.41%	32.07%	Down by 8.22 percentage point
Other steel products	14,481	11,449	20.93%	-11.62%	-10.45%	Down by 1.04 percentage point
Total	128,357	106,655	16.91%	16.28%	19.71%	Down by 2.38 percentage point

Note: In accordance with the new Enterprise Accounting Standards, the financial statements of BNA were no longer consolidated in the Company's financial statements. Included in the total sales of 22.6 million tons of the Company were the 1.53 million tons of hot-rolled products that the Company sold to BNA, but not the 1.81 million tons of cold-rolled products that BNA sold in the year. In addition, the Company acquired 92.5% of the equity of Baotong Steel on 1 October 2007. The revenue of Baotong Steel from January to September 2007 was not included in the revenue as listed in the above table. The total sales volume of Baotong Steel in that period was 0.706 million tons with sales income of Rmb 2.22 billion.

The loss in the stainless steel products in 2007 was mainly because of the sharp fluctuation of nickel price. The dramatic drop in nickel price resulted in a price-chopping effect in stainless products that was far more serious than the price drop in cost. The inexperienced management of the Company in manufacturing, techniques, and quality control in stainless steel and weakness in scientific research also added to the loss of gross profit due to monotonous product mix. To deal with the difficult situation, the Company has taken timely and effective measures to adjust the product structure, by optimizing the furnace burden materials, using home-produced low nickel pig iron and high-carbon chromium iron instead, while increasing the inventory turnover and improving the technical-economic indexes. At the same time, efforts were made in marketing exploration, production and sales scales to minimize the cost and management risks of stainless steel.

4. Major markets

Revenue by regions:

(Unit: Rmb Million)

Products	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (% YoY)
Domestic market	170,138	144,967	14.79%	16.70%	18.68%	Down by 1.42 percentage point
Overseas market	22,055	18,385	16.64%	31.89%	44.28%	Down by 7.16 percentage point

In 2007, the Company exported 3.64 million tons of steel products to the following areas:

Area	2007	2006
East Asia	43%	41%
Southeast Asia	19%	17%
America	15%	16%
Europe & Africa	22%	26%
Total	100%	100%

5. Major suppliers and customers

In 2007, the Company's total procurement amount from the top 5 suppliers accounted for 25.5% of the annual procurement.

In 2007, the Company's total sales income from the top 5 customers accounted for 8% of the revenue.

6. Assets structure changes

As at the end of the reported period, the total consolidated assets of the Company reached Rmb 188.34 billion, with an increase of 23.49 billion as compared with that at the beginning of the year. The total liability was Rmb 93.74 billion, Rmb 15.42 billion more than that at the beginning of the year. The shareholder's equity reached Rmb 94.60 billion, with an increase of 8.07 billion as compared with that at the beginning of the year. The total debt ratio of the Company was 49.8%, a rise of 2.3% as compared with that at the beginning of the year.

(Unit: Rmb Million)

Assets	As at the end of 2007	As at the end of 2006	Increase/ Decrease	Liabilities and shareholders' equity	As at the end of 2007	As at the end of 2006	Increase/ Decrease
Current assets	76,624	67,246	9,378	Current liabilities	75,885	66,832	9,053
Including: Inventory	39,069	31,236	7,832	Include: short-term loans	20,481	18,945	1,536
Receivable	11,969	10,745	1,224	Non-current liabilities	17,850	11,481	6,369
Long-term investment	3,754	3,104	650	Include: long-term loans	16,432	9,590	6,842
Fixed assets	81,552	76,541	5,011	Total liabilities	93,735	78,313	15,422
Intangible assets and other assets	5,627	3,960	1,667	Shareholders' equity	94,601	86,534	8,067
Total assets	188,336	164,847	23,489	Total liabilities and shareholders' equity	188,336	164,847	23,489

The inventory in current assets in the Company increased by Rmb 7.83 billion as compared with that at the beginning of the year. On the one side, this was resulted from price rise in iron ore, coal and scrap and other raw materials and growth of purchase, production and sales in the Company and, as a result, the inventories of raw materials, semi-finished products and finished products increased as compared with those in the first few months of the year. On the other hand, the expectation of price rise in raw materials encouraged the Company to increase its strategic reserves of these materials. Also, inventories of semi-finished products rose as a consequence of preparation for some newly-built production lines that were expected to put into operation or reach their full capacity. Furthermore, with the expectation of price rise in some steel products, the trading units of the Company increased their inventories for promising verities. While increasing its strategic reserves, the Company has managed in a dynamic manner to control its total inventory to a reasonable level to increase the capital circulation.

The borrowings of the Company increased by Rmb 8.38 billion in the reported period as compared to that at the beginning of the year, including a growth of Rmb 1.54 billion of short-term loans and Rmb 6.84 billion of long-term loans. The increase was mainly because of the growth of fixed asset investment, which increased the demand for capital.

While some financial instruments were measured at their fair values, the cost method was employed for the rest. As at the end of the period, balance of the transactional financial assets and financial assets available for sale of the Company totaled Rmb 3.24 billion, whose fair values were measured on the basis of market price.

7. Expenses and income tax changes during the report period

A. Operation and management expenses

(Unit: Rmb Million)

Item	2007	2006	Difference	Difference rate
Operation expenses	2,018	2,218	-200	-9.0%
Management expenses	5,220	5,378	-158	-2.9%

The operation expenses and management expenses show slight drops over those of the previous year.

B. Financial expenses

(Unit: Rmb Million)

Item	2007	2006	Difference	Difference rate
Interest income	-81	-63	-18	27.8%
Interest paid	1,878	1,409	469	33.3%
Exchange gains or losses	-889	-383	-506	132.4%
Others	47	55	-8	-14.7%
Total	955	1,018	-63	-6.2%

The interest expense of the Company in the period increased by Rmb 0.47 billion as compared to that of 2006 as a result of the increase in interest-bearing borrowings as well as the six-time rises of interest rate by the People's Bank of China, but the financial expense was lower by Rmb 60,000,000 as the result of expanded scale in financing activities in USD, from which the Company benefited Rmb 0.51billion of exchange income, a dramatic increase as compared with that of the previous year due to the appreciation of Renminbi against the dollar.

C. Income tax

(Unit: Rmb Million)

Item	2007	2006	Difference	Difference rate
Consolidated pre-tax profit	19,308	19,204	104	0.5%
Consolidated income tax	5,885	5,604	281	5.0%
Income tax rate	30.5%	29.2%	Up 1.3%	

The increase in income tax came from the impact of the new law of enterprise income tax to be implemented in 2008, for which the Company adjusted at the end of 2007 its deferred tax assets and liabilities and the income tax expense was raised by Rmb 0.16 billion.

8. Cash flow analysis

The net cash inflow in the year 2007 from operating activities reached Rmb 19.51 billion, net cash outflow hit Rmb 22.31 billion and the net cash inflow from financing activities totaled Rmb1.64 billion, including Finance Co.'s net cash outflow of Rmb 2.36 billion from its financial activities of lending, borrowing and payment receipts of interests, while it was a net inflow of Rmb 4.59 billion in the previous year. Without considering the impact of Finance Co., the net operating cash flow in the Company was Rmb 21.87 billion in 2007, a growth of Rmb 1.24 billion on the basis of Rmb 20.62 billion of the previous year. The year of 2007 witnessed an increase in transaction scale, cash received from sales of goods and labor services, and cash paid for purchases of goods and services, which contributed an addition of cash inflow of Rmb 5.7 billion. The taxation also increased by Rmb 4.12 billion due to sales scale growth as well as the income tax clearance.

The net outflow of cash from investment activities reached Rmb 22.31 billion in 2007, which was an addition of Rmb 9.99 billion as compared with that of the previous year. Without taking into account of the net cash flow of Rmb 0.5 billion that Finance Co. received from disposal of transactional financial assets (Rmb 4.47 billion in 2006), the net cash outflow for investment in the Company totaled Rmb 22.81 billion in 2007, an increase of Rmb 6.02 billion, compared with the Rmb 16.79 billion in the previous year. This was primarily the result of growth in fixed assets investment such as No5. Cold-rolled Strip Steel Project, project of Special Straight Welded Tubes for Oil and Gas and other large projects in the eleventh five-year plan, which added by 5.44 Rmb billion to the total payment for fixed assets, intangible assets and other long-term investment expenses in 2006.

The net cash inflow from financing activities was Rmb 1.64 billion, an increase of Rmb 5.3 billion compared with the net cash outflow in 2006, Rmb 3.66 billion. This was a result of scale growth of fixed asset investment, which encouraged the Company for more borrowing to meet the demand of cash. The cash received from borrowing increased by Rmb 14.16 billion as compared with that of the previous year, and the payment for debts grew by Rmb 9.6 billion Rmb, while the cash received in 2007 saw an increase of Rmb 4.57 billion over that of 2006.

9. Technology innovation and R & D investment

The Company centers Outline for the Development of Baosteel Technology Innovation System and the trial plan for innovation oriented enterprises to promote the construction of the technology innovation system and the technology innovation performance. It invests 1.05% of its revenue in R&D, reaching a record high in the Company's history, applies 800 patents, among which 350 are invention patents, and forms 1,962 technology secrets, constantly boosting its capacity for independent innovation and integration. The Company's technology innovation is also recognized by the government and the steel industry, gaining favorable comments all along. "A safe and environmental-friendly new technology on granulated slag" and "high-strength fully-enclosed accurate strengthening machine backup roll technology" won the national award for science and technology (second prize) and award of national science and technology progress (second prize) respectively. As was shown in 2006 by the Recognition of Enterprise Technology Centers by the State, Baosteel technology center ranked second nationally and its patent number was the 4th among all the state-owned enterprises. Meanwhile, the Company has been granted "Special Award for Science and Technology Innovation" and "No. 1 in the Industry in Two Consecutive Years for Independent Innovation in China".

Based upon the product development strategy, the Company constantly increases investment in R&D, developing a series of new products that can satisfy the needs of development of automobile, light industry, home appliance, energy resources, transportation, and engineering machinery. Hot stamping cold forming steel for automobile use has passed certification, pushing forward Baosteel construction of hot stamping production line; Isotropic Steel B220/260ZE has passed the examination and acceptance of Shanghai, making up for a blank in China; the independently developed high-grade non-oriented silicon steel products are further expanded and some of them have been put into international market, symbolizing a new leap-forward in Baosteel manufacturing technology of silicon steel. The application of B610E steel for oil storage tanks is expanding constantly, turning the Company into the biggest supplier of high-strength steel for large oil storage tanks in China; B610CF steel for water and electricity use is being provided to key projects; the quality of the nickel alloy oil tank first developed by the Company reaches the internationally advanced level and satisfies the requirement for use under severe conditions; the SA738B steel plate for the use of AP-1000 safety shells is successfully developed and passed certification, turning the Company into the sole supplier of the steel plate for nuclear electricity safety shells; TMCP ship steel plates have passed the certification of 9 ship's classification societies and realize mass supply. Ferrite stainless steel for the use in the auto exhaust system has completed industry trial production and the B409M has passed certification; Ferrite stainless steel for the use in railroad freight cart realized stable mass supply of goods. The new LF6 valve steel with independent intellectual property has passed the users' examination and evaluation, leading similar products in China.

The Company accelerates research and development and making breakthroughs in key areas. Innovations appear in large number and are put into use quickly, further expanding the core technology chain. The Company continues to conduct the technology of low cost coal delivery, ore blending, the study on the life limit of blast furnace, pursuing high efficiency and low energy conservation. It also conducts research on the making of clean stainless steel, mould fluxes for stainless steel casting, and control of the width of ferrite stainless steel plates, constantly improving the manufacturing process of stainless steel; in addition, it researches the No. 3 hot rolling project, No. 5 cold-rolling silicon steel mill, big square billets, and stainless steel cold rolling, last but not least, the Company also makes progress in the industrialization study of continuous casting and surface testing of steel strips, control of plate forms, and IF steel low-temperature annealing technology.

In terms of energy conservation and emission reduction, in 2007, taking "building world's first rate clean steel enterprise" as its goal and "energy conservation and emission reduction" as its core, the Company made great efforts to promote modern management and technology. It centered energy conservation, environmental protection, and green production, and developed such working processes and technology as sintering flue gas desulfurization and high viscosity slag treatment. In addition, the Company spared no effort to promote the research and development of environmental protection technology. In 2007, it conducted such academic projects as producing wear resistant materials with furnace slag and waste wear resistant material, using stainless steel slag in concrete, absorbing CO_2 with steel slag, evaluation of the life limit of iron and steel products, injecting waste plastic into the blast furnace, and building the dioxin analysis laboratory.

10. Performance of major subsidiaries and invested entities

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

As at the end of 2007, the Company had 74.01% shareholding of Shanghai Meishan Iron & Steel Co., Ltd. With a registered capital of Rmb6.26 billion, Meishan Steel specializes in the production and sales of black metal metallurgy, rolling processing and sales. By the end of 2007, Meishan had a total asset size of Rmb13.85 billion and a net yearly profit of Rmb1.09 billion.

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

As at the end of 2007, the Company had 54% shareholding of Ningbo Baoxin Stainless Steel Co., Ltd. With a registered capital of Rmb2.85 billion, Ningbo Baoxin's business mainly covers the manufacturing and processing of stainless steel sheets and relevant technical guidance and consultation. By the end of 2007, Ningbo Baoxin had a total asset size of Rmb7.66 billion and reported a loss of Rmb 0.13 billion in 2007.

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

As at the end of 2007, the Company owned 50% of Baosteel-NSC/Arcelor Automotive Steel Auto Sheets Co., Ltd (BNA). With a registered capital of Rmb3 billion, BNA is mainly engaged in the manufacturing and sales of cold-rolled steel plates and hot-dip and electrolytic zinc-coated steel plates for auto and auto parts and other services related to its principal business. BNA had total assets of Rmb5.6 billion and net profits of Rmb0.64 billion as at the end of 2007.

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

As at the end of 2007, the Company owned 79.82% of Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes). With a registered capital of Rmb100 million, Lubao Steel Tubes is mainly engaged in the processing and sales of seamless steel tubes. Its major products include structural seamless steel tubes, low/medium pressure boiler seamless tubes, seamless pipelines for transportation of fluids, hydraulic seamless tubes, as well as high pressure boiler seamless tubes, seamless tubes for oil pipelines, geological drillings, oil pipelines and oxygen canisters. Lubao Steel Tubes had total assets of Rmb1.15 billion and net profits of Rmb190 million as at the end of 2007.

(5) Baosteel Huangshi Coating and Galvanizing Co., Ltd.

As at the end of 2007, the Company had 39.37% shareholding of Baosteel Huangshi Coating and Galvanizing. With a registered capital of USD8,000,000, Huangshi specializes in the production and sales of cold-rolled coils, aluminum galvanized steel plates, color-coated steel plates and related galvanized steel products. Huangshi had a total asset size of Rmb270 million and a net loss of Rmb20 million in 2007.

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

As at the end of 2007, the Company had a full shareholding of Shanghai Baosteel International Economic & Trading Co., Ltd. With a registered capital of Rmb2.25 billion, Shanghai Baosteel International Economic & Trading is mainly engaged in the imports and exports of goods and technology approved by the government, the imports of steel and waste steel, processing with imported materials and compensation trade. Shanghai Baosteel International Economic & Trading had a total asset size of Rmb30.34 billion and a net profit of Rmb1.01 billion in 2007.

(7) Shanghai Baosight Software Co., Ltd.

As at the end of 2007, the Company had 55.5% of shareholding of Shanghai Baosight Software Co., Ltd. ("Shanghai Baosight"). With a registered capital of Rmb 260 million, Shanghai Baosight is mainly engaged in computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. Shanghai Baosight had a total asset size of Rmb1.40 billion and a net profit of Rmb140 million as at the end of 2007.

(8) Shanghai Baosteel Chemical Co., Ltd.

On 1 September 2007 the Company dismissed the Chemical branch and registered Shanghai Baosteel Chemical Co., Ltd., which started its business as a legal entity. The Company owns 100% of Baosteel Chemical as of the end of 2005. The subsidiary has a registered capital of Rmb 2.11 billion and is mainly engaged in the production and sales of raw chemical materials and products, "four techniques" services in chemical industry, and import and export activities of its own products. By 31 December 2007, the total assets of the company reached Rmb 4.22 billion, with a net profit (September to December) of Rmb 200 million. As a whole, the company pocketed a net profit of Rmb 865 million.

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

Nantong Baosteel Iron & Steel Co., Ltd. (Nantong Steel) was one of the controlled subsidiaries of Baosteel Group. With a registered capital of Rmb 346 million, Nantong Steel is mainly engaged in production and sales of deformed steel bars, round steel bars, steel sections, and rerolled steel (billet steel and steel ingots) as well as other steel products and by-products. On 6 August 2007, Baosteel Group listed to transfer the 92.5% of equity of Nantong Steel that it held at Shanghai United Assets and Equity Exchange. The Company got the consent in September 2007 and the transaction was completed on 1 October 2007.

By 31 December 2007, the scale of the company reached Rmb 1.66 billion, with a total net asset of Rmb 0.55 billion and the net profit of the period amounted to Rmb 20 million (September to December). As is planned, Nantong Steel is going to update its techniques in smelting procedure and build a heavy-gauge round billet continuous caster. Featuring heavy-gauge high-alloy pipe blanks, Nantong Steel, as a future pipe blank supplier, is expected to help strengthen the competitiveness of the Company in the tube variety.

(10) Overseas subsidiaries

By the end of 2007, the Company has eight overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, Hong Kong and Australia. These overseas subsidiaries extend the Company's sales and purchase networks, and play a critical role in enhancing the Company's international competitiveness.

11. Special purpose entities controlled

None.

(III) Group's Development in Prospect

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

(1) Trend of development of the steel industry

In 2007, the world's steel industry registered rapid development. Statistics by the International Iron and Steel Association indicated that the world had produced 1.344 billion tons of crude steel in 2007 alone, a 7.5% increase than last year. In China, the amount of crude steel production reached 489 million tons in 2007, which was a 15.7% increase than last year, making up 36.4% of the world's total crude steel production.

Ever since 2002, the world steel industry had begun to enter a new stage of development, characterized by increased demand and supply and the ever-rising steel price. The CRU World Steel Price Index rose from 94.6 at the end of 2002 to 176.2 at the end of 2007, which fully exhibits that currently the world steel industry is in a long-term prosperity.

As the world economic gravity center is shifting from developed countries to developing countries, in particular to emerging developing countries and regions, the world's steel production and consumption are also moving towards the same direction. Meanwhile, the leading position of the world steel market also begins to shift from European countries and the US to Asia and other developing countries and regions. According to the International Iron and Steel Association, in 2007 and 2008, steel demands from China, India, Brazil, and Russia will increase by 12.8% and 11.1% respectively and 77% and 71% of the world's increased steel demand will come from the above four countries.

In 2005, the Chinese government issued Development Policies for Steel Industry, emphasizing the increase of the competitiveness of China's steel industry and achieving sustainable development by means of adjusting industrial layout, raising concertration ratio, optimizing the makeup of steel products, enhancing the capacity of independent innovation, and developing circular economy. After the implementation of the development policies, China has accelerated its speed in adjusting the structure of steel industry, knocking out enterprises with low production efficiency and controlling investment in projects of low-end products, which has eventually increased the enterprises' capacity for independent innovation. As a result, the equipment of some domestic steel plants has in general reached the world level and their products have been notably optimized.

In 2008, as China's policy for steel industry and the country's macro regulation continue to be implemented, problems in the development of China's steel industry, such as overcapacity, oversupply of low-end products, and low degree of industrial concerntration, will be gradually addressed and the overall strength and international competitiveness of the industry will be furthered improved.

With the deepening of industrialization and urbanization and the continual and stable increase of demand for steel by downstream industries, the potential for China's steel industrial development and the market space will be maintained for a relatively long period of time. It is estimated that in 2008 demand and supply of steel will remain balanced despite the negative policy influences on steel export.

In 2008, the operational cost of steel enterprises will further increase. On one hand, the resource price on the international market rose sharply due to the rapid increase of resource demand by some emerging countries; the adjustment of the domestic resource tax rate will result in rise in the cost of domestic resource production enterprises, which in turn will be reflected in the resource prices; the logistic cost of enterprises has rose notably due to globalization and trade development that spur the shipping industry and the skyrocketing oil price. On the other hand, as land resources in China are increasingly fewer, pressure of environmental protection thus is enhanced; as a result, the land cost and environmental cost of enterprises has increased. Besides, with the implementation of Law of the People's Republic of China on Employment Contracts and oncoming Law of Social Security, the labor cost of the enterprise will also rise.

To meet the challenge of price hike in raw materials and fuel, China's major steel enterprises will adopt the strategic measure of strengthening the development of international and domestic strategic resources.

Currently, China's steel industry is at a new stage of development after its previous rapid growth, featuring upgrading boosted by independent innovation, achieving industrial structural optimization by consolidation, and focusing on energy conservation and circular economy. Endogenous growth characterized by stable and relatively rapid development will be an important feature of the future development of China's steel industry.

(2) The pattern of market competition

At the new stage of development of China's steel industry, competition among steel enterprises is mainly embodied in scale, product makeup, cost, supply chain, and adaptability. To survive the competition, steel enterprises put more emphasis on improving their overall competitiveness.

Faced with the challenges and opportunities brought about by the ever-changing international and domestic environments, ever since 2007, the Company has aimed at working out and implementing a new plan for development. For this end, it has been working on a new round of development strategy so as to take into account both product quality and scale.

Currently, the Company's sales system covers the whole China and takes the lead in China in the research and development and the production and utilization technology of high-end products like automobile sheets. Product differentiation is the core advantage of the Company. Faced with current fierce market competition, the Company will continue to maintain overall advantage in high-end products. In 2007, it continued to optimize its products and registered rapid development in the sales of Only One & No. One products.

In the field of carbon steel products, in 2007, the Company's cold-rolled automobile sheet, home appliance sheet, tin plate, and pipeline steel make up 50.3%, 36.8%, 18.9% and 34.5% of the domestic market respectively. In the future, the Company will continue to maintain its leading position in the industry, strive for better performance, make effort to develop cold-rolled silicon steel, ship-building heavy plate, and high strength steel plate for large oil storage tank, and work out in advance the strategy for future automobile sheet development.

In the field of stainless steel products, in 2007, the Company's sales of stainless steel products was almost the same as that of last year, ranking second in China. In the near future, with the constant increase of the production capacity of major domestic stainless steel plants, competition in this field will become fiercer. To meet this challenge, the Company will speed up the development of stainless steel products by optimizing furnace material structure, accelerating structural adjustment of stainless steel products, making new breakthroughs in product quality, and quickening inventory turnover.

In the field of special steel products, the Company's sales of strategic products have increased sharply, a 13% rise as opposed to 2006. The stainless steel series and special steel series, two of the Company's three major special steel series, have constituted 24.9% of the total production. In the future, the makeup of special steel products will be further improved when the high alloy bar production line reaches the desired production and the alloy slab-strip steel project is put into production. The proportion of the Company's unique special steel products will continue to increase.

2. Group's future strategy for development

(1) Opportunities

Affected by the American subprime crisis, the speed of the world economic development is expected to further slow down; however, because the world's major economies do not synchronize in economic development and some emerging market economies still maintain strong momentum of development, the world economy will continue to maintain mild growth. According to the latest report by IMF, the world's estimated economic growth in 2007 was initially 4.9% and 4.1% in 2008. Such emerging economies as China (10%) and the Common Wealth of Independent States (7.0%) will continue to develop rapidly. Under the overall environment of the stable development of the world economy and Chinese economy, steel demands at home and abroad will grow stably, providing a fine growth space and opportunity for the development of China's steel industry.

With the deepening of the macro-control, the process of knocking out enterprises with low production efficiency is quickened. As the first batch of such enterprises was closed down, the second batch has now started on a full scale. 2008 will turn out to be a year in which China will make great progress in adjusting its steel industry and knocking out low efficiency enterprises.

In general, the leading industries of national economy, such as construction, machinery, automobile, ship building, home appliance, and oil and natural gas, and major steel-consuming industries are developing rapidly. The domestic steel demand is continuing to maintain stable increase and the overall steel production growth rate is slowing down. Under this circumstance, in 2008, the supply and demand on domestic steel market will maintain balance.

In the foreseeable future, a new trend of consumption with housing and automobile as its core, supplemented by housing decoration, luxurious consumer goods, electrical telecommunication products, and tourism, will allow a stable demand of China's high grade steel plates. With the optimization of the structure of China's steel products, import of high-end steel will decrease gradually, though there is still a gap for steel substitutes. High-end steel products will still be in demand.

The present policy for the steel industry and other related policies and measures support steel enterprises in their effort to grab domestic market and make relevant adjustment, providing strategic opportunities for the Company to achieve the goal of focusing both on quality and scale and realizing leap-forward development.

The State puts a strict control over investment in fixed assets, knocks out low efficiency steel enterprises, strengthens energy conservation and emission reduction, and adjusts taxes for exports, which significantly raises the threshold of steel industry. The new income tax law for enterprises offers a series of preferential policies, such as reducing the income tax payable to the government, offsetting, reducing or remitting enterprise income tax for special equipment investment conducive to environmental protection and resource conservation, which will promote the production and management of steel enterprises.

(2) Challenges

The export tax on low-grade product and the appreciation of RMB will relatively raise the cost of China's steel enterprises on the international market. Reduction in steel product export will put more pressure on steel enterprises. If the relative balanced supply and demand on the domestic market is broken, domestic steel enterprises will have more pressure in production and management.

Strengthening energy conservation and emission reduction and realizing sustainable development are major strategic measures adopted by China's steel industry. The State puts forward the goal explicitly that by 2010 there will be a 20% reduction in energy consumption per unit of GDP and a 10% reduction in total emissions of major pollutants as opposed to those in 2005. With the increased requirement of the State to steel enterprises for energy conservation and environmental protection, in the future, in the process of consolidation, the Company will face the challenge of knocking out low efficiency plants and strengthening energy conservation and emission reduction.

The State practices tight monetary and credit policy to prevent an overheated economy, which to a certain degree will restrict the financing of the capital-intensive steel enterprises. Pressed by the cost rise of raw materials and fuel, environmental protection requirements, and the rapid increase of debt cost, domestic steel enterprises will face the pressure of rising cost and decreasing profit margins.

The Company will continue to face the challenge of being overtaken by domestic peers that continue to expand at low cost and with improved technology equipment.

After the acquisition made in 2005, the scope of business of the Company largely expanded, but the internal management level of different units is unbalanced, which weakens the overall management level and efficiency of the Company in the short run. Currently, though such imbalance is improving, greater efforts are needed to fully integrate production and management.

(3) Future strategy for development

As a rapidly growing world class steel enterprise, the Company, based on its present development, will continue to commits itself to become a top steel manufacturer and provide to society extra-value products and service. It will take "integrity, cooperation, innovation and pursuit of the maximized enterprise value" as its core values and "building itself into the most competitive steel enterprise in the world" as its strategic goal. Based on scale and technology, it will expand its scale putting equal emphasis on quality and scale and implement the major strategic measure featuring the development of circular economy, management innovation, deepened integration, increased soft power and core competitiveness.

The Company, based on the win-win principle, constructs a complete, optimized and competitive supply chain and cooperates with its clients and suppliers, thus developing itself on the basis of each other's advantages and strengthening its competitiveness on the market.

The Company implements the strategy of "focused development", concentrating on the development of such strategic products as automobile steel plates, electrical steel, pipeline steel, energy pipes, ship-building plates, stainless steel, and high alloy steel, in an effort to raise the overall competitiveness of strategic products and maintain the leading position on the domestic steel plate market. The Company will adhere to the scientific concept of development and strive for a new road of industrialization unique of Baosteeel featuring sustainable development.

(IV) Business Plan for 2008

1. 2008 is the key year for the Company to implement its business plan. Starting from a new round of development strategy, the Company will continue to consolidate its advantageous area, deepen its reform and integrate steel business. It will tag its potential for management, increase its soft power and core competitiveness, and realize leap-forward development on scale, quality, technology, and circular economy, in an effort to achieve sustainable development.

   The Company puts forward the general principle of management, that is, to deepen cooperation, boost soft power and increase core competitiveness; to innovate and reform, expand new space for development, and realize sustainable development. Besides, it also advances its overall objective, that is, to realize a revenue of Rmb 200 billion, a profit of Rmb 1.2 billion from integrated development, over 1% of revenue investment in R&D, and Rmb 2.6 billion from reducing cost and increasing efficiency. Besides, it requires that the overall energy consumption per ton of steel is less than 737Kg of standard coal.

   In view of the uncertain factors existent in the steel market in the latter part of the year and the possible increase of the cost of raw material and fuel, the administration will, so long as the market situation basically remains unchanged, adopt effective measures and strive to achieve the following business objectives in 2008: producing 21.37 million tons of iron, 24.55 million tons of steel; sell 24.19 million tons of raw materials with a revenue of Rmb 200 billion and cost of Rmb 171.10 billion.

2. Major works

   In accordance with the business policy and objective of 2008 and the requirements for a new round of development, the Company will focus on the following work in 2008:

   - Making effort to push the production and management of 2008 to a new stage;
   - Systematically promoting the process, mechanism and standards of integration and pursuing the maximized efficiency of the Company;
   - Accelerating the implementation of the relevant investment projects for the new round of development and expanding the scale and product development of the Company;
   - Improving the construction of the purchase and supply chain and boosting cooperation;
   - Further optimizing the mechanism of technology innovation system and increasing the efficiency of technology innovation;
   - Making effort to develop the circular economy and achieving new breakthroughs in energy conservation and environmental protection;
   - Implementing the strategy of boosting development through talents and increasing the competitiveness of the Company's specialized personnel;
   - Conducting internal contests to improve performance, save energy and reduce emission, try to be environmentally friendly, reduce cost and increase efficiency, and cultivate integration synergy;
   - Accelerating construction of the corporate culture and boost the influence of the Company;
   - Conducting strict management to ensure production safety; and
   - Promoting the construction of good employment relation and harmonious enterprise.

(V) Investments

Projects with non-raised funds

1. Investments on fixed assets

The previous year witnessed the involvement of Rmb 22.54 billion on fixed assets.

In 2007, the Company successfully completed, on time or ahead of schedule, a mumber of key construction and renovation projects, including No. 3 Hot Rolling Mill Project of Baosteel Branch, Project of Cold Rolling Mill (first stage) of Stainless Branch, Project of Cold-rolled Blank of Special Steel Branch, and No. 1 coke furnace on-site overhauling Project of Meisteel. The year also saw the initial constructions of natural gas project of Baosteel, updating project of wide-heavy plates of Baosteel Branch, cold-rolled stainless strip steel (follow-up) project of the Stainless Branch, the Titaniun Alloy High-Temperature Alloy Plate and Blank Line of Special Steel Branch, product re-structuring and updating project of environmental protection facilities and continuous-casting system of Meisteel,. Other key projects have been well under way, including project of No. 5 cold-rolling mill of Baosteel Branch, UOE project, No. 4 power generating set project, and No. 2 furnace on-site overhauling project of Meishan Steel.

(1) Projects completed

(a) No. 3 Hot Rolling Mill Project

The project began on 23 May 2005 and the line saw completion on 30 March 2007, two and half months ahead of schedule. When brought into operation, an increase of 3.7 million tons of hot-rolling capacity is expected. The full capacity was realized in September 2007.

(b) Majishan Port Expansion Project

The project began on 28 December 2005 and was completed on 27 October 2007. The designed annual processing capacity is 30 million tons, including half in-taking capacity and half delivery capacity. November 2007 saw the realization of the designed capacity.

(c) Cold-rolled Sheet Plant Updating Project

The project began on 28 December 2005 and was completed on 26 October 2007. When completed, a capacity of 0.4 million tons of tin-coated and chrome-coated packaging sheet was added.

(d) Project of Stainless Cold-rolling Mill (first stage)

The project began on 26 April 2006 and was completed on 18 December 2007. When completed, the capacity has reached 0.7 million tons of acid-pickling stainless hot-rolled coils and 1.15 million tons of acid-pickling hot-rolled carbon steel coils.

(2) Projects-in-progress

(a) Project of No. 5 Cold-rolling Mill Project

This is an integral unit of 1730mm acid cleaning rollers with finishing devices. The project began on the 20 January 2006 and is expected to be fully completed in October 2008. The completion of the project will mark the completion of the updating program of the production lines for auto sheets and silicon steel.

(b) UOE Project

This is a production line of welded pipe with heavy caliber, with a capacity of annual output of 500,000 tons. The project began on the 9 February 2006 and the heat durance test was conducted on 31 January 2008.

(c) No. 4 Power Generating Set Project

This is a new 350 MW generating set, which began on the 29 April 2006 and is expected to be completed in May, 2008.

(3) New Projects

(a) Project of Stainless Cold-rolling Mill (follow-up)

The project consists of a set of five-stand continuous cold-rolling mill, a single-stand mill with multi-roll for stainless steel, a set of a cold and acid pickling annealing unit for stainless steel, a carbon steel continuous annealing line, and a hot-dip galvanizing line. The designed capacity is 2.06 million tons per year, including 0.66 million tons of stainless steel and 1.4 million tons of carbon steel. The project started on 18 November 2007 and is expected to finish in May 2010.

(b) Heavy Plate Updating Project

The project includes a rough rolling mill and some cutting, testing devices. When completed, a capacity of 400,000 tons will be added to the present volumn, resulting in a total capacity of 1.8 million tons of heavy plates annually. The project started on 1 March 2007 and is expected to finish in December 2008.

(c) Hot-rolling Steckel Mill for Special Steel Project

The project involves a set of steckel mill and necessary supporting facilities. When completed, the capacity is expected to reach 282,000 tons per year, including 26,000 tons of titaniun and titaniun alloy, high-temperature alloy, corrosion-resisting nickel base alloy and precision alloy. The project started on 3 September 2007 and is expected to finish in September 2009.

(d) Technique Updating Project of 1422 Hot-rolled Product Structure of Meishan Steel

The project involves a CPL-TCM coupling line and a continuous annealing unit, an electrolytic tinning line, a hot-dip galvanizing line and a hot-dip galvaluming unit. When completed, the capacity is expected to reach 850,000 tons of tin-coated, tot-dip galvanized, and hot-dip galvalumed plates and sheet. The project started on 26 March 2007 and is expected to finish in September 2009.

2. Other investments

Significant equity investments in the reported period include:

(a) Yantai Baosteel Tube Co., Ltd. was jointly set up, with registered capital of Rmb 2 billion; the Company holds 80% of the equity. The rest is owned by Yantai Lubao, a subsidiary of the Company.

(b) Baoyin Special Tubes Co., Ltd. was jointly set up, with registered capital of Rmb 0.2 billion, the Company holds 65% of the equity. The rest is owned by Jiangsu Yinhuan Precision Pipes Co., Ltd. (Jiangsu Yinhuan).

(c) The year 2007 saw the Company's acquisition of the 92.5% equity of Nantong Baosteel Iron & Steel Co., Ltd. from Baosteel Group, the parent company of the Company. Nantong Steel has a registered capital of Rmb 346 million. The Company owns an equity share of 92.5%, while the rest is owned by Nantong Investment Co., Ltd.

(VI) Explanatory Notes from Auditing Firm

No explanatory notes were provided by the firm in the period reported.

(VII) Routine Work of Board of Directors

1. Meetings and resolutions in the period reported

Public announcements of the Board were all posted in China Securities News, Shanghai Securities News and Securities Times.

(a) The first interim meeting of the Third Board of Directors in the year of 2007 was held in February 2007, and the public announcement of resolutions was posted in the above newspapers dated on 28 February 2007.

(b) The second interim meeting of the Third Board of Directors in the year of 2007 was held on 28 March 2007, and the public announcement of resolutions was posted in the above newspapers dated on 17 April 2007.

(c) The fifth meeting of the Third Board of Directors in the year of 2007 was held on 28-29 March 2007, and the public announcement of resolutions was posted in the above newspapers dated on 31 March 2007.

(d) The sixth meeting of the Third Board of Directors in the year of 2007 was held on 25 April 2007, and the public announcement of resolutions was posted in the above newspapers dated on 26 April 2007.

(e) The seventh meeting of the Third Board of Directors in the year of 2007 was held on 29 August 2007, and the public announcement of resolutions was posted in the above newspapers dated on 30 August 2007 and 6 September 2007.

(f) The eighth meeting of the Third Board of Directors in the year of 2007 was held on 29 October 2007, and the public announcement of resolutions was posted in the above newspapers dated on 30 October 2007.

(g) The ninth meeting of the Third Board of Directors in the year of 2007 was held on 11 December 2007, and the public announcement of resolutions was posted in the above newspapers dated on 12 December 2007.

(h) The tenth meeting of the Third Board of Directors in the year of 2007 was held on 27 December 2007, and the public announcement of resolutions was posted in the above newspapers dated on 28 December 2007.

2. Directors' implementation of resolution of the General Meeting

(1) Proposed profit appropriation

According to the resolutions passed at the 2006 Shareholders' General Meeting held on 26 April 2007, the proposed profit appropriation for 2006 was as follows: All shareholders were entitled to a cash dividend of Rmb0.35 per share (taxes included), for a total dividend payout of Rmb 6.1292 billion. Net dividends received by holders of free-floating shares were Rmb0.315 per share (after tax) for individual shareholders and Rmb0.35 per share (taxes included) for state and institutional investors. Details of the dividend distribution were published in the China Securities News, Shanghai Securities News and Securities Times of 22 May 2007. The final share registration date for dividend entitlement was 28 May 2007, with the ex-dividend date set at 29 May 2007 and dividend payout date on 1 June 2007. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd.'s Shanghai Branch after the market closed on 28 May 2007, would be entitled to such cash dividends.

(2) Convertible bonds with attached warrants

The first interim general shareholders' meeting held on 27 December 2007 approved the proposal of issuing no more than Rmb 10 billion convertible bonds, which was announced in newspapers 28 December 2007. The application documents were sent to China Securities Regulatory Commission, who agreed in a written form dated 4 January 2008 to review the application. A feedback report from the commission was received on 29 January 2008, to which an answer from the Company was sent back on 13 February 2008. The issue at present is still under review.

(3) Acquisition of Luojing assets from Baosteel Group Shanghai Pudong Steel

The first interim general shareholders' meeting held on 27 December 2007 approved the proposal of purchasing of Luojing assets from Baosteel Group Shanghai Pudong Steel, which was announced in newspapers 28 December 2007. On 1 to 29 January 2008, Shanghai Pudong Steel listed to transfer the Luojing assets. The Company got the consent and paid a first sum of Rmb 2.606 billion on 29 January 2008.

3. Report on the Performance of the Auditing Committee under the Board of Directors

In its 2007 annual report, the Auditing Committee under the Board of Directors gives a full play to its role of examining the Company's financial information, internal control system and supervising the observation of corporate law and regulations.

The Auditing Committee under the Board of Directors has examined the 2007 auditing plan of the financial statement and the financial report compiled by the Company and issued its written suggestions for the report before Ernst & Young Hua Ming Accounting Firm starts auditing. The Auditing Committee notices the changes in the items of the report as against the previous year and requires that the Company to interpret the drastic changes of important items in the 2007 annual report so that investors can have a better understanding of the financial situation of the Company.

Later, the auditing members issue a letter to Ernst & Young, urging the firm to complete the auditing according to the time limit stipulated in the annual auditing plan; after Ernst & Young issues the initial suggestions for auditing, the auditing committee examines the accounting report again and offers their opinion in written form; meanwhile, the auditing committee examines the summary report of 2007 provided by Ernst & Young and considers that Ernst & Young follow the contract strictly and offer its auditing suggestions independently and objectively and can have timely communication with the auditing committee on the auditing of the annual report. Anyong has formed a book of suggestions for the problems found in the auditing, which helps the Company to standardize its operation. Therefore, the Company agrees to hire Anyong to be its independent accountant in 2008.

4. A report on the performance of the remuneration committee under the board of directors

In their 2007 annual reports, the remuneration and examination committees of the Company's board of directors fully discussed and examined Report on the Annual Income of Board Directors, Supervisors, and Management Team, 2007 Resolution of the Result of Examination of the Performance of Management Team and Income Settlement, and 2008 Resolution of the Target for the Evaluation of the Performance of Management Team and Desired Targets and agreed to submit the report and resolutions to the board of directors for discussion.

(VIII) Proposed Profit Appropriation

profit before the consolidation in 2007 totaled Rmb 9,947,678,640.40. For the Company's long-term sustainable development and the conception of 'maximizing shareholders' value', the Board of Directors proposes the following profit appropriating scheme for the year of 2007:

(a) Ten per cent of the net profit, or Rmb 994,767,864.04, shall be allocated as statutory earnings reserves;

(b) Ten per cent of the net profit, or Rmb 994,767,864.04, shall be allocated as discretionary earnings reserves;

(c) With the retained earnings of Rmb 17,635,318,441.71 (as at the beginning of the year 2007) and the 2006 cash dividend payment of Rmb 6,129,200,000.00, distributable profits at the end of 2007 were Rmb 19,464,261,354.03;

(d) In accordance with the resolution of the second Board that the cash dividend per share in the proposal of annual profit appropriation submitted to the annual general shareholders' meeting shall not be less than Rmb 0.32 in 2005, 2006, and 2007 and the demand of fund of the Company in 2008, the board of Directors has proposed a cash dividend payout of Rmb3.5 per 10 shares (pre-tax), with total of dividend payable of Rmb 6,129,200,000.00.

(e) Shares from public capital reserves were not taken into account.

VIII. Supervisors' Report

(I) Summary of Supervisors' Performance

1. In the reported period, the board of supervisors labored to ensure that the Company's operations, financial auditing, and performance by the directors and senior managers are carried out in strict compliance with the rules and regulations set in the Company Law and the Corporate Charter. The board of supervisors attended the fifth, sixth, seventh, eighth, ninth, and tenth meetings of the third Board to supervise the convening of the board meetings and ensure that voting procedures on resolutions conform to relevant laws, regulations and the Corporate Charter.

2. The Board of Supervisors was convened for the fifth, sixth, seventh, eighth, and ninth meetings of the third Board in the reported period. In line with its duty the Board expressed its opinion on the legality, procedures and financial impact of the resolutions proposed by the board of directors, and made public announcements of the resolutions accordingly. The details of the meetings by the boards of supervisors are listed as follows:

(1) On 29 March 2007, the Board of Supervisors held its fifth meeting of the third Board in Shanghai and approved the following proposals:

Proposal for Supervisors' Review of the "2007 Budget of the Company";

Proposal for Supervisors' Review of the "Estimation of Day-to-Day Related Transactions of the Company in 2007;

Proposal for Supervisors' Review of "Proposal for Provisions for Impairment Losses of Assets of the Company as at the end of 2006"

Proposal for Supervisors' Review of the "2006 Annual Report and its Abstract";

Proposal for Supervisors' Review of "the Report of the Final Annual Accounts of the Company at the End of 2006";

Proposal for Supervisors' Review of the "2006 Annual Profit Appropriation Proposal of the Company";

Proposal for Supervisors' Review of the "Regulations for Management of Assets Impairment in the Company";

Proposal for Supervisors' Review of the "Regulations for Management of debit financing in the Company";

Proposal for Re-election of Supervisors for the Company.

(2) On 25 April 2007, the Board of Supervisors held its sixth meeting of the third Board in Shenzhen and approved the following proposals:

Proposal for Supervisors' Review of the "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Quarter of 2007";

Proposal for Supervisors' Review of the "2007 Report of the First Quarter";

Proposal for Supervisors' Review of the "Proposal of Purchasing Baosteel Group Shanghai Pipes and Other Assets".

(3) On 29 August 2007, the Third Board of Supervisors held its seventh meeting in Shanghai and approved the following proposals:

Proposal for Supervisors' Review of the "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Half of 2007";

Proposal for Supervisors' Review of the "2007 Interim Report and Its Abstract";

Proposal for Supervisors' Review of the "New Related Transactions of the Company in 2007";

(4) On 29 October 2007, the Third Board of Supervisors held its eighth meeting in Shanghai and approved the following proposals:

Proposal for Supervisors' Review of the "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the Third Quarter of 2007";

Proposal for Supervisors' Review of the "Report of the Third Quarter of 2007";

(5) On 11 December 2007, the Third Board of Supervisors held its ninth meeting in Shanghai and approved the following proposals:

Proposal for Supervisors' Review of the "Proposal for Acquisition of Luojing Assets from Baosteel Group Shanghai Pudong Steel";

Proposal for Supervisors' Review of the "Proposal of Issuing Convertible Bonds with Attached Warrants";

Proposal for Supervisors' Review of the "Proposal of the Feasibility of Fund-raising Investment Projects";

Supervisors' Review of the Use of Funds Raised in the Previous Drive;

Proposal for Supervisors' Review of the "Proposal of the Regulations for Fund-raising of the Company".

(II) Opinions on the Company's Operations

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

2. The Company was in good and solid financial health in 2007. Its sound financial management and internal control system ensured smooth and normal manufacturing and production operations. Its 2007 financial statements are a true reflection of the financial condition and operating results of the Company, and the unqualified opinion issued by Ernst & Young Hua Ming in the auditors' report is fair and objective.

3. The company has not involved in any fund-raising activity in the period reported;

4. The company acquired the assets of Baosteel Shanghai Pipe in the period reported and the price was found to be fair and no insider trading activities were discovered. The proposal to purchase Luojing assets of Baosteel Pudong Steel was approved by the meeting of the shareholders on 27 December 2007 but no further steps have been taken.

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

IX. Significant Events

(I) Legal Proceedings

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

(II) Bankruptcies and Re-structuring

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

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

1. Investment in securities

Rmb million

Number	Type	Stock code	Stock name	Initial investment cost	Shares held	Book value as at the end of period	Ratio in total securities investment as at the end of period	Gains and losses in the period
1	Stocks	601628	China Life	79.53	4,212,295	244.06	14.90	164.53
2	Stocks	601398	Industrial and Commercial Bank	28.45	9,072,400	73.76	4.50	45.31
3	Stocks	000063	ZTE Communications	54.15	948,649	60.42	3.69	6.26
4	Stocks	600183	Shengyi Electronics	50.17	3,615,538	57.49	3.51	7.31
5	Stocks	601166	Industrial Bank	13.98	875,000	45.38	2.77	31.40
6	Stocks	600202	Harbin Air Conditioning	19.90	1,560,000	34.32	2.10	14.42
7	Stocks	600361	G Supermarket	29.71	1,000,087	32.54	1.99	2.83
8	Stocks	600888	Xinjiang Joinworld	21.02	1,182,012	31.90	1.95	10.88
9	Stocks	600978	Yihua Timber	31.09	1,283,840	24.10	1.47	-6.99
10	Stocks	002021	ZOJE Corporation	10.44	775,000	12.49	0.76	2.05
Other investments in securities as at end of the period				-	-	1,021.35	62.36	-86.41
Profit and loss from securities sales in the period				-	-	-	-	580.83
Total				-	-	1,637.81	100	774.42

Note: These shares and other investments in securities are mainly trading financial assets held by Financial Co., a subsidiary of the Company.

2. Stocks held of other listed companies

Rmb million

Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Change in shareholders' equity in the period	Accounting type	Share source
601699	Lu'an Environmental Energy	10.00	1.02	466.51	456.51	Financial assets available for sale	Acquistion
600508	Shanghai Energy	11.00	1.53	344.08	333.08	Financial assets available for sale	Acquistion
600997	Kailuan Corporation	7.00	1.89	204.23	197.23	Financial assets available for sale	Acquistion
601001	Datong Coal Industry	5.00	0.42	112.00	107.00	Financial assets available for sale	Acquistion
601318	Ping An Insurance	23.66	0.01	74.27	31.43	Financial assets available for sale	Acquistion
600030	Citic Securities	27.93	0.01	33.28	3.32	Financial assets available for sale	Acquistion
600048	Baoli Estate	15.11	0.02	17.65	1.58	Financial assets available for sale	Acquistion
000002	Shenzhen Vanke	18.58	0.01	17.00	-0.98	Financial assets available for sale	Acquistion
601390	China Railway	10.58	0.00	14.45	2.40	Financial assets available for sale	Acquistion
600795	National Power	8.55	0.02	8.51	-0.02	Financial assets available for sale	Acquistion
—	Others	82.26		88.95	4.15	Financial assets available for sale	Acquistion
Total		219.67	-	1,380.92	1,135.69		

Shares of other listed companies held

Rmb million

Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Profit and loss in the period	Change in shareholders' equity in the period	Accounting type	Share source
600845	Baosight Software	247.80	55.50%	297.50	75.98	76.02	Long-term equity investment—Cost Method	Acquisition

3. Equity held of non-listed financial enterprises

Rmb million

Company	Initial investment cost	Amount	Equity ratio in the Company	Book value as at the end of period	Profit and loss in the period	Change in shareholders' equity in the period	Accounting type	Share source
Finance Co.	496.71	-	62.10%	697.85	418.79	447.48	Long-term equity investment—Cost Method	Acquistion
Total	496.71	-		697.85	418.79	447.48		

Note: "Profit and loss in the period" refers to impact of the investment upon the consolidated net profit of the Company in the reported period.

(IV) Significant Acquisitions, Sales and Business Combinations

Details about significant acquisitions, sales and business combinations are available in VII (7) 2 (3).

(V) Progress of "Baosteel A-share Incentive Scheme" and its Impact on the Financial Status and Performance of the Company

The scheme (hereafter "incentive scheme") was approved by the fifth meeting of the third Board of Directors and was later approved in a written reply from the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). However, the no-action letter from the China Securities Regulatory Commission (CSRC) regarding the scheme has not been received.

Due to the long period of the delay and changes in the applicability in annual performance and in eligibility of target employees, the Company will revise the plan in accordance with the actual situation of the Company and features of the industry, along with the new regulatory rules and market needs, and submit for a second time.

(VI) Significant Related Party Transactions

1. Day-to-day related party transactions

The major related parties of the Company are legal entities controlled by Baosteel Group Corporation. The transactions conducted between the Company and its major related parties in the reported period included:

(1) Sales of products and purchases of services

Unit: Rmb million

Affiliates	Transactions	Pricing	Amount
Baosteel Group Enterprise Development Corp.	Sales of steel products, raw materials, fuels, supplementary materials, etc.	Market	3,095.93
Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd.	Sales of steel products and energy	Market	652.87
Shanghai Baosteel Intl. Trading Ltd.	Sales of raw materials and fuels	Market	5,132.92
Baosteel Group Shanghai Meishan Co., Ltd.	Sales of steel products, raw materials, fuels, supplementary materials, etc.	Market	1,380.81
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd.	Sales of steel products, raw materials, fuels, supplementary materials, etc.	Market	1,367.08
Sub-total of sales			11,629.61
Baosteel Group Enterprise Development Corp.	Purchase of steel products and supplementary materials, ect.	Market	918.12
Baosteel Group Shanghai Meishan Co., Ltd.	Purchase of raw materials, fuels, supplementary materials, ect.	Market	1,027.42
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd.	Purchase of steel products	Market	723.38
Shanghai Baosteel Engineering & Technological Co., Ltd.	Purchase of equipment and supplementary materials	Market	863.46
Shanghai Baosteel Intl. Trading Ltd.	Purchase of raw materials and fuels	Market	5,003.97
Bao-Island Trading Co. Ltd.	Purchase of raw materials and fuels	Market	1,732.00
Sub-total of purchase			10,268.36
Baosteel Group Enterprise Development Corp.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services	Negotiation	1,378.63
Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services	Negotiation	691.36
Baosteel Group Shanghai Meishan Co., Ltd.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services	Negotiation	892.81
Shanghai Baosteel Engineering & Technological Co., Ltd.	Services in project and processing	Negotiation	553.13
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd.	Project installation services & equipment examination& maintenance service	Negotiation	695.40
Sub-total of services			4,211.33

The sales above accounted for 6.07% of the Company's revenue from its principal businesses in the reported period; purchases and services received took up 6.29% and 2.58%, respectively, of the Company's cost for its principal businesses in the reported period.

All transactions were settled either by cash or checks.

(2) Financial services

Baosteel Group Finance Co., Ltd. (hereafter referred to as Finance Co.), a non-bank financial company with the Baosteel Group (with 35.2% of the shares), and Company (with 62.1% of the shares) as joint-share owners, was established for central management of the funds of the Company so as to raise the efficiency of fund use. It provides a comprehensive service of internal accounting settlement, fund deposited and loan, short-term capital financing, investment and fund-raising.

In the period reported, Finance Co. provided, at the Rmb interest rate as set by the People's Bank of China, a total of Rmb 1,811 million loans to the companies controlled by Baosteel Group Corporation, with outstanding loan of 768 million and a total interest income of Rmb 46 million. At the same time, entrusted by Baosteel Group, it provided a total of 609 million of entrusted loan to the controlled companies of Baosteel Group, with outstanding loan of 725 million and a total commission income of Rmb 67500. The total deposit from Baosteel Group and its controlled companies reached Rmb 151.443 billion, with an outstanding of Rmb 18.026 billion as at the end of the year and an interest payment of Rmb 344 million. In the reported period, the Company received a total of Rmb 3.5 billion loan through Finance Co. and the interests totaled Rmb 38 million.

In the reported period, the Finance Co. as an entrustee managed the assets of Baosteel Group as regarding repurchase of bonds with designated earning rates and assured yield, bond transactions, and security transactions of designated types and ranges of price. The highest balance and the balance in the period reached Rmb 2.999 billion and Rmb 214 million, respectively, while its income from the management was Rmb 129 million.

(3) Necessity and continuity of related party transactions

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

2. Transfer of assets or shareholdings

The Company was not involved in any transaction due to transfer of assets or shareholdings in the reported period.

3. Affiliated external transactions with affiliated parties

No affiliated external transactions with affiliated parties were conducted in the reported period.

4. Claims, liabilities and guarantees

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

The Company was not involved in any guaranteeing activity with related parties in the reported period.

5. Fund appropriations and their solutions

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

(VII) Major Contracts and Performance

1. Trusteeships, contracts or leases.

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

2. Guarantees

The Company was not involved in any major guarantee in the reported period.

3. Major entrusted financing

The Company was not involved in any major entrusted financing in the reported period.

(VIII) Commitments of Companies or Shareholder with Over 5% Stake in and to Reported Period

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

(1) All related party transactions will be carried out in compliance with relevant laws, regulations and rules set by the authorities and will not damage the legitimate interest of the Company nor its minority shareholders.

(2) The Group will not directly participate in any business activity or directly own an interest in any business activity or entity that poses a competition to the Company. However, the Group can maintain its existing interest in other company (companies), as well as manage and develop this business which may or may not be in competition with the Company. The Company also promises that, when the Company or any of its subsidiaries is about to engage in any new business, investment or research that may pose a possible competition to the Company, the Company enjoy the priority of being the first to develop or acquire the said business, investment or research.

These commitments will stay in force under two conditions:

(a) The Company is listed on the Hong Kong Stock Exchange and domestic stock exchange of China; and

(b) The Company owns no less than 30% of the Company's issued shares.

In addition, on June 13, 2001, and September 6, 2002, the Group further pledged to uphold these two commitments after the Company's acquisition of the assets related to construction of its phase 3 project and all remaining assets thereof.

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

2. Commitments made in Issuance Prospectus by Baosteel Group

(1) The Company has the right to acquire the holding assets and businesses which may be in competition with the Company;

(2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until Baoshan Iron and Steel gives up the commercial opportunities;

(3) The Group is committed to helping dealing with the relevant property certificates for buildings and lands after the Company completed the mergers and acquisitions;

(4) According to the estimated value of state-allocated land in the land administration departments and in compliance with the rules on transfer land fee by Shanghai Municipal Government and Majishan Government, the Company is predicted to pay no more than Rmb 563 million for the total transfer land fee for dealing with the transfer procedures of state-allocated land mentioned above. The Group has undertaken the following commitment: in the event of the total transfer land fee exceeding Rmb 563 million for the procedures, the Group will fully cover the exceeding amount for the relevant company in time.

(5) The estimated value for empty transferred land totals about Rmb 1.42 billion, taking up 34% of the total estimated land value. The Group has undertaken the following commitment: if the Company or its affiliated companies have to pay or add the transfer land fee for changing the empty transfer land into state transfer land that can be freely transferred and mortgaged, The Group agrees to fully compensate the Company for the land transfer fees.

(6) The estimated value of the collective-owned land totals about Rmb 10 million, accounting for 0.2% of the total estimate. The Group has undertaken the following commitment: if the Company or its affiliated companies fail to legally occupy and utilize the collective-owned land because such land hasn't undertaken the state-owned land transfer procedures, The Group will cover all the economic losses for the Company or its affiliated companies.

These commitments were publicly posted on official website of the Shanghai Stock Exchange (http://www.sse.com.cn) in April 2005.

3. Commitments Baosteel Group undertook during untradable share reform

In complying with the regulations in Notice of the China Securities Regulatory Commission on Piloting the Shareholder Structure Reform of Listed Companies, the Group shall not trade or transfer the holding shares at least within 12 months after getting the circulation right and would not start trading until 24 months later. Within 12 months after the 24-month period expires, the shares to be traded at stock exchanges shall not exceed 5% of the total shares at a price no less than Rmb 5.63 per share. Within three years after the company's shares got the circulation right, The Group's shareholding would not be lower than 67% of the total stock issuance. Nevertheless, Baosteel's increased shares after implementing non-tradable share reform will not be subject to such limits in trading or transferring.

The aforementioned commitments were published on China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn) of June 28, 2005.

4. Commitments Baosteel Group undertook about New Factory Project of Handan Group

The Group seeked the Company's opinion of investment on the New Factory Project of Handan Group on 7 August 2007 in written form of "Solicit Letter about Investment on the New Factory Project of Handan Group" and "Commitments about New Factory Project of Handan Group". The Company agreed that the Group could invest on the project, but retained the right to purchase the equity of the joint venture.

The Group promise that it would invest on the New Factory Project of Handan Group if the Company has decided to give up opportunity and that it would transfer its share of equity of the joint venture to the Company at a fair price in line with relative laws, regulations, and other documents and on basis of asset valuation conducted by an individual asset valuation organization upon the Company's request.

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

The aforementioned commitments were published on China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn) of 6 September 2007.

5. Commitments Baosteel Group undertook about Luojing Land

Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter, Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3.228 million m^2, for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-valuation day (30 September 2007), Rmb 2.8 billion as preliminarily estimated, need to be paid. Baosteel Group promises:

(1) If the Company intends to purchase the Luojing assts, the Group and/or Pudong Steel would help the Company go over the transfer procedures and other matters as required by the Company.

(2) In the event of the total actual expense exceeding Rmb 2.8 billion for the procedures, the Group or Pudong Steel shall fully cover the exceeding amount in time, by means of paying the Company or government (as is required).

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

The Group did not commit any breach of the aforementioned commitments to the Company in the period covered.

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

(1) The Company intended to purchase from Baosteel Group 23 pieces of state-allocated land and 14 pieces of empty land. After the transactions completed, the Company would go over the procedures of changing the state-allocated land into state-owned transferable land and changing the empty land into state-owned transferable land with no limits in right.

(2) The Company and related companies that came under control of the Company after the acquisition shall negotiate in an active manner with relevant administrative offices to go over the procedures, within 18 months after the land acquisition, of the certificates for using the state-owned land or for owning the estates of the aforementioned pieces of land. The land users of the aforementioned land shall be registered in the Company or related companies that came under control of the Company after the acquisition.

The aforementioned land use certificates include:

The land transfer procedures for the 979,000m^2 land in Majishan Port area were completed and its certificate for right of use obtained.

The land transfer procedures for two pieces of land covering a respective area of 383,000 m^2 and 3,100 m^2 were completed by Meishan Steel and their certificates for right of use obtained.

The land transfer procedures for a piece of land covering an area of 330,000 m^2 were completed by Ningbo Baoxin and its certificate for right of use obtained.

Stainless Steel Branch and Special Steel Branch have signed land transfer contracts with their land administrative department for a piece of land covering an area of 2,065,000 m^2 and the full amount of land transfer fee has been paid. They are going through the procedures for the certificates for the real estate on the land. The certificates for use right of the land and those for the real estate on the land are expected to be obtained before the end of September 2008.

Special Steel Branch was informed that a piece of land covering an area of 580,000m^2, which the branch intended to purchase, had been planned by Shanghai Municipal Planning Bureau, as land for landscapes and public facilities and not allowed for industrial purposes. It is learned that such pieces of land would be allowed by Shanghai Municipal Planning Bureau and other land administrative departments, remain what they are. The land at present is occupied and used by the Company as a site for auxiliary equipment of Special Steel Branch rather than operating workshops of the branch. Compensation would be made for the Company even when the land should be cleared for the intended uses, which would not affect the Company's operation significantly.

Stainless Steel Branch and Special Steel Branch are going through the procedures for the certificate of a piece of land covering 3,016,000 m^2 and the certificates for use right of the land and those for the real estate on the land are expected to be obtained before the end of September 2008.

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

The services of the accounting firm Ernst & Young Hua Ming were retained by the Company in reported year. The compensation paid to the accounting firm, which has served the Company for the past eight years, is detailed below:

1. The form or amount of the compensation payable to the accounting firm for services rendered to the Company is determined and subject to approval at the Shareholders' Meeting. Meanwhile, compensation for auditing services rendered to the Board of Directors is determined by the Board. Independent directors gave their unanimous consent to the compensation for the accounting firm.

2. As passed by 2006 Annual Shareholders' Meeting, the auditing fees payable to Ernst & Young Hua Ming in 2007 was Rmb3.25 million. The auditing fees for the 2006 Annual Report were Rmb 2.75 million. Expenses and costs related to auditing service and advanced by the accounting firm are reimbursed and borne by the Company.

3. Signatory auditors to the Company's 2007 Financial Statements are He Zhaofeng and Gu Xiaogang, while Ge Ming and Zhang Xiaodong signed on the previous year's auditory report.

(X) Neither the Company, nor the Board of Directors and any of its director, senior manager, shareholder or actual controler was the subject of an investigation by the China Securities Regulatory Commission in 2007, neither were they punished or penalized or cited by the commission, or openly denounced by any administrative department or Shanghai Stock Exchange for any wrongdoing.

(XI) Index of Important Announcements

Item	Disclosure date
Clarifying Announcement of Baoshan Iron & Steel Co., Ltd.	2007-1-12
Announcement of Appointments of Xu Lejiang and Ai Baojun of Baoshan Iron & Steel Co., Ltd.	2007-1-16
Announcement of the Resolutions of 2007 first interim Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-2-28
Notice of Online Release of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year of 2006	2007-3-28
Announcement of the Resolutions of the fifth Meeting of Third Board of Directors and Announcement on Convening General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2007-3-31
Announcement of Related Party Transactions in 2007 of Baoshan Iron & Steel Co., Ltd.	2007-3-31
Announcement of the Resolutions of the fifth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2007-3-31
Announcement of Baoshan Iron & Steel Co., Ltd. Regarding Predicated Result Increase in the First Quarter of 2007	2007-4-10
Announcement of the Resolutions of 2007 second interim Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-4-17
Notice of Online Release of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2007	2007-4-23
Announcement of the Resolutions of the sixth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-4-26
Announcement of the Resolutions of the sixth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2007-4-26
Announcement of the Resolutions of the 2006 General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2007-4-27
Announcement of Implementing 2006 Annual Dividends Appropriation of Baoshan Iron & Steel Co., Ltd.	2007-5-22
Announcement of Framework Strategic Treaty Between Baosteel Group and Baogang Group	2007-7-24
Announcement of Trading of the Restricted Shares of Baoshan Iron & Steel Co., Ltd.	2007-8-15
Notice of Online Release of the Performance of Baoshan Iron & Steel Co., Ltd. in the Interim Quarter of 2007	2007-8-27
Announcement of the Resolutions of the seventh Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-8-30
Notice of New Related Party Transactions in 2007 of Baoshan Iron & Steel Co., Ltd.	2007-8-30
Announcement of the Resolutions of the seventh Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2007-8-30
Announcement of the Resolutions of the Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-9-6
Announcement of Acquisition of 92.5% Equity of Baosteel Group Nantong Steel	2007-9-26
Notice of Online Release of the Performance of Baoshan Iron & Steel Co., Ltd. in the Third Quarter of 2007	2007-10-25
Announcement of the Resolutions of the eighth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-10-30
Announcement of the Resolutions of the eighth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2007-10-30
Announcement of trade suspension for Significant Matters of Baoshan Iron & Steel Co., Ltd.	2007-12-11
Announcement of the Resolutions of the ninth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd. and Announcement on Convening 2007 Interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2007-12-12
Announcement of the Resolutions of the ninth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2007-12-12
Announcement of Acquisition of Loujing Assets from Baosteel Group Shanghai Pudong Steel	2007-12-12
Additional Announcement on Convening 2007 Interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2007-12-19
Announcement of the Resolutions of the 2007 first interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2007-12-28
Announcement of the Resolutions of the tenth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2007-12-28

All these announcements were publicly posted on China Securities News, Shanghai Securities News and Securities Times as well as the website of Shanghai Stock Exchange (http://www.sse.com.cn).

(XII) Other Significant Matters

No significant event occurred in 2007.

(XIII) Significant Matters in Controlled Companies

No significant event occurred in any of its controlled companies in 2007.

X. Financial Statements

Auditors' Report

Ernst & Young Hua Ming
(2008) Audit No. 60428378_B01

To the shareholders of Baoshan Iron & Steel Company Limited

We have audited the attached financial statements of Baoshan Iron & Steel Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), including the consolidated balance sheet of the Company and the Group as of 31 December 2007, and the related income statements, statements of changes in equity and cash flow statement of the Group and the Company for the year 2007, and a summary of significant accounting policies and other explanatory notes.

1. Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards for Business Enterprise. This responsibility includes: (i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (ii) selecting and applying appropriate accounting policies; and (iii) making accounting estimates that are reasonable in the circumstances.

2. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements, plan and conduct the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

3. Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year 2007 in accordance with the requirements of the Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming	Certified Public Accountants
Beijing, P.R.China	Registered in P.R.China
	He Zhaofeng
	Gu Xiaogang

26 March 2008

Baoshan Iron & Steel Co., Ltd.

Consolidated Balance Sheet

31 December 2007

(Rmb)

Assets	Note 6	31 December 2007	31 December 2006
Current Assets			
Cash and cash equivalents	(1)	11,240,041,072.36	18,173,601,056.00
Funds lent to other financial institutions	(2)	42,366,680.00	-
Transactional financial assets	(3)	1,637,805,977.77	1,977,013,192.82
Notes receivable	(4)	5,656,985,157.79	5,195,257,188.66
Trade receivables	(5)	6,311,642,149.53	5,549,254,983.12
Payment in advance	(6)	6,003,758,547.07	4,328,925,121.63
Interests receivable	(7)	18,236,632.06	-
Dividends receivable	(8)	22,045,889.41	-
Other receivables	(9)	866,340,183.83	785,729,965.06
Financial assets under reverse repos	(10)	5,755,900,000.00	-
Inventories	(11)	39,068,728,055.69	31,236,424,727.90
Total current assets		76,623,850,345.51	67,246,206,235.19
Non-current Assets			
Loans granted and cash advances	(12)	816,552,762.97	672,920,533.71
Available-for-sale financial assets	(13)	1,598,061,926.01	470,311,903.30
Held-to-maturity investments		-	1,000,000.00
Long-term equity investment	(14)	3,754,348,861.50	3,104,365,492.94
Real estates for Investment	(15)	135,688,714.39	180,526,516.54
Fixed assets	(16)	81,551,754,350.99	76,540,899,353.10
Construction-in-progress	(17)	16,373,360,851.23	11,196,350,954.37
Project materials	(18)	754,629,512.45	568,800,785.71
Intangible assets	(19)	5,626,751,807.39	3,960,088,918.78
Long-term deferred expenses	(20)	95,353,256.42	40,997,308.54
Deferred income tax assets	(21)	878,126,575.62	735,667,391.91
Other non-current assets	(22)	127,316,292.44	128,522,009.84
Total non-current assets		111,711,944,911.41	97,600,451,168.74
Total assets		188,335,795,256.92	164,846,657,403.93

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Balance Sheet (Continued)

31 December 2007

(Rmb)

Liabilities & Shareholders' Equity	Note 6	31 December 2007	31 December 2006
Current Liabilities			
Short-term loans	(24)	20,481,128,544.17	18,945,139,541.24
Deposits and financial institution deposits		18,042,366,892.70	20,204,990,896.58
Transactional liabilities	(25)	174,951,938.47	9,170,958.85
Notes payable	(26)	3,341,058,247.89	1,846,992,658.85
Trade payables	(27)	17,175,498,091.38	11,932,174,604.43
Receipts in advance	(28)	9,337,924,203.53	7,207,058,563.81
Accrued payroll	(29)	1,691,758,498.54	1,795,750,163.30
Taxes payable	(30)	1,064,638,899.65	1,193,402,546.80
Interests payable		510,345,030.65	436,749,944.01
Dividends payable	(31)	4,553,376.33	518,764,956.41
Other payables	(32)	1,051,898,821.40	900,840,204.29
Payables to holding company		-	125,010,000.00
One-year due non-current liabilities	(33)	2,209,045,617.00	316,065,254.89
One-year due long-term payables to holding company	(35)	800,000,000.00	1,400,000,000.00
Total current liabilities		75,885,168,161.71	66,832,110,293.46
Non-current Liabilities			
Long-term loans	(33)	16,431,946,896.94	9,590,122,709.63
Long-term payables		-	1,172,767.14
Special payables	(34)	25,434,461.51	46,826,903.75
Deferred income tax liabilities	(21)	495,343,584.26	214,427,226.18
Long-term payables to holding company	(35)	800,000,000.00	1,611,218,602.02
Other non-current liabilities	(36)	96,907,084.32	16,878,246.10
Total non-current liabilities		17,849,632,027.03	11,480,646,454.82
Total liabilities		93,734,800,188.74	78,312,756,748.28
Shareholders' Equity			
Capital stock	(37)	17,512,000,000.00	17,512,000,000.00
Capital reserves	(38)	33,645,805,604.77	32,989,191,577.29
Surplus reserves	(39)	15,796,900,214.28	13,807,364,486.20
Undistributed profits	(40)	21,620,790,256.82	17,021,191,463.86
Foreign currency translation difference		(71,485,650.92)	(43,553,885.72)
Equity attributable to the parent company		88,504,010,424.95	81,286,193,641.63
Minority shareholders' equity	(41)	6,096,984,643.23	5,247,707,014.02
Total shareholders' equity		94,600,995,068.18	86,533,900,655.65
Total Liabilities & Shareholders' Equity		188,335,795,256.92	164,846,657,403.93

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

The Financial Statements on pages 52 to 141 were singed by

Legal representative: Xu Lejiang Financial controller: Chen Ying Head of finance department: Yuan Lei

Baoshan Iron & Steel Co., Ltd.

Consolidated Income statement

2007

(Rmb)

	Note 6	2007	2006
I. Revenue		191,558,985,997.61	162,325,565,563.77
Including: Revenue from principal operations	(42)	191,273,493,516.61	162,142,168,837.78
Interest income		272,216,481.14	168,844,758.19
Net fee and commission income		13,275,999.86	14,551,967.80
II. Cost		173,607,686,315.52	143,657,379,514.54
Including: Cost of principal operations	(42)	162,925,588,046.09	134,598,152,820.35
Interest expenses		426,164,477.85	294,027,242.48
Net fee and commission expenses		143,141.78	17,511.97
Sales taxes and extra charges	(43)	1,252,360,572.93	695,719,936.08
Sales expenses		2,018,370,031.33	2,217,894,688.92
Administrative expenses		5,219,556,715.76	5,378,422,477.32
Financial expenses	(44)	955,051,610.43	1,017,818,706.36
Losses from asset devaluation	(45)	810,451,719.35	(544,673,868.94)
Add: Income from changes in fair value	(46)	27,806,423.93	83,579,542.01
Investment income	(47)	1,498,622,922.28	783,940,248.69
Including: Gains from Investments in joint ventures and associates		722,759,370.10	572,873,837.06
III. Operating Profit		19,477,729,028.30	19,535,705,839.93
Add: Non-operating income		256,576,766.74	93,478,606.26
Less: Non-operating expenses		426,618,394.66	424,895,959.86
Including: Losses on disposal of non-current assets		275,771,644.00	73,100,745.70
IV. Pre-tax Profit		19,307,687,400.38	19,204,288,486.33
Less: Income tax	(48)	5,885,057,652.19	5,603,631,246.44
V. Net Profit		13,422,629,748.19	13,600,657,239.89
Including: Net profit of merged parties before consolidation by companies under common control		18,002,514.10	-
Gains and losses attributable to minority shareholders		704,295,227.15	523,515,676.37
Net profit attributable to the parent company		12,718,334,521.04	13,077,141,563.52
		13,422,629,748.19	13,600,657,239.89
VI. Earnings Per Share			
Basic EPS	(49)	0.73	0.75

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Statement of Changes in Shareholders' Equity

2007

	Capital stock	Capital reserve
I. Closing balance of last year	17,512,000,000.00	32,803,940,232.87
Add: Initial implementation of new Standards	-	185,251,344.42
II. Opening balance of the year	17,512,000,000.00	32,989,191,577.29
Add: Impact of consolidation under common control upon opening balance	-	453,055,234.19
III. Amount of increase or decrease in the year		
(1) Net profit	-	-
(2) Gains and losses recorded into shareholders' equity		
1. Net change in fair value of financial asset available for sale	-	921,536,045.19
2. Impact of changes in other owner's equity in invested entities on basis of equity method	-	(15,645,684.59)
3. Income tax impact of items related to those recorded in shareholders' equity	-	(258,257,517.44)
4. Foreign currency translation difference	-	-
5. Consolidation under common control	-	(601,183,901.66)
6. Others	-	157,109,851.79
Total of (1) and (2)	-	203,558,793.29
(3) Capital investment and reduction from shareholders		
1. Capital investment from minority shareholders of subsidiaries	-	-
2. Acquisition of minority shareholders' equity of subsidiaries	-	-
3. Increase due to acquisition of subsidiaries	-	-
4. Decrease due to disposal of subsidiaries	-	-
(4) Profit distribution		
1. Surplus reserve provision	-	-
2. Distribution to shareholders	-	-
3. Minority shareholders' dividend	-	-
IV. Closing balance of the year	17,512,000,000.00	33,645,805,604.77

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

(Rmb)

2007					
Shareholders' equity attributable to parent company				Minority shareholders' equity	Total shareholders' equity
Surplus reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total		
14,758,576,683.52	16,936,323,133.48	(50,294,124.76)	81,960,545,925.11	4,914,236,130.47	86,874,782,055.58
(951,212,197.32)	84,868,330.38	6,740,239.04	(674,352,283.48)	333,470,883.55	(340,881,399.93)
13,807,364,486.20	17,021,191,463.86	(43,553,885.72)	81,286,193,641.63	5,247,707,014.02	86,533,900,655.65
-	-	-	453,055,234.19	36,734,208.18	489,789,442.37
-	12,718,334,521.04	-	12,718,334,521.04	704,295,227.15	13,422,629,748.19
-	-	-	921,536,045.19	27,906,109.97	949,442,155.16
-	-	-	(15,645,684.59)	-	(15,645,684.59)
-	-	-	(258,257,517.44)	(6,615,130.73)	(264,872,648.17)
-	-	(27,931,765.20)	(27,931,765.20)	(4,694,507.02)	(32,626,272.22)
-	-	-	(601,183,901.66)	-	(601,183,901.66)
-	-	-	157,109,851.79	419,910.89	157,529,762.68
-	12,718,334,521.04	(27,931,765.20)	12,893,961,549.13	721,311,610.26	13,615,273,159.39
-	-	-	-	204,075,513.55	204,075,513.55
-	-	-	-	(19,305,479.06)	(19,305,479.06)
-	-	-	-	113,280,071.69	113,280,071.69
-	-	-	-	(56,930,034.10)	(56,930,034.10)
1,989,535,728.08	(1,989,535,728.08)	-	-	-	-
-	(6,129,200,000.00)	-	(6,129,200,000.00)	-	(6,129,200,000.00)
-	-	-	-	(149,888,261.31)	(149,888,261.31)
15,796,900,214.28	21,620,790,256.82	(71,485,650.92)	88,504,010,424.95	6,096,984,643.23	94,600,995,068.18

Baoshan Iron & Steel Co., Ltd.

Consolidated Statement of Changes in Shareholders' Equity (Continued)

2007

	Capital stock	Capital reserve
I. Closing balance of last year	17,512,000,000.00	32,722,971,425.12
Add: Initial implementation of new Standards	-	(5,775,505.96)
II. Opening balance of the year	17,512,000,000.00	32,717,195,919.16
III. Amount of increase or decrease in the year		
(1) Net profit	-	-
(2) Gains and losses recorded into shareholders' equity		
1. Net change in fair value of financial asset available for sale	-	223,861,760.60
2. Impact of change in other shareholders' equity in invested entities on basis of equity method	-	(103,766,876.28)
3. Income tax impact of items related to those recorded in shareholders' equity	-	(34,267,547.13)
4. Foreign currency translation difference	-	-
5. Others	-	186,168,320.94
Total of (1) and (2)	-	271,995,658.13
(3) Capital investment and reduction from shareholders		
1. Capital investment from minority shareholders of subsidiaries	-	-
2. Tradable share reform of Baosight Software	-	-
3. Increase due to acquisition of subsidiaries	-	-
4. Decrease due to disposal of subsidiaries	-	-
(4) Profit distribution		
1. Surplus reserve provision	-	-
2. Distribution to shareholders	-	-
3. Minority shareholders' equity	-	-
IV. Closing balance of the year	17,512,000,000.00	32,989,191,577.29

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

(Rmb)

2006					
Shareholders' equity attributable to parent company				Minority shareholders' equity	Total shareholders' equity
Surplus reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total		
11,697,079,788.16	12,591,395,511.37	(48,196,906.49)	74,475,249,818.16	4,451,667,026.77	78,926,916,844.93
(557,484,652.50)	(375,736,260.49)	8,172,875.95	(930,823,543.00)	264,977,166.43	(665,846,376.57)
11,139,595,135.66	12,215,659,250.88	(40,024,030.54)	73,544,426,275.16	4,716,644,193.20	78,261,070,468.36
-	13,077,141,563.52	-	13,077,141,563.52	523,515,676.37	13,600,657,239.89
-	-	-	223,861,760.60	2,333,684.62	226,195,445.22
-	-	-	(103,766,876.28)	-	(103,766,876.28)
-	-	-	(34,267,547.13)	(770,115.92)	(35,037,663.05)
-	-	(3,529,855.18)	(3,529,855.18)	-	(3,529,855.18)
-	-	-	186,168,320.94	12,720,443.67	198,888,764.61
-	13,077,141,563.52	(3,529,855.18)	13,345,607,366.47	537,799,688.74	13,883,407,055.21
-	-	-	-	114,721,000.00	114,721,000.00
-	-	-	-	7,949,489.18	7,949,489.18
-	-	-	-	601,256.58	601,256.58
-	-	-	-	(3,598,480.89)	(3,598,480.89)
2,667,769,350.54	(2,667,769,350.54)	-	-	-	-
-	(5,603,840,000.00)	-	(5,603,840,000.00)	-	(5,603,840,000.00)
-	-	-	-	(126,410,132.79)	(126,410,132.79)
13,807,364,486.20	17,021,191,463.86	(43,553,885.72)	81,286,193,641.63	5,247,707,014.02	86,533,900,655.65

Baoshan Iron & Steel Co., Ltd.

Consolidated Cash Flow Statement

2007

(Rmb)

		Note 6	2007	2006
I.	Cash flows from operating activities			
	Cash received from sales of goods or rendering of services		221,132,605,707.76	188,505,462,172.36
	Net decrease in deposit reserves in Central Bank and deposits from other financial institutions		105,916,195.68	2,577,610,363.24
	Cash received from interests, net fees, and commissions		267,255,848.94	184,310,615.11
	Net increase in deposits from customers and from other financial institutions		-	2,719,749,501.64
	Tax refunds received		334,164,946.54	223,138,434.33
	Cash received relating to other operating activities		431,057,594.63	319,588,946.61
	Sub-total of cash inflows		222,271,000,293.55	194,529,860,033.29
	Cash paid for goods purchased and labor services received		172,416,812,552.23	145,490,536,060.66
	Net increase in customer loans and cash advances		87,532,229.26	642,020,768.41
	Net increase in funds lent to other financial institutions		42,366,680.00	-
	Net decrease in deposits from customers and from other financial institutions		2,162,624,003.88	-
	Cash paid for interests, net fees and commissions		441,476,104.34	250,847,516.60
	Cash paid to employees and for employees		6,542,014,647.13	5,246,703,217.27
	Payments of all types of taxes		16,030,130,817.27	11,914,596,826.92
	Cash payments relating to other operating activities	(50)	5,041,790,518.08	5,771,981,497.96
	Sub-total of cash outflows		202,764,747,552.19	169,316,685,887.82
	Net cash flows from operating activities	(51)	19,506,252,741.36	25,213,174,145.47
II.	Cash flows arising from investing activities			
	Cash received from returns of investments		9,492,416.51	14,497,624.32
	Cash received from returns on investments		1,105,264,416.17	674,733,235.70
	Net cash received from disposal of fixed assets, intangible assets and other long term assets		160,480,098.94	375,302,214.86
	Net cash received from the disposal of tradable financial assets		503,157,590.99	4,471,375,175.07
	Net increase in cash and cash equivalents received from acquisition of subsidiaries		-	3,109,678.67
	Net increase in cash and cash equivalents due to consolidating subsidiaries as joint ventures		-	10,834,071.89
	Other cash received relating to investing activities		80,932,430.68	63,206,463.44
	Sub-total of cash inflows		1,859,326,953.29	5,613,058,463.95
	Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		23,054,005,901.81	17,614,198,331.07
	Cash paid for investments		463,024,289.51	263,378,660.14
	Net decrease in cash and cash equivalents from merging of subsidiaries	(52)	443,163,102.55	-
	Net decrease in cash and cash equivalents from disposal of subsidiaries	(53)	39,823,372.97	56,127,033.21
	Other cash payments relating to investing activities		168,679,540.89	-
	Sub-total of cash outflows		24,168,696,207.73	17,933,704,024.42
	Net cash flows from investing activities		(22,309,369,254.44)	(12,320,645,560.47)

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Cash Flow Statement (Continued)

2007

(Rmb)

		Note 6	2007	2006
III.	Cash flows from financing activities			
	Cash received from absorbing investments		204,075,513.55	114,731,460.38
	Including: Cash received by subsidiaries from absorbing minority shareholders' investments		204,075,513.55	114,731,460.38
	Cash received from debts		73,441,550,096.28	59,278,268,437.39
	Sub-total of cash inflows from financing activities		73,645,625,609.83	59,392,999,897.77
	Cash paid for repayment of debts		62,545,011,872.06	52,947,601,545.95
	Cash paid for distribution of dividends, profits or cash payments for interests		8,064,392,714.41	6,906,566,328.84
	Including: Dividends paid by subsidiaries to minority shareholders		146,466,115.47	133,449,465.58
	Cash paid for acquisition of Phase-3 asset and parts of assets under custody		1,400,000,000.00	3,200,000,000.00
	Sub-total of cash outflows of financing activities		72,009,404,586.47	63,054,167,874.79
	Net cash flows from financing activities		1,636,221,023.36	(3,661,167,977.02)
IV.	Effect of foreign exchange rate changes on cash and cash equivalents		95,151,701.76	31,692,410.20
V.	Net increase/decrease in cash and cash equivalents		(1,071,743,787.96)	9,263,053,018.18
	Add: Balance of cash and cash equivalents at beginning of period		16,181,233,056.54	6,918,180,038.36
VI.	Balance of cash and cash equivalent at end of the period	(54)	15,109,489,268.58	16,181,233,056.54

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Balance Sheet

31 December 2007

(Rmb)

Assets	Note 16	31 December 2007	31 December 2006
Current Assets			
Cash and cash equivalents		3,659,934,530.73	1,855,539,400.90
Notes receivable		10,993,001,720.67	15,169,065,163.92
Trade receivables	(1)	6,010,777,708.33	4,201,585,859.73
Payment in advance		2,810,923,087.16	1,638,038,958.87
Dividends receivable		-	162,605,861.49
Other receivables	(2)	122,023,519.66	104,483,092.89
Inventories		22,778,966,990.43	17,988,895,130.31
Other current assets		68,087,268.83	184,886,182.38
Total current assets		46,443,714,825.81	41,305,099,650.49
Non-current Assets			
Long-term equity investment	(3)	23,952,201,476.75	19,045,285,053.06
Fixed assets		65,798,759,689.08	62,217,076,319.12
Construction-in-progress		14,226,726,407.56	10,440,407,766.53
Project materials		381,692,709.04	505,337,899.37
Intangible assets		3,238,928,842.77	2,560,819,779.57
Long-term deferred expenses		8,433,400.00	-
Deferred income tax assets		364,046,936.55	205,107,055.00
Other non-current assets		117,905,780.14	117,905,780.14
Total non-current assets		108,088,695,241.89	95,091,939,652.79
Total assets		154,532,410,067.70	136,397,039,303.28

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Balance Sheet (Continued)

31 December 2007

(Rmb)

Liabilities & Shareholders' Equity	Note 16	31 December 2007	31 December 2006
Current Liabilities			
Short-term loans		19,098,467,610.40	17,982,698,959.71
Transactional liabilities		169,079,726.70	9,170,958.85
Notes payable		2,443,880,799.76	597,066,102.80
Trade payables		14,787,610,367.43	9,625,441,594.38
Receipts in advance		6,002,323,261.29	6,808,863,032.42
Accrued payroll		1,189,785,632.15	1,313,289,830.18
Taxes payable		896,603,279.49	1,064,706,224.52
Interests payable		410,262,308.22	319,912,064.93
Payables to holding company		-	125,010,000.00
Other payables		309,391,877.88	517,884,453.19
One-year due non-current liabilities		2,221,496,401.00	166,861,363.93
One-year due long-term payables to holding company		800,000,000.00	1,400,000,000.00
Total current liabilities		48,328,901,264.32	39,930,904,584.91
Non-current Liabilities			
Long-term loans		19,314,476,336.94	12,777,883,761.84
Special payables		19,434,461.51	29,297,018.46
Deferred income tax liabilities		119,175,120.39	144,037,093.71
Long-term amount due to holding company		800,000,000.00	1,600,000,000.00
Other non-current liabilities		1,326,558.12	-
Total non-current liabilities		20,254,412,476.96	14,551,217,874.01
Total liabilities		68,583,313,741.28	54,482,122,458.92
Shareholders' Equity			
Capital stock		17,512,000,000.00	17,512,000,000.00
Capital reserves		33,175,934,758.11	32,960,233,916.45
Surplus reserves		15,796,900,214.28	13,807,364,486.20
Undistributed profit		19,464,261,354.03	17,635,318,441.71
Total shareholders' equity		85,949,096,326.42	81,914,916,844.36
Total liabilities & shareholders' equity		154,532,410,067.70	136,397,039,303.28

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Income Statement

2007

(Rmb)

		Note 16	2007	2006
I.	Revenue	(4)	136,360,360,923.75	118,091,992,056.16
	Less: Cost of principal operations	(4)	115,964,413,053.15	97,231,649,076.03
	Sales taxes and surcharges		998,066,159.46	531,308,352.94
	Sales expenses		784,797,953.41	773,826,765.38
	Administrative expenses		3,186,755,376.96	3,651,537,578.00
	Financial expenses		828,233,181.69	899,566,732.92
	Losses from asset devaluation		458,298,726.42	(411,174,270.06)
	Add: Losses from changes in fair value		(159,908,767.85)	(14,011,248.00)
	Investment gains	(5)	410,926,628.20	2,928,206,828.87
	Including: Gains from Investments in joint ventures and associated entities		485,771,396.72	334,550,020.31
II.	Operating profit		14,390,814,333.01	18,329,473,401.82
	Add: Non-operating income		139,801,246.40	49,825,019.81
	less: Non-operating expenses		229,665,698.78	193,319,797.08
	Including: Net loss on disposal of non-current assets		156,781,412.83	157,637,349.75
III.	Pre-tax profit		14,300,949,880.63	18,185,978,624.55
	Less: income tax		4,353,271,240.23	4,777,670,237.80
IV.	Net profit		9,947,678,640.40	13,408,308,386.75

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Statement of Changes in Shareholders' Equity

2007

(Rmb)

	2007				
	Capital stock	Capital reserve	Surplus reserve	Undistributed profit	Total shareholders' equity
I. Closing balance of last year	17,512,000,000.00	32,835,964,571.42	13,807,364,486.20	18,747,964,347.60	82,903,293,405.22
Add: Initial implementation of new Standards	-	124,269,345.03	-	(1,112,645,905.89)	(988,376,560.86)
II. Opening balance of the year	17,512,000,000.00	32,960,233,916.45	13,807,364,486.20	17,635,318,441.71	81,914,916,844.36
III. Amount of increase/decrease in the year					
(1) Net profit	-	-	-	9,947,678,640.40	9,947,678,640.40
(2) Gains and losses recorded into shareholders' equity					
1. Consolidation of companies under common control	-	69,667,880.63	-	-	69,667,880.63
2. Others	-	146,032,961.03	-	-	146,032,961.03
Total of (1) and (2)	-	215,700,841.66	-	9,947,678,640.40	10,163,379,482.06
(3) Profit distribution					
1. Surplus reserve provision	-	-	1,989,535,728.08	(1,989,535,728.08)	-
2. Distribution to shareholders	-	-	-	(6,129,200,000.00)	(6,129,200,000.00)
IV. Closing balance of the year	17,512,000,000.00	33,175,934,758.11	15,796,900,214.28	19,464,261,354.03	85,949,096,326.42

	2006				
	Capital stock	Capital reserve	Surplus reserve	Undistributed profit	Total shareholders' equity
I. Closing balance of last year	17,512,000,000.00	32,729,101,673.11	11,139,595,135.66	13,680,726,945.49	75,061,423,754.26
Add: Initial implementation of new Standards	-	(65,965,316.18)	-	(1,182,107,539.99)	(1,248,072,856.17)
II. Opening balance of the year	17,512,000,000.00	32,663,136,356.93	11,139,595,135.66	12,498,619,405.50	73,813,350,898.09
III. Amount of increase/decrease in the year					
(1) Net profit	-	-	-	13,408,308,386.75	13,408,308,386.75
(2) Gains and losses recorded into shareholders' equity					
1. Impact of changes in other shareholders' equity in invested entities on basis of equity method	-	207,106,228.06	-	-	207,106,228.06
2. Others	-	89,991,331.46	-	-	89,991,331.46
Total of (1) and (2)	-	297,097,559.52	-	13,408,308,386.75	13,705,405,946.27
(3) Profit distribution					
1. Surplus reserve provision	-	-	2,667,769,350.54	(2,667,769,350.54)	-
2. Distribution to shareholders	-	-	-	(5,603,840,000.00)	(5,603,840,000.00)
IV. Closing balance of the year	17,512,000,000.00	32,960,233,916.45	13,807,364,486.20	17,635,318,441.71	81,914,916,844.36

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Cash Flow Statement

2007

(Rmb)

		2007	2006
I.	Cash flows from operating activities		
	Cash received from sales of goods or rendering of services	158,471,889,223.64	134,752,069,136.47
	Tax refunds received	80,897,000.00	29,867,219.43
	Cash received relating to other operating activities	482,319,755.84	160,956,590.59
	Sub-total of cash inflows	159,035,105,979.48	134,942,892,946.49
	Cash paid for goods purchased and labor services received	116,946,840,733.37	102,665,786,303.08
	Cash paid to employees and for employees	4,525,234,787.15	4,008,640,714.26
	Payments of all types of taxes	13,275,388,931.87	10,119,163,291.19
	Cash payments relating to other operating activities	2,609,861,506.47	2,457,754,615.47
	Sub-total of cash outflows	137,357,325,958.86	119,251,344,924.00
	Net cash flows from operating activities	21,677,780,020.62	15,691,548,022.49
II.	Cash flows from investing activities		
	Cash received from returns of investments	139,332,092.06	210,658,892.11
	Cash received from returns on investments	418,428,329.28	1,055,889,818.51
	Net cash received from the disposal of fixed assets, intangible assets and other long term assets	108,387,963.72	85,436,930.56
	Other cash received relating to investing activities	21,554,333.20	68,347,998.31
	Sub-total of cash inflows	687,702,718.26	1,420,333,639.49
	Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	18,696,037,325.21	15,572,876,714.72
	Cash paid for investments	3,096,350,051.98	278,378,660.14
	Net decrease in cash and cash equivalents from disposal of assets and liabilities	-	1,274,075.75
	Cash paid for purchasing of assets and liabilities of Baosteel International	-	996,589,046.73
	Cash payments for other activities relating to investment	173,451,233.37	49,781,127.47
	Sub-total of cash outflows	21,965,838,610.56	16,898,899,624.81
	Net cash flows from investing activities	(21,278,135,892.30)	(15,478,565,985.32)
III.	Cash flows from financing activities		
	Cash received by absorbing investments	86,127,658,335.27	67,927,044,865.66
	Cash received relating to other financing activities	356,935,050.44	107,252,456.01
	Sub-total of cash inflows	86,484,593,385.71	68,034,297,321.67
	Cash paid for repayment of debts	75,682,365,730.01	57,880,498,828.68
	Cash paid for distribution of dividends, profits or cash payments for interests	7,965,863,239.12	6,556,965,589.79
	Cash paid for acquisition of Phase-3 assets and parts of assets under custody	1,400,000,000.00	3,200,000,000.00
	Cash paid relating to other financing activities	-	989,655,814.81
	Sub-total of cash outflows	85,048,228,969.13	68,627,120,233.28
	Net cash flows from financing activities	1,436,364,416.58	(592,822,911.61)
IV.	Effect of foreign exchange rate changes on cash and cash equivalents	(31,613,415.07)	46,305,320.55
V.	Net increased/decreased in cash and cash equivalents	1,804,395,129.83	(333,535,553.89)
	Add: Cash and cash equivalents at beginning of the year	1,855,539,400.90	2,189,074,954.79
VI.	Balance on cash and cash equivalents at end of the year	3,659,934,530.73	1,855,539,400.90

The accompanying notes on pages 67 to 141 constitute an integral part of the Financial Statements.

(Rmb)

1. Company Background

Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as "the Company") was incorporated and registered on 3 Feburary 2000 in the city of Shanghai, the People's Republic of China (hereinafter referred to as "PRC"), as a joint-stock limited company, with the registration number of 3100001006333, under the law of the PRC. The Company was established by Baosteel Group Corporation (formerly Shanghai Baosteel Group Corporation; hereinafter referred to as "Baosteel Group") as the sole originator, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company issued 1,877,000,000 common shares (A shares) to the general public with a par value of one Rmb each and an offering price of Rmb 4.18, by means of on-line stock exchange pricing coupled with off-line rationed subscription, from 6th to 24th November 2000, in compliance with the approval document No. [2000] 140, issued by China Securities Regulatory Commission (hereinafter referred to as "CSRC").

Following the approval by the CSRC, as provided in the approval document No. [2005]15, during the 21st to 26th of April 2005, the Company issued five billion shares with a par value of Rmb 1 each and an offer price of Rmb 5.12 per share, including three billion state-owned shares to Baosteel Group and two billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and online and off-line biding inquiry.

The principal operation scope of the Company consists of steel production and its related processing, power generation, coal, industrial-gas generation, ports, warehouse storage and transportation. It is also engaged in technology development and transfer, technology services and management consulting services, automobile maintenance, exports of the Company's steel products and technology, imports of raw materials, machinery, equipments and instruments, spare parts and components, as well as technology (except for restricted items i.e. where imports and exports are prohibited by the Government), which are needed by the production and R&D of the Company. The Company also engages in import processing as well as subsidized trading business. The Company mainly engages in the manufacturing and sales of steel products, as well as the sales and service of the by-products.

The headquarter of the Company is located in the South Building, Baoshan Hotel, 1813 Mudanjiang Road, Baoshan District, Shanghai. The parent company and the ultimate parent company of the Company are Baosteel Group.

2. Basis of the Financial Statements and Declaration of Implementation of Enterprise Accounting Standards

The financial statements have been prepared on the basis of the new, revised Accounting Standards for Business Enterprises (2006) published by the PRC Ministry of Finance, which includes basic standards, specific standards, implementation guidance, and other related documents.

According to "Notice of Publication of Accounting Standards for Business Enterprises No.1— Inventories and Other 37 Specific Standards" by PRC Ministry of Finance (Caikuai, [2006]3), the Company has adopted the Accounting Standards for Business Enterprises (2006) in preparing its financial statements at the beginning of 2007, on January 1. Relevant items in the Report have been adjusted retrospectively in accordance with the Accounting Standard for Business Enterprises No. 38—Initial Adoption of Accounting Standards for Business Enterprises and other relevant official regulations and the Report has been re-presented, the impact of which has been stated in Note 3 (26). While matters stipulated in articles five to nineteen of Accounting Standard for Business Enterprises No. 38—Initial Adoption of Accounting Standards for Business Enterprises and other official regulations have been adjusted accordingly, comparative financial statements of the Company and the Group (the Company and its subsidiaries) have been prepared under the original Accounting Standard for Business Enterprises and China Accounting System for Business Enterprises. The resultant differences between the policies employed and those followed in preparing the 2007 financial statements of the Company and the Group have been clarified in Note 3 (26).

The comparative financial statements of the Company and the Group have been re-presented in accordance with the requirements of the new Accounting Standard for Business Enterprises.

The financial statements give a true and accurate view of the financial status of the Company and of the Group, as well as its operational results and cash flows in accordance with the requirements of the Accounting Standards for Business Enterprise.

The financial statements have been presented on the basis of the sustainable development of the Company and the Group.

(Rmb)

3. Principal Accounting Policies and Accounting Estimates

While matters stipulated in articles five to nineteen of Accounting Standard for Business Enterprises No. 38—Initial Adoption of Accounting Standards for Business Enterprises and other official regulations have been adjusted accordingly, comparative financial statements of the Company and the Group have been prepared under the original Accounting Standard for Business Enterprises and China Accounting System for Business Enterprises. The resultant differences between the policies employed and those followed in preparing the 2007 financial statements of the Company and the Group have been clarified in Note 3 (26). The financial statements of the Company and the Group for the year 2007 have been prepared under the following accounting policies and accounting estimates, which are in line with Accounting Standard for Business Enterprises.

(1) Accounting period

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

(2) Reporting currency

The reporting currency of the financial statements is Renminbi (Rmb), and the unit is Rmb yuan, except as indicated.

The overseas subsidiaries, however, have their choices of reporting currency which are in line with their financial settings. When drawing up consolidated financial statements, theses currencies are converted into Rmb.

(3) Accounting basis and pricing principles

The financial statements have been prepared on an accrual basis, with the historical cost method as the pricing principle except for certain financial instruments. Where assets devaluation occurs, provisions for the devaluation are made according to relevant regulations.

(4) Consolidation

The term "consolidation" refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Consolidation is classified into the consolidation of enterprises under common control and the consolidation of enterprises not under common control.

Consolidation of Enterprises under Common Control

Consolidation of enterprises under common control is a kind of consolidation in which all the involving enterprises are ultimately controlled by the same party or the same parties both before and after the consolidation and on which the control is not temporary. In consolidation of enterprises under common control, the party which obtains control of other enterprise(s) on the consolidating date is the consolidating party, the other combining enterprise(s) is (are) the consolidated party. The term "consolidating date" refers to the date on which the consolidating party actually obtains control on the consolidated party.

The assets and liabilities that the consolidating party obtains in consolidation are measured on the basis of their book value in the consolidated party on the consolidating date. As for the balance between the book value of the net assets obtained by the consolidating party and the book value of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital are adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings are adjusted.

The direct expenses incurred in the consolidation by the consolidating party are recorded into the gains and losses in the reported period.

Consolidation of Enterprises not under Common Control

Consolidation not under common control is the one that the consolidating enterprise is not ultimately controlled by the same party or the same parties both before and after the consolidation. In a consolidation not under common control, the party which obtains the control on other consolidating enterprise(s) on the purchase date is the acquirer, and other consolidating enterprise(s) is (are) the acquired. The term "purchasing date" refers to the date on which the acquirer actually obtains the control on the acquired.

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

For Consolidation of Enterprises not under Common Control, the acquirer shall, on the acquisition date, measure the identifiable assets, liabilities and contingent liabilities it obtains from the acquired in light of their fair values.

The acquirer shall recognize the positive balance between the consolidation costs and the fair value of the identifiable net assets it obtains from the acquired as business reputation. For the negative balance between the consolidation costs and the fair value of the identifiable net assets it obtains from the acquired, It shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquired as well as the consolidation costs; If, after the reexamination, the consolidation costs are still less than the fair value of the identifiable net assets it obtains from the acquired, it shall record the balance into the gains and losses of the reported period.

(5) Consolidated financial statements

The scope of the consolidated financial statements is based on control, including the financial statements of the Company and all of its subsidiaries dated 31 December 2007. Subsidiaries refer to invested entities that are controlled by the Group.

The consolidated financial statements have been prepared by consistent accounting policies and accounting period for both the Company and its subsidiaries. Where differences exist between the policies of any of the subsidiaries and of the Company, those of the subsidiary have been adjusted under the Company's policies. Significant transactions among the entities of the Group are balanced when consolidated.

The portion of shareholders' equity of any consolidated subsidiary which does not belong to the Group is presented individually under minority shareholders' equity in the consolidated financial statements.

The operational results and cash flows of subsidiaries gained from consolidation not under common control are included into the scope of consolidated financial statements since the date of control until the Group terminates the right of control of the entity. When preparing consolidated financial statements, the Group adjusts the financial statements of the subsidiaries on the basis of fair values of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

Operational results and cash flows of subsidiaries from consolidation under common control are consolidated at the beginning of the reported period.

(6) Cash equivalents

Cash equivalents are short-term, highly liquid investments held by the Group that are readily convertible into known amounts of cash and where there is no significant risk of a change in value.

(7) Foreign currency translation

Foreign Currency Transaction

The Group translates the amount in a foreign currency exchange into amount in its reporting currency.

At the time of initial recognition of a foreign currency transaction, the amount of the foreign currency are translated into the amount in the reporting currency at the spot exchange rate of the transaction date. The foreign currency monetary items are 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 at the time of initial recognition, other than that arising from acquisition of assets eligible for capitalization, which is dealt under the principle of capitalization, is recorded into the gains and losses in the reported period. The foreign currency non-monetary items measured at the historical cost are translated at the spot exchange rate on the transaction date, of which the amounts of reporting currency are changed. The foreign currency non-monetary items measured at the fair value are translated at the spot exchange rate of the date of fair value recognition and the balance of exchange arising from the difference are recorded into the gains and losses or capital reserves in the reported period.

Translation for overseas business operations

For overseas business operations, the Group converts their currencies into Rmb when preparing consolidated financial statements: The asset and liability items in the balance sheet are translated at a spot exchange rate on the balance sheet date. Among the shareholders' equity items, except the ones as "undistributed profits", others are translated at the spot exchange rate at the time when they are incurred; the income and expense items in the income statement are translated at the average spot exchange rate of the transaction period. The balance arising from these translations of foreign currency are presented separately under the shareholders' equity item of the balance sheet. When disposing an overseas business, the Group shifts the balance into the disposal of gains and losses of the reported period, while overseas businesses disposed are partially calculated on the disposal rate and shall shift them into the gains and losses of the reported period.

The exchange rate used for the translation of cash flows into a foreign currency and the cash flows of an overseas subsidiary is the average spot exchange rate in the period of the cash flows occurs. The effect of a change in exchange rate on cash is, as an adjustment item, separately presented in the cash flow statement.

(Rmb)

(8) Inventory

Inventories include raw materials, work-in-progress, finished goods and spare parts and others. These are products or goods held for sale in daily business, work-in-progress in the process of production, or materials used in production or in rendering services.

Inventories are initially measured at their cost, which comprises the purchasing cost, processing cost and other costs.

The actual cost of inventories is determined by the weighted average cost method.

The perpetual inventory system was adopted for inventories.

The one-time write-off method is adopted in the amortization of low value and short-lived consumable items and packaging materials.

On the date of balance sheet, inventory shall be measured according to the lower one of the cost or the net realizable value. If the cost of inventories is higher than the net realizable value, the provision for the losses on decline in value of inventories is made and included in the gains and losses of the reported period. If the factors, which cause any write-down of the inventories, have disappeared, the amount of write-down is resumed and reversed from the provision for the losses on decline in value of inventories which has been made. The reversed amount is included in the gains and losses of the reported period.

The net realizable value refers, in the daily business, the estimated price of inventories deducting the estimated cost and sales expenses of completion and relevant after-tax amounts. The provision for losses on decline in value of inventories is made on the basis of each item of inventories.

(9) Long-term equity investments

Long-term equity investments, including those invested in subsidiaries, joint ventures and associated enterprises, are initially measured on basis of the initial costs of investment.

The cost method is employed for long-term equity investments on the invested enterprises that the Group is able to control and on the invested entities that the Group does not joint control or does not have significant influences and has no offer in the active market and its fair value cannot be reliably measured.

The price of a long-term equity investment measured cost method is included at its initial investment cost. The dividends or profits declared to distribute by the invested entity are recognized as the current investment income. The investment income recognized by the investing enterprise is limited to the amount received from the accumulative net profits that arise after the invested entity has accepted the investment. Where the amount of profits or cash dividends obtained by the investing entity exceeds the aforesaid amount, it is regarded as recovery of initial investment cost.

Long-term equity investments of the Group in the invested entities over which the Group does joint control or has significant influences are measured by the equity method.

When the equity method is employed, 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 is 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 is included in the current gains and losses and the cost of the long-term equity investment is adjusted simultaneously.

When the equity method is employed, after the Group obtains a long-term equity investment, it recognizes, in accordance with the attributable share of the net profits or losses of the invested entity, the investment gains or losses and adjust the book value of the long-term equity investment. The Group recognizes, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment and in line with the accounting policies of the Group to balance the internal losses and gains in the internal transactions between the Group and its joint venture and associated enterprise before the shares attributable to invested enterprise are measured according to the shares they hold (however, loss from asset devaluation in internal transactions should be confirmed in full amount), the attributable share of the net gains and losses of the invested entity after it adjusts the net profits of the invested entity. As for long-term equity investment on joint ventures and associated enterprises that existed prior to the date of initial implementation of the new standards, in case there is any equity investment difference on the credit side, the Group recognizes the gains and losses of the investment after the credit balance, as amortized by the straight-line method over the remaining period, is sterilized. The Group, in the light of the profits or cash dividends declared to distribute by the invested entity, calculates the proportion it should obtain, and reduces the book value of the long-term equity investment correspondingly. The Group recognizes the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests, which substantially form the net investment made to the invested entity are reduced to zero, unless the Group has the

(Rmb)

obligation to undertake extra losses. Where any change is made to the shareholders' equity other than the net gains and losses of the invested entity, the book value of the long-term equity investment is adjusted and be included in the shareholders' equity. When disposing a long-term equity investment, the difference between its book value and the actual purchase price is included in the current gains and losses.

(10) Real estates for investment

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

The real estates for investment shall be initially measured at its cost. For the follow-up expenses relating to a real estate for investment, if the relevant economic benefits are likely to flow into the enterprise and the cost of the real estate for investment can be reliably measured., they shall be included in the cost of the real estate for investment; Otherwise, they are included in the gains and losses of the current period when they are incurred.

The Group makes a follow-up measurement to a real estate investment through the cost method. Depreciation is calculated on a straight-line basis to write off the cost over its life (15-35 years).

(11) Fixed assets

Fixed assets refer to the tangible assets held for commodity production, labor service, lease, operation or management and with a life of over one fiscal year.

Fixed assets are recognized only when the economic benefits pertinent to them are likely to flow into the Group and their costs are measured reliably. If the subsequent expenses related to a fixed asset meet these recognition conditions, they are included in the cost of fixed assets; otherwise, they are included in the current gains and losses.

The initial measurement of a fixed asset shall be made at its cost, with its expected discard expenses taken into consideration. The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the fixed asset.

The depreciation method used for fixed assets is the straight-line method. The life, expected net salvage value and the yearly depreciation rate of each type of fixed assets is as follows:

Items	Life (years)	Salvage value	Depreciation rate
Buildings and plants	15 - 35	4%	2.7% - 6.4%
Machinery and equipments	7 - 15	4%	6.4% - 13.7%
Transportation vehicles	5 - 10	4%	9.6% - 19.2%
Office and other equipments	4 - 9	4%	10.7% - 24.0%

The Group has a check, at least at the end of each year, on the life, expected net salvage value, and the depreciation rate of the fixed assets. If there is any difference between the expected life and the previously estimated life of a fixed asset, the expected life of the fixed asset shall be adjusted.

(12) Construction-in-progress

Construction-in-progress is confirmed at actual project expenses and includes all direct construction costs, capitalized borrowing costs before it comes to the expected condition, and other relevant expenses.

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

(13) Intangible assets

The intangible assets of the Group are initially measured according to their costs.

The service life of an intangible asset is measured by the period in which it can bring economic benefits to the Group. If it is unable to forecast the period when the intangible asset can bring economic benefits to the Group, it is regarded as an intangible asset with uncertain service life.

(Rmb)

The life of different intangible asset is as follows:

Category	Life
Land use rights	46 - 50
Technical know-how fees	10
Software copyrights	5

The land-use right of land the Group purchased or obtained by paying transfer fee was measured as intangible asset, while buildings constructed by the Group, including plants, and the related land-use rights and buildings were calculated among intangible assets and fixed assets respectively. The payment for purchases of land and buildings were distributed between the acquired land and the buildings. Where the distribution was impossible, it as a whole was considered fixed asset.

Intangible assets with a limited service life are amortized by the straight-line method. The Group, at least at the end of each year, check the life and the amortization method of intangible assets with limited life and necessary adjustments are made regarding the years and method of the amortization.

(14) Expenditures on research and development projects

The expenditures for its internal research and development projects of the Group are classified into research expenditures and development expenditures.

The research expenditures for the internal research projects are recorded into the gains or losses for the reported period.

The development expenditures of the Group are confirmed as intangible assets when they satisfy the following conditions simultaneously: it is feasible technically to finish intangible assets for use or sale; it is intended to finish and use or sell the intangible assets; the usefulness of methods for intangible assets to 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; it is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and the development expenditures of the intangible assets can be reliably measured. Otherwise, they are recorded in the gains and losses of the period they occur.

(15) Long-term deferred expenses

Long-term deferred expenses are amortized from the date they incur over the beneficiary period.

Expenses arising from preparations of construction of the Group and its consolidated subsidiaries recorded into the gains and losses of the reported period.

Where a long-term deferred expense item does not benefit the future accounting period, the remaining value is transferred fully into gains and losses of the reported period.

(16) Financial instruments

The term “financial instruments” refers to the contracts under which the financial assets of an enterprise are formed and the financial liability or right instruments of any other entity are formed.

Recognition and termination of financial instruments

When the Group becomes a party to a financial instrument, it recognizes a financial asset or financial liability.

Where a financial asset satisfies any of the following requirements, the recognition of it shall be terminated:

(1) Where the contractual rights for collecting the cash flow of the said financial asset are terminated; or

(2) Where the said financial asset has been transferred and meets the following conditions for recognizing the termination of financial assets.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and recognition of a new liability, and the difference between the carrying amounts of the original liability and the fair value of the new liability is recognized and recorded in the gains and losses

(Rmb)

of the reported period.

Classification and measurement of financial assets

Financial assets of the Group are classified into the following two categories when they are initially recognized: the financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period; the investments which will be held to their maturity; loans and the account receivables; and financial assets available for sale. Financial assets of the Group are measured at their fair values when they are initially recognized. For the financial assets and liabilities measured at their fair values and of which the variation is recorded into the gains and losses of the reported period, the transaction expenses thereof shall be directly recorded into the gains and losses of the reported period; for other categories of financial assets and financial liabilities, the transaction expenses thereof shall be included into the initially recognized amount.

Financial assets which are measured at fair value and of which the variations are recorded into the gains and losses of the current period

The financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the current period include transactional financial assets and the financial assets which are measured at their fair values and of which the variation is included in the current gains and losses. The financial assets meeting any of the following requirements are classified as transactional financial assets: (1) the purpose to acquire the said financial assets is mainly for selling or repurchase of them in the near future;(2) forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future; and (3) being a derivative instrument. Subsequent measurements on these financial assets are made according to their fair values, with represent and future gains and losses recorded into the gains and losses of the reported period.

Held-to-maturity investment

The term “held-to-maturity investment” refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity. The Group makes subsequent measurement on these investments held until their maturity on the basis of the post-amortization costs by adopting the actual interest rate method. The gains and losses that arise when such financial assets or financial liabilities are terminated from recognition, or are impaired or amortized, shall be recorded into the gains and losses of the reported period.

Loans and the accounts receivable

“Loans and accounts receivable” refers to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo amount is fixed or determinable. The Group makes subsequent measurement on these investments held until their maturity on the basis of the post-amortization costs by adopting the actual interest rate method. The gains and losses that arise when such financial assets or financial liabilities are terminated from recognition, or are impaired or amortized, shall be recorded into the gains and losses of the reported period.

Sellable financial assets

The “sellable financial assets” refers to the non-derivative financial assets which are designated as sellable when they are initially recognized as well as the financial assets. The subsequent measurements on these financial assets are made at their fair values. Their premiums or reduced values are amortized by adopting the actual interest rate method and recorded into the interest income or expenses loss of the reported period. The gains and losses arising from the change in the fair value of a sellable financial asset are included in capital reserve and recognized a separate item directly in the shareholders’ equity, with the exception of impairment losses and the gap arising from foreign exchange conversion of cash financial assets in any foreign currency, which are recognized as gains and losses of the reported period, until the said assets are terminated or the accumulated gains or losses recognized in capital reserve have transferred, when the impairment incurred, into the gains and losses of the reported period. The cash dividends or interest income of a sellable financial asset are recorded into the gains and losses of the reported period.

An equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured is measured on the basis of its cost.

Classification and measurement of financial liabilities

The Group’s financial liabilities shall be classified into the following two categories when they are initially recognized: the financial liabilities which are measured at their fair values and of which the variation is included in the current gains and losses and other financial liabilities. For the financial assets and liabilities measured at their fair values and of which the variation is recorded into the gains and losses of the reported

(Rmb)

period, the transaction expenses thereof are directly recorded into the gains and losses of the reported period, while for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount.

Financial liabilities recorded at their fair value and its changes included in gains and losses of the reported period

Financial liabilities which are measured at their fair values and of which the variation is included in the current gains and losses include transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current gains and losses. The financial assets or liabilities meeting any of the following requirements shall be classified as transactional financial assets or financial liabilities: (1) the purpose undertake the financial liabilities is mainly for repurchase of them in the near future; (2) forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future; and (3) being a derivative instrument. Subsequent measurements on these financial assets are made according to their fair values, with realized and unrealized gains and losses recorded into the gains and losses of the reported period.

Other financial liabilities

Other financial liabilities are measured on the basis of the post-amortization costs by adopting the actual interest rate method.

Financial guarantee contracts

Financial guarantee contracts are measured initially at their fair values. For the financial guarantee contracts which are not designated as a financial liability measured at its fair value and the variation thereof is recorded into the gains and losses of the reported period, a subsequent measurement after the initial measurement, is made after they are initially recognized according to the higher one of the following: the amount as determined according to the Accounting Standards for Enterprises No. 13 – Contingencies and the surplus after accumulative amortization as determined according to the principles of the Accounting Standards for Enterprises No. 14 - Revenues is subtracted from the initially recognized amount.

Derivative financial instruments

Derivative financial instruments used by the Group include the forward exchange contract to minimize risks related to fluctuation of foreign currency exchange rate and interest rate swaps to lock in risks resulting from fluctuation in interest rate. A derivative financial instrument is measured initially on basis of its fair value as on the date the contract is signed and the follow-up measurement is conducted on basis of its fair values. A derivative financial instrument with positive fair value is recognized as an asset, while that with negative fair value as a liability.

The gains and losses arising from the change in the fair value of a financial asset or financial liability are directly recorded into the gains and losses of the reported period, unless it is related to hedging.

Fair value of financial instrument

As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market are used to determine the fair values thereof. Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques to determine its fair value. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.

Devaluation of financial assets

The Group carries out an inspection, on the balance sheet day, on the carrying amount of the financial assets. Where there is any objective evidence proving that such financial asset has been impaired, a devaluation provision shall be made. The expression “objective evidence proving that the financial asset has been impaired” refers to the actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the enterprise.

Financial assets measured on the basis of post-amortization costs

When objective evidences show the devaluation of the financial asset, the carrying amount of the said financial asset is written down to the current value of the predicted future cash flow (excluding the loss of future credits not yet occurred), and the amount as written down is recognized as loss of the devaluation of the asset and is recorded into the gains and losses of the reported period. The current value of the predicted future cash flow is determined according to the capitalization of the original actual interest rate of the said financial asset, taking into account the value of the relevant guarantee.

A devaluation test is made on the financial asset with significant single amounts. If any objective evidence shows that it has been impaired,

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the devaluation-related losses are recognized and recorded into the gains and losses of the reported period. With regard to the financial assets with insignificant single amounts, an independent devaluation test is carried out, or they are included in a combination of financial assets with similar credit risk features so as to carry out a devaluation-related test. Where, upon independent test, the financial assets (including those financial assets with significant single amounts and those with insignificant amounts) have not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another devaluation test. The financial assets which have suffered from a devaluation loss in any single amount shall not be included in any combination of financial assets with similar risk features for any devaluation test.

Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any devaluation loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the devaluation-related losses as originally recognized are reversed and recorded into the gains and losses of the reported period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the devaluation.

Financial assets measured on the basis of costs

When objective evidences show the devaluation of the financial asset, the gap between the carrying amount of the financial asset and the current value of the future cash flow of similar financial asset capitalized according to the returns ratio of the market at the same time is recognized as devaluation-related losses and recorded into the gains and losses of the reported period. The devaluation-related losses incurred to these financial assets, once recognized, are not reversed through gains and losses.

Where an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, and which is measured on basis of its cost according to Accounting Standards for Enterprises No.2 – Long-term Equity Investment, its devaluation is dealt with by using the above principles.

Sellable financial assets

When objective evidences show the devaluation of the financial asset, the accumulative losses arising from the decrease of the fair value of the shareholders' equity which was directly included are transferred out and recorded into the gains and losses of the reported period. The accumulative losses that are transferred out are the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the devaluation-related losses as was recorded into the gains and losses of the reported period.

As for the sellable debt instruments whose devaluation-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally devaluation -related losses were recognized, the originally recognized devaluation -related losses are reversed and recorded into the gains and losses of the reported period. The devaluation -related losses incurred to a sellable equity instrument investment are not reversed through gains and losses.

Transfer of financial assets

The term "transfer of a financial asset" refers to the Group's transferring or delivering a financial asset to a party other than the issuer of the financial asset (the transferee).

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

Where the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it is settled according to the circumstances as follows respectively: if it gives up its control over the financial asset, it stops recognizing the financial asset and recognizes the resultant assets and liabilities; if it does not give up its control over the financial asset, it recognizes, according to the extent of its continuous involvement in the transferred financial asset, the related financial asset and the relevant liability accordingly.

(17) Borrowing cost

The term "borrowing cost" refers to the interest and other costs incurred by the Group in connection with the borrowing of funds, including interests on borrowings, amortization of discounts or premiums on borrowings, auxiliary expenses, and exchange differences on foreign currency borrowings.

The borrowing costs incurred to the Group, which are directly attributable to the acquisition, construction or production of assets eligible for capitalization are capitalized and recorded in the costs of the asset, while other borrowing costs are recorded in the current gains and losses. The term "assets eligible for capitalization" refers to the fixed assets, real estate for investment, inventories and other assets, of which the acquisition, construction and production takes a substantial period of time to get ready for its intended use or for sale.

The borrowing costs are not capitalized unless they simultaneously satisfy the following requirements:

(1) The asset disbursements have already incurred;

(2) The borrowing costs have already incurred; and

(3) The acquisition, construction or production activities which are necessary to make the asset realize its intended use or sales have started.

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. The borrowing costs incurred after the qualified asset under acquisition and construction or production is ready for the intended use are recorded into the gains and losses of the reported period.

During the period of capitalization, the to-be-capitalized amount of interests in each accounting period is determined according to the following provisions:

(1) As for specifically borrowed loans, the to-be-capitalized amount of interests are determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

(2) Where a general borrowing is used, the Group calculates and determines 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.

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 is suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the gains and losses of the reported period, till the acquisition and construction or production of the asset restarts.

(18) Devaluation of assets

Devaluation of assets other than inventories, deferred income taxes, financial assets, as well as long-term equity investment assets for which there is no quoted price in the active market, whose fair value cannot be reliably measured and which are measured on basis of their costs in the Group, are measured following the principles as described below.

The Group makes a judgment, on the day of balance sheet, on whether there is any sign of possible assets devaluation. Where any evidence shows that there is possible assets devaluation, the recoverable amount of the assets shall be estimated and a devaluation test is conducted. No matter whether there is any sign of possible assets devaluation, the business reputation formed by the merger of enterprises and intangible assets with uncertain service lives is subject to devaluation test at the end of each year.

The recoverable amount is determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The Group estimates, on the basis of single item assets, the recoverable amount. Where it is difficult to do so, the Group determines the recoverable amount of the group assets on the basis of the asset group to which the asset belongs. The recognition of an asset group is based on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other asset group.

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

When an enterprise makes a devaluation test of assets, it apportions, as of the purchasing day, the carrying value of the business reputation formed by merger of enterprises to the relevant asset groups by a reasonable method. Where it is difficult to do so, it is apportioned to the relevant combinations of asset groups. The related asset group or combination of asset groups are the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger, and are smaller than the reporting segments as determined by the Group.

When making a devaluation test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the devaluation of asset groups or combinations of asset groups is possible, the Group first makes a devaluation test on the asset groups or combinations of asset groups not containing business reputation, calculates the recoverable amount and recognizes the corresponding devaluation loss. Then the Group makes a devaluation test of the asset groups or combinations of asset groups containing business reputation, and compares the carrying value of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, the amount of the devaluation loss first charge against the carrying value of the headquarter's assets and business reputation which are apportioned to

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the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the business reputation excluded.

Once any of the above losses of asset devaluation is recognized, it is not switched back in the future accounting periods.

(19) Non-current assets held for sale

Non-current assets other than financial assets and deferred income tax assets meeting the following conditions are recognized by the Group as non-current assets held for sale:

(1) Non-current assets which the Group has decided to dispose;

(2) Non-current assets on which the Group has signed uncancelable transfer contacts with a transferee;

(3) The said transfer is to be completed within a period of one year.

Non-current assets or a disposal set held for sale are measured in light of the net amount of the fair value of the assets minus the disposal expenses, but shall not excess the original book value of the assets as meeting the conditions of non-current assets held for sale. Where the original value is higher than net amount of the fair value of the assets less the disposal expenses, the balance is recognized as loss from asset devaluation and is recorded into gains and losses of the reported period. The term “disposal set” refers to a set of assets to be sold or disposed in other manner as a whole.

(20) Estimated debts

The obligation pertinent to a contingency is 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;

(3) The amount of the obligation can be measured in a reliable way.

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation, while taking into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the contingencies.

The Group checks the book value of the estimated debts on each balance sheet date. If there is any exact evidence indicating that the book value cannot really reflect the current best estimate, the Group adjusts the book value in accordance with the current best estimate.

(21) Revenue

Revenue is recognized when its relevant economic benefits may flow into the Group and can be measured in a reliable way, while meeting the following conditions:

Revenue from sales of goods

No revenue from sales of goods may be recognized unless the following conditions are met simultaneously: significant risks and rewards of ownership of the goods have been transferred to the buyer by the Group; the Group retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; and the relevant amount of revenue incurred or to be incurred can be measured in a reliable way.

Revenue from providing labor services

If the Group can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it recognizes the revenue from providing services employing the percentage-of-completion method. Otherwise, it is recognized in accordance with the amount of the cost of labor services incurred and is expected to be compensated. The outcome of a transaction concerning the providing of labor services can be measured in a reliable way means that the following conditions shall be met simultaneously: (1) the amount of revenue can be measured in a reliable way; (2) the relevant economic benefits are likely to flow into the enterprise; (3) the schedule of completion under the transaction can be confirmed in a reliable way; and (4) the costs incurred or to be incurred in the transaction can be measured in a reliable way. The Group ascertains the schedule of completion under the transaction concerning the providing of labor services on the basis of the proportion of the costs incurred against the estimated total costs.

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Where a contract or agreement signed between the Group and another enterprise concerns sales of goods and providing of labor services, the part of sale of goods and the part of providing labor services are distinguished from each other and measured separately whenever it is possible. If the part of sales of goods and the part of providing labor services can not be distinguished from each other, or when the two can be distinguished from each other but can not be measured respectively, they are conducted as sales of goods.

Interest income

The amount of interest revenue is measured and confirmed in accordance with the length of time for which the enterprise's cash and cash equivalents are used by others and the actual interest rate.

Royalty income

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

Lease income

The rents from operating leases are measured and confirmed by using the straight-line method over each period of the lease term.

(22) Leases

The term "finance lease" refers to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. Leases other than a financing lease belong to "operating lease".

The rents from operating leases are recorded in the gains and losses of the reported period by using the straight-line method over each period of the lease term; the rents from operating leases are recorded in the relevant asset costs or the gains and losses of the reported period by using the straight-line method over each period of the lease term.

(23) Employee compensation

The term "employee compensation" refers to all kinds of payments and other relevant expenditures given by the Group in exchange of the services offered by the employees. During the accounting period of an employee's providing services to an enterprise, the Group recognizes the compensation payable as liabilities. Liabilities are due over one year since the balance sheet date, whose discounting amount are significant are presented in their current values.

The expenditures of the Group on the employee's medical insurance, endowment insurance, unemployment insurance and other social insurances, as well as housing accumulation fund, are recorded as asset costs or gains or losses for the reported period.

When the Group cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, where the Group has formulated a formal plan on the cancellation of labor relationship or has brought forward a proposal on voluntary layoff and will execute it soon and the enterprise is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal, the group recognizes the expected liabilities incurred due to the compensation for the cancellation of the labor relationship with the employee, and simultaneously record them into the gains or losses for the reported period.

The above principles of cancellation of labor relationship or the layoff proposal apply to internal retirement plan. The compensation and social insurances for the period from the day the retiree stops serving the Group to official retirement date are recognized, when meeting the afore-mentioned conditions, as payable employee compensation and recorded into the gains or losses for the current period.

(24) Income taxes

Income taxes comprise income taxes of the current period and deferred income taxes of the Group. The income taxes, except for adjusted business reputation due to business consolidation or income taxes related to the transactions or events directly recorded in the owner's rights and interests recorded in the owner's rights and interests, are treated as income tax expenses or incomes and recorded into the current gains and losses.

The current income tax is the payable amount of income tax measured on the amount of taxable income of the Group. The amount of taxable income is calculated according to the tax law provisions on the basis of adjusted pre-tax accounting profit of the Group in the period covered.

The current income tax liabilities or assets incurred in the current period or prior periods are measured in light of the expected payable or refundable amount of income taxes according to the tax law.

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Deferred income taxes of the Group are calculated by balance sheet approach, on the basis of the difference between the carrying amount of an asset or liability and its tax base on balance sheet day as well as temporary difference between the tax base and the carrying amount of an item that has not been recognized as an asset or liability but its tax base can be determined in light of the tax law.

Except for the deferred income tax liabilities arising from the following transactions, the Group recognizes the deferred income tax liabilities arising from all taxable temporary differences:

Initial recognition of business reputation, or initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: the transaction is not business consolidation and, at the time of transaction, the accounting profits will not be affected, nor will the taxable amount be affected.

The deferred income tax liabilities arising from the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and contractual enterprises, while the investing enterprise can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the excepted future.

The Group recognizes the deferred income tax liabilities arising from a deductible temporary difference and deductible loss or tax deduction that can be carried forward to the next year, to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference, unless they incur in the following transactions:

This transaction is not business combination and, at the time of transaction, the accounting profits will not be affected, nor will the taxable amount be affected.

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises meet the following requirements simultaneously, the Group recognizes the corresponding deferred income tax assets: the temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

On the balance sheet day, the deferred income tax assets and deferred income tax liabilities are measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled, which reflects the effect of the expected asset recovery or liability settlement method on the balance sheet day on the income taxes.

The carrying amount of deferred income tax assets is reexamined on balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets is written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount is subsequently reversed.

(25) Significant accounting estimate

Uncertainties of accounting estimate

The following are uncertainties of future key hypotheses and estimates, which lead to possible significant adjustments in the amounts of annual assets and liabilities presented in the statements of the next accounting period

Deferred income tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred income tax rate

The Fifth Session of the 10th National People's Congress, which ended on 16 March 2007, approved the Enterprise Tax Law of the PRC (the new enterprise tax law), which shall be implemented from 1 January, 2008. The new corporate tax law introduces a series of changes including standardize the tax rate of domestically and foreign funded enterprise into a unified 25%, but "high-tech enterprises" enjoy a preferential rate of 15%. The Group has adjusted the balances of deferred income tax asset and liability as at 31 December 2007 on the basis of the estimated reversed temporary difference between the carrying amount of an asset or liability and the new tax base on income taxes.

As the specific regulations and rules for some significant matter are not published yet, we are not able to make a rational assessment of other influences of the implementation of the new corporate law on the future finance of the Group. As at 31 December 2007, uncertainties also existed for the new tax rates which apply to a number of subsidiaries of the Group, the management of the Group recognized its applicable deferred income tax rate at its best estimate.

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Bad debt provision

The allowance method is adopted for bad debt losses. A devaluation test is made on an account receivable with significant single amount. If any objective evidence shows that it has been devalued, the devaluation-related losses are recognized according to the gap between the carrying amount of the receivable and its current value of the future cash flow and bad debt provisions are made. As for other receivables, bad debt provisions are made by the management using the ageing analysis, a method which is used for receivables for which no devaluation has been recognized after a test.

(26) Initial implementation of Accounting Standards for Enterprises

As is stated in Note 2, the new, revised Accounting Standards for Enterprises (2006) has been adopted since the first day of 2007. Changes in accounting policies due to the initial implementation of the new Standards are dealt with according to the regulations as stipulated in the Standards in the following ways:

(1) Changes of accounting policies due to adoption of retrospective adjustment method

Long-term equity investment

Before the implementation of new accounting standards, the long-term equity investment was measured by the equity method. The negative balance between the initial investment cost and the acquired share of equity from the invested entity was amortized within certain period and recorded in the gains and losses. When the balance between the initial investment cost and the acquired share of equity from the invested entity was positive, the balance was considered equity investment difference on the credit side and amortized within certain period and recorded in the gains and losses if it incurred before Caikuai [2003] 10 was published and recorded into capital reserve after it was published.

For details about the accounting policies concerning long-term equity investment under the new Accounting Standards for Enterprises, see Note 3(9), "Long-term equity investment".

If a long-term equity investment is generated from a business consolidation under common control, the unamortized equity investment difference is entirely sterilized on the date of initial implementation. For any other long-term equity investment calculated by equity method, in case there is any equity investment difference on the credit side, the unamortized equity investment difference is also entirely sterilized and the book value of the long-term equity investment is considered as the cost recognition on the date of initial implementation.

Welfares for cancellation of the labor relationship

Welfares for cancellation of the labor relationship before the implementation of Accounting Standards for Enterprises were recorded into the gains or losses of the reported period.

Details about the accounting policies concerning welfares for cancellation of the labor relationship under the new Accounting Standards for Enterprises are presented in Note 3(23), "Employee compensation".

As to a plan on terminating the labor relationship with an employee which is already existing on the date of initial implementation, in case it meets the conditions described in Note 3(23), "Employee compensation", the liability resulting from the compensation made for the cancellation of the labor relationship with the employee is recognized and the retained earnings are modulated.

Income tax

Before the implementation of Accounting Standards for Enterprises, income tax was provided, using the tax effect accounting method.

The income tax of the Group under new Accounting Standards for Enterprises are calculated by balance sheet approach. Details about the accounting policies concerning income tax under the new standards are presented in Note 3(24), "Income tax".

On the date of initial implementation, the Group made a retroactive modulation to the effect of the temporary difference between the carrying amount of an asset or liability and its tax base on income tax, and modulated the retained earnings based on the affected amount.

Business reputation/Incorporating price difference

Before the implementation of Accounting Standards for Enterprises, business reputation due to business consolidation/incorporating price difference were amortized with a certain period.

Under the new Accounting Standards for Enterprises, for a business consolidation under common control, the amortized value of the originally recognized business reputation is entirely sterilized on the date of initial implementation and the retained earnings are modulated. As to a business consolidation not under common control, the amortized value of the business reputation on the date of initial implementation is recognized as cost which is not amortized any more when it is related to a long-term investment on a subsidiary, while it is amortized by the straight-line method in the remaining period. Details about the accounting policies concerning business consolidation under the new standards are presented in Note 3(4), "Business combination".

Transactional financial assets and financial assets available for sale

The term "financial instrument" had not been available before the new standards were introduced. The "investment" under the new standards was classified into short-term investment and long-term investment under the original accounting standards and the China Enterprise Accounting System and long-term investment was further classified into long-term equity investment and long-term debt investment.

Investment is initially measured on the basis of the initial cost. Follow-up short-term investment is measured according to the cost or the market price, whichever is lower. The cost method is employed for long-term equity investments on the invested enterprises that the Group is not able to control, does not joint control or does not have significant influences.

Under the new Accounting Standards for Enterprises, the afore-mentioned investment is re-classified into financial assets which are measured at their fair values and the variation of which is recorded into the gains and losses of the reported period and sellable financial assets. Details about the accounting policies concerning financial instruments under the new standards are presented in Note 3(16), "Financial instruments".

Financial assets measured at their fair value and of which the alterations charged to the gains and losses in the reported period and assets available for sale are measured at their fair value on the initial date of implementation. For financial assets measured at their fair value and of which the alterations charged to the gains and losses in the reported period, the retained earnings are modulated based on the difference between the carrying amount and the fair value, while the retained earnings are adjusted as capital reserves.

Derivative financial instruments

Before the implementation of Accounting Standards for Enterprises, the derivative financial instruments, as not recognized in financial statements, are recorded in gains and losses of the reported period in actual accounting.

Details about the accounting policies concerning derivative financial instruments (excluding hedging instruments) under the new standards are presented in Note 3(16), "Financial instruments".

Derivative financial instrument is measured at its fair value on the date of initial implementation with its financial assets and financial liabilities recognized and the retained earnings are modulated.

Consolidated financial statements

Before the implementation of Accounting Standards for Enterprises, the revenues, net profits, and total assets of Baosteel Finance Co., Yantai Lubao, and Sales Department of Baosteel Group Shanghai Lubao Pipes were not consolidated due to their non-significant impacts on the financial and management performance of the Group. In addition, joint ventures (Bao-Island Enterprises and BNA Automotive Steel Sheets Co.) were consolidated using the proportionate consolidation method.

Under the new standards the consolidated financial statements of the Group have been prepared on the basis of control and joint ventures are consolidated using the equity method. Details about the accounting policies concerning the scope of consolidation under the new standards are presented in Note 3(5).

The aforementioned changes in the scope of consolidation have been listed in the comparative consolidated financial statements of the previous year in the first annual financial statements according to the revised scope as in the new Standards.

Before the implementation of Accounting Standards for Enterprises, the minority shareholders' equity was presented individually between liabilities and shareholders' equity in the consolidated balance sheet, while they were presented in the consolidated income statement as a less item before consolidated net profit.

Under the new standards the minority shareholders' equity is listed separately under the category of the shareholders' equities in the consolidated balance sheet and under the categories of gains and losses attributable to the parent company and gains and losses attributable to minority shareholders.

The minority shareholders' equity presented in the comparative financial statements of the previous year have been adjusted in first financial statements according to the presentation format as stated in the new standards.

In accordance with the provisions of Accounting Standards for Enterprises No. 38, the Group has made a retroactive modulation to the impacts of the aforementioned changes on shareholders' equity in the period from 1 January to 31 December 20007, and the comparative financial statements have been represented.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

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Group

	1 January 2007			
	Capital reserve	Surplus reserve	Undistributed profit	Difference in foreign currency translation
Opening balance before modulation	32,803,940,232.87	14,758,576,683.52	16,936,323,133.48	(50,294,124.76)
Modulation:				
Business reputation from consolidation of companies under common control	-	-	(618,847,188.92)	-
Termination walfare	-	-	(269,602,921.52)	-
Financial assets at fair value recorded in gains or losses and available-for-sale assets	227,439,924.76	-	54,787,422.20	-
Derivative financial instruments	-	-	(8,927,923.64)	-
Income tax	(35,448,341.30)	-	(23,753,255.06)	-
Deduct of additional provision of surplus reserve from subsidiaries	-	(951,212,197.32)	951,212,197.32	-
Change in scope of consolidation	(6,740,239.04)	-	-	6,740,239.04
Opening balance after modulation	32,989,191,577.29	13,807,364,486.20	17,021,191,463.86	(43,553,885.72)

Company

	1 January 2007		1 January 2006	
	Capital reserve	Undistributed profit	Capital reserve	Undistributed profit
Opening balance before modulation	32,835,964,571.42	18,747,964,347.60	32,729,101,673.11	13,680,726,945.49
Business reputation for consolidation of companies under common control	-	(730,521,063.38)	-	(983,935,849.00)
Welfare due to cancellation of the labor relationship	-	(218,672,638.21)	-	(48,385,435.49)
Derivative financial instruments	-	(9,170,958.85)	-	4,840,289.15
Income tax	-	(32,868,744.07)	-	(43,338,419.52)
Impact of initial implementation of new standards upon long-term equity investment	124,269,345.03	(121,412,501.38)	(65,965,316.18)	(111,288,125.13)
Opening balance after modulation	32,960,233,916.45	17,635,318,441.71	32,663,136,356.93	12,498,619,405.50

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Notes to the Financial Statements (Continued)

31 December 2007

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	1 January 2006				
Minority shareholders' equity	Capital reverse	Surplus reserve	Undistributed profit	Difference in foreign currency translation	Minority shareholders' equity
4,914,236,130.47	32,722,971,425.12	11,697,079,788.16	12,591,395,511.37	(48,196,906.49)	4,451,667,026.77
(2,369.46)	-	-	(825,220,145.11)	-	(2,828.06)
(7,977,508.81)	-	-	(89,000,159.34)	-	-
39,734,019.39	3,578,164.16	-	2,769,266.94	-	4,706,312.39
207,029.99	-	-	4,820,076.42	-	(17,218.25)
(10,533,995.04)	(1,180,794.17)	-	(26,589,951.90)	-	(1,553,083.09)
-	-	(557,484,652.50)	557,484,652.50	-	-
312,043,707.48	(8,172,875.95)	-	-	8,172,875.95	261,843,983.44
5,247,707,014.02	32,717,195,919.16	11,139,595,135.66	12,215,659,250.88	(40,024,030.54)	4,716,644,193.20

Impact of initial implementation of Accounting Standards for Enterprises on 2006 net profit:

Group

	2006
Amount before retroactive modulation	13,010,264,517.47
Modulation:	
Amortization of business reputation for combination of companies under common control	206,373,414.79
Welfare due to cancellation of the labor relationship	(188,580,270.99)
Financial liabilities which are measured at their fair values and of which the variation is recorded into gains and losses of the reported period	87,000,260.29
Derivative financial instruments	(13,523,751.82)
Income tax	(5,649,313.13)
Impact of above modulation upon gains and losses of minority shareholders	(18,743,293.09)
Net profit of 2006 attributable to shareholders of parent company	13,077,141,563.52
Change in gains and losses of minority shareholders due to consolidating range	52,580,081.25
Change in presentation of gains and losses of minority shareholders	470,935,595.12
Net profit of 2006	13,600,657,239.89

Company

	2006
Amount before retroactive modulation	13,338,846,752.65
Modulation:	
Amortization of business reputation for combination of companies under common control	253,414,785.62
Welfare due to cancellation of the labor relationship	(170,287,202.72)
Derivative financial instruments	(14,011,248.00)
Income tax	10,469,675.45
Impact of invested entities on long-term equity investment due to initial implementation of new Standards	(10,124,376.25)
Net profit of 2006	13,408,308,386.75

(Rmb)

(2) Changes of accounting policies due to adoption of prospective application method

In addition to the adoption of retrospective modulation method as outlined above, the Group adopted, in accordance with related regulations as specified in the new standards, the prospective application method to manage the changes in major accounting policies due to initial implementation of the new standards.

Borrowing expenses

Under the old accounting standards, the capitalization scope of borrowing expenses was limited to those resulted from special borrowing that was used for acquisition of fixed assets. Before an asset had been brought to its expected use, its expense was capitalized on basis of the amount as stipulated and other borrowing expenses were recorded in the gains and losses of the reported period.

The Group's policy under the new accounting standards is provided in Note 3 (17), "Borrowing expenses".

Research and development expenditures

Under the old accounting standards, the actual cost of an intangible asset that was obtained through self-development and application through legal procedures was measured on basis of the registry fee, expenditures on lawyers and other related expenses. The expenses on research and development incurred before it was obtained were recorded in the gains and losses of the reported period.

The accounting policies for internal research and development under the new accounting standards are provided in Note 3 (14), "Expenditures on research and development projects".

No retroactive modulation was made by the Group to development expenses on internal research and development that had been capitalized before the date of initial implementation, while those incurred on the date of initial implementation or after are capitalized when they meet the conditions as specified in Note 3 (14) and others are recorded in the gains and losses of the reported period.

Employee Welfare

Under the old accounting standards, the Group made a provision for employee welfare that accounted for 14 per cent of the total pay roll and recorded it into the gains and losses of the current period.

Under the new accounting standards, the afore-mentioned method is no longer practiced. Instead, the employee benefits (employee welfare) are recognized on basis of actual situation and employee welfare plan and record into the gains and losses of the reported period. In the first accounting period after the date of initial implementation, the balance between the newly recognized amount of employee benefit and the original amount is recorded in the gains and losses of the reported period.

Long-term equity investment in subsidiaries

The equity method was used in calculating long-term equity investment in subsidiaries before 1 January 2007. Under the new standards, the cost method has been employed instead. Details about the accounting policies concerning long-term equity investment under the new standards are presented in Note 3(9), "long-term equity investment". The management of the Company believes it is not feasible to make retroactive modulations to long-term equity investments prior to the date of initial adoption of the new standards. Therefore, according to Accounting Standards for Enterprises No. 38 - Initial Implementation of Accounting Standards for Enterprises, if a long-term equity investment is generated from a business consolidation under common control, the unamortized equity investment difference is entirely sterilized, the retained earnings are modulated, and the book balance of the long-term equity investment after the sterilization of the equity investment difference is considered as the cost recognition on the date of initial implementation. For any other long-term equity investment calculated by equity method, in case there is any equity investment difference on the credit side, it sterilizes the credit balance, the retained earnings is modulated, and the book balance of the long-term equity investment after the sterilization on the credit side is considered as the cost recognition on the date of initial implementation. In case there is any equity investment difference on the debit side, the book value of the long-term equity investment is considered as the cost recognition on the date of initial implementation.

(Rmb)

4. Taxation

The applicable taxes and tax rates to the Group (excluded overseas subsidiaries) are as follows:

1.	Value-added tax (VAT)	The VAT is levied at the rate of 13% or17% of the taxable revenue less the deductible input tax. Input tax rate is 13% or 17% of the taxable revenue. VAT payable is calculated in line with the balance between input tax and output tax
2.	Business tax	3 %or 5% of revenue
3.	City construction and maintenance taxes	1%, 5% or 7% of actual turnover tax
4.	Education surcharge	3% or 4% of actual turnover tax
5.	Riverway administration charge	Based on applicable rates set by the government
6.	Property tax	Based on applicable rates set by the government according to entitled property
7.	Enterprise income tax	33% of taxable revenue as stipulated in present tax law and other regulations for the Group. Applicable tax rates for subsidiaries according to their taxable revenue
8.	Individual income tax	The Group withholds personal income tax on the salaries paid to individuals in line with tax regulations

The taxations of overseas subsidiaries of the Group are based on the relevant local laws and regulations on taxation

(Rmb)

5. Scope of Consolidated Financial Statements

Major subsidiaries of the Group

Subsidiary	Registered Place	Principal Business		Registered capital Amount (Rmb'000)
Yantai Lubao Steel Tubes Co., Ltd. (Yantai Lubao)	Yantai	Production & sales of steel tubes	Rmb	100,000
Baosteel Huangshi Coated & galvanized Sheet Co., Ltd. (Huangshi Coated & Galvanized)	Huangshi	Production & sales of galvanized steel sheets	USD	8,000
Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International)	Shanghai	Steel trading	Rmb	2,248,879
Shanghai Meishan Iron & Steel Co., Ltd., (Meishan Steel)	Nanjing	Processing & sales of steel	Rmb	6,256,570
Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo Baoxin)	Ningbo	Processing & sales of cold rolled stainless steel sheets	Rmb	2,848,380
Shanghai Baosight Software Co., Ltd (Baosight Software)	Shanghai	Software development	Rmb	262,244
Baosteel America Trading Inc. (Baosteel America)	Texas USA	Steel trading	USD	980
Howa Trading Co., Ltd. (Howa Trading)	Tokyo, Japan	Steel trading	JPY	876,000
Baosteel Trading Europe GMBH (Baosteel Europe)	Hamburg Germany	Steel trading	EUR	2,050
Baosteel Singapore PTE Ltd. (Baosteel Singapore)	Singapore	Steel trading	SGD	1,500
Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises)	Hong Kong, China	Steel trading	HKD	1,000
Baosteel Trading (Brazil) Co., Ltd. (Bao-Brazil Trading)	Rio de Janeiro Brazil	Steel trading	USD	980
Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical)	Shanghai	Production & sales of chemical products	Rmb	2,110,040
Baosteel Special Metals Co., Ltd. (Special Metals)	Shanghai	Sales of steel	Rmb	50,000
Shanghai No.5 Steel Gas Co., Ltd. (No. 5 Steel Gas)	Shanghai	Gas supply & inspection, installation & sales of gas generation equipment	Rmb	127,718
Baosteel Group Finance Co. Ltd. (Finance Co.)	Shanghai	Finance & foreign exchange business	Rmb	500,000
Baoyin Special Steel Tubes Co. Ltd. (Baoyin Tubes)	Yixing	Production & sales of steel tubes	Rmb	200,000
Yantai Baosteel Steel Tubes Co. Ltd. (Yantai Baosteel)	Yantai	Production & sales of steel tubes	Rmb	2,000,000
Baosteel Group Nantong Steel Co. Ltd. (Nantong Steel)	Nantong	Processing & sales of steel	Rmb	346,000

The aforementioned major subsidiaries, excluding Special Metal, Baoyin Tubes, and Yantai Baosteel, are all subsidiaries from consolidation under common control.

Notes:

1. According to the charter of Huangshi Coated and Galvanized, the Company holds 39.37% of the equity capital of Huangshi Coated and Galvanized but controls more than half of the voting power in the Board of Directors. Accordingly, Huangshi Coated and Galvanized is consolidated.

2. As approved by the resolution of the tenth Meeting of the Second Board of Directors held on 29 April 2005, the Company would merge Baosteel Chemical, which became a subsidiary of the Company on 1 December 2005. The procedures of clearance and consolidation of the transaction were completed except for the legal cancellation by the date ended 31 December 2005. On 1 September 2007, the Company cancelled its Chemical Branch and transferred part of the assets and liabilities of the branch, long-term equity investment and dividends receivable the Company owned in Suzhou Baohua Carbon Black Co., Ltd. (Suzhou Baohua), and long-term equity investment the Company owned in Taiyuan Baoyuan Chemical Co., Ltd. to Baosteel Chemical, making it operate as an entity with its own accounts.

(Rmb)

Investment of the Group Amount (Rmb'000)	Percentage of equity held		Shareholding	Organization code	Notes
	Direct	Indirect			
79,820	79.82%	-	79.82%	1650143182	
3,150	39.37%	-	Note [1]	61543578 - 0	Note [1]
2,248,879	100%	-	100%	13221289 - X	
4,630,621	74.01%	-	74.01%	13487285-9	
1,538,125	54%	-	54%	61027433 - 2	
145,545	55.5%	-	55.5%	607280598	
980	100%	-	100%	Not applicable	
876,000	100%	-	100%	Not applicable	
2,050	100%	-	100%	Not applicable	
1,500	100%	-	100%	Not applicable	
1,000	100%	-	100%	Not applicable	
980	100%	-	100%	Not applicable	
2,110,040	100%	-	100%	13223068 - 4	Note [2]
50,000	100%	-	100%	794528199	
127,718	94.5%	5.5%	100%	836566	
310,500	62.1%	-	62.1%	13220090-1	
130,000	65%	-	65%	663256883	Note [3]
800,000	80%	20%	100%	66350514 - 9	Note [4]
320,050	92.5%	-	92.5%	608307684	Note [5]

3. Baoyin Tubes was jointly set up on 7 June 2007 by the Company and Jiangsu Yinhuan Precision Pipes Co., Ltd. (Jiangsu Yinhuan), with a registered capital of Rmb 0.2 billion. The contributions of the two partners were Rmb 0.13 billion and Rmb 70 million, or 65% and 35% respectively. Baoyin Tubes has been consolidated ever since the day of establishment.

4. Yantai Baosteel was jointly set up on 6 June 2007 by the Company and Yantao Lubao, with a registered capital of Rmb 2 billion. The initial contributions of the two partners were Rmb 0.64 billion and Rmb 0.16 billion, or 80% and 20% respectively. The remaining capital shall be invested within two years since establishment date by the two parties according to the progress of the project and its business performance. Yantai Baosteel has been consolidated ever since the day of establishment.

5. The year 2007 saw the Company's acquisition of the 92.5% equity from Baosteel Group, the parent company of the Company, held of Nantong Steel. This belongs to consolidation under common control as the two parties were controlled by Baosteel Group, which was not contemporary. The equity transaction was completed on 1 October 2007, which was recognized as the date of consolidation. In accordance with Enterprise Accounting Standards No.33—Consolidated Financial Statements, Nantong Steel has been consolidated since 1 January 2007.

(Rmb)

6. Explanatory Notes to Consolidated Financial Statements

(1) Cash and cash equivalents

	31 December 2007	31 December 2006
Cash		
RMB	1,811,031.91	1,924,933.30
Deposit in banks		
Deposit in Rmb	6,992,097,726.33	13,843,243,138.35
Deposit in USD	1,837,961,817.07	1,732,670,564.16
Deposit in JPY	104,387,514.42	123,924,584.13
Deposit in Euro	340,009,680.23	273,038,014.51
Deposit in AUS Dollar	-	735,859.93
Deposit in HKD	644.63	141,942,831.21
Deposit in other foreign currencies	29,207,830.08	7,052,809.08
	9,303,665,212.76	16,122,607,801.37
Other cash and cash equivalents		
Rmb	48,113,023.91	56,700,321.87
Deposit reserve in Central Bank by Finance Co.	1,886,451,803.78	1,992,367,999.46
Total cash and cash equivalents	11,240,041,072.36	18,173,601,056.00
Less: Monetary capital other than cash and cash equivalent		
Deposit reserve in Central Bank by Finance Co.	1,886,451,803.78	1,992,367,999.46
Cash	9,353,589,268.58	16,181,233,056.54

The foreign currency translation rate adopted is: 1USD for 7.3046Rmb (Year 2006: 7.8087Rmb); 1JPY for 0.0641Rmb (Year 2006: 0.0656Rmb); 1EURO for 10.6669Rmb (Year 2006: 10.2665Rmb); 1 HKD for 0.9364Rmb (Year 2006: 1.0047Rmb).

Interests from current deposits are measured on basis of bank interest rates or interest rate as agreed upon between a bank and the Company.

By 31 December 2007, other foreign currencies of the Group consist of a credit card deposit of Rmb 5,709,523.83 yuan, a bank checking account deposit of Rmb 37,110,815.01.

(Rmb)

(2) Funds lent to financial institutions

	31 December 2007	31 December 2006
Original value	73,323,580.00	31,713,050.00
Including: Funds lent to banks	42,366,680.00	-
Funds lent to institutions other than banks	30,956,900.00	31,713,050.00
Provision for loan losses	(30,956,900.00)	(31,713,050.00)
Total	42,366,680.00	-

Funds lent to financial institutions refer to funds Finance Co. has lent to commercial banks or other financial institutes. Finance Co. lent in 1997 Rmb 20,000,000.00 and US$1,500,000.00 (an equivalent of Rmb 10,956,900.00 as at 31 December 2007 and Rmb 11,713,050.00 as at 31 December 2006) to China Huacheng Finance Company. No.2 Intermediate People's Court of Shanghai Municipality sealed up an equity of Rmb 58,000,000.00 that Huacheng had held in Huafang Co., Ltd., but the fund has not transferred to the Finance Co., who has made a full provision for the fund lent, for which chance of recovery seems rather slim. The increase or decrease in provision for the loan loss for the year was a result of change in USD exchange rate.

(3) Transactional financial assets

	31 December 2007	31 December 2006
Transactional bond investment	986,914,949.50	1,591,861,955.13
Transactional equity instrument investment	636,862,035.93	374,071,816.69
Derivative financial assets	-	450,065.20
Transactional fund investment	14,028,992.34	10,629,355.80
Total	1,637,805,977.77	1,977,013,192.82

The management of the Company believes that there exists no significant obstacle in the realization of its transactional financial asset investment.

(4) Notes receivable

	31 December 2007	31 December 2006
Bank acceptances	4,921,362,585.79	2,831,916,983.14
Trade acceptances	735,622,572.00	2,363,340,205.52
Total	5,656,985,157.79	5,195,257,188.66

As at 31 December 2007, a total book value of Rmb 40,736,000.00 of the bank acceptance was being mortgaged for a short-term mortgage loan of Rmb 36,000,000.00; a book value of Rmb 571,785,228.59 of notes was realized for a short-term loan of Rmb 571,785,228.59.

As at 31 December 2007, there are no notes-receivable due from any shareholder holding 5% or more of the Company's shares or voting power (same as by 31 December 2006).

(Rmb)

(5) Trade receivables

The credit period of notes receivable is usually one month and notes receivable are not interest bearing.

Ageing analysis of the trade receivables as follows:

	31 December 2007	31 December 2006
Within 1 year	6,458,439,172.10	5,606,164,421.43
1-2 years	63,431,955.62	121,084,339.92
2-3 years	45,741,224.31	39,035,866.63
Over 3 years	177,512,260.87	148,178,018.18
Total	6,745,124,612.90	5,914,462,646.16

	31 December 2007			31 December 2006		
	Balance of book value	Percentage	Bad debt provision	Balance of book value	Percentage	Bad debt provision
Receivable with significant single amounts	1,215,538,335.51	18%	134,519,867.45	1,149,029,952.89	19%	137,645,959.00
Receivable with insignificant single amounts but with considerable credit risk features in combination	5,529,586,277.39	82%	298,962,595.92	4,765,432,693.27	81%	227,561,704.04
	6,745,124,612.90	100%	433,482,463.37	5,914,462,646.16	100%	365,207,663.04

Changes in bad debt provision for trade receivables:

	2007	2006
Opening balance	365,207,663.04	343,970,128.83
Provision in the year	123,840,805.61	153,307,641.58
Transfer-in due to acquisition of subsidiaries	-	43,817.80
Transfer-in from consolidation under common control	27,344,180.66	-
Reversal in the year	(65,998,921.30)	(115,188,010.99)
Transfer-out due to disposal of subsidiaries	(530,193.42)	-
Writing-off	(16,683,371.54)	(17,697,383.79)
Writing-offs recovered	-	662,706.50
Foreign currency translation difference	302,300.32	108,763.11
Closing balance	433,482,463.37	365,207,663.04

	31 December 2007	31 December 2006
Total of top five debts	1,134,983,113.03	1,064,614,730.41
Ratio against total receivable	17%	18%
Debt duration	Within 1 year	Within 1 year

As at 31 December 2007, the balance in the account included a total debt of Rmb 5,518,012.52 (31 December 2006: Rmb 6,143,232.24) of shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power. Refer to Note 8, "affiliated party relationships and transactions", for details.

(Rmb)

(6) Payment in advance

	31 December 2007		31 December 2006	
	Balance of book value	Percentage (%)	Balance of book value	Percentage (%)
Within 1 year	5,974,915,209.08	99%	4,288,837,913.24	99%
1-2 years	20,130,768.64	1%	28,131,581.13	1%
2-3 years	7,609,495.72	-	11,698,933.31	-
Over 3 years	1,103,073.63	-	256,693.95	-
Total	6,003,758,547.07	100%	4,328,925,121.63	100%

As at 31 December 2007, there was no payment in advance due from any shareholder holding 5% or more of the Company's shares or voting power (same as by 31 December 2006).

No payment in advance with significant t amount was found with a period of more than one as on the lance sheet date.

(7) Interests receivable

The ages of interests receivable in the Group were all within one year as on the balance sheet date.

(8) Dividend receivables

The ages of dividend receivable in the Group were all within one year as on the balance sheet date.

(9) Other receivables

Ageing analysis of other receivables is as follows:

	31 December 2007	31 December 2006
Within 1 year	865,864,350.19	770,342,488.02
1-2 years	6,298,824.12	9,259,272.28
2-3 years	2,936,458.23	16,214,651.19
Over 3 years	139,485,021.51	143,522,889.22
Total	1,014,584,654.05	939,339,300.71

	31 December 2007			31 December 2006		
	Balance of book value	Percentage	Bad debt provision	Balance of book value	Percentage	Bad debt provision
Receivable with significant single amounts	539,191,865.06	53%	122,611,046.35	720,466,431.97	77%	109,133,223.57
Receivable with insignificant single amounts but with considerable credit risk features in combination	475,392,788.99	47%	25,633,423.87	218,872,868.74	23%	44,476,112.08
	1,014,584,654.05	100%	148,244,470.22	939,339,300.71	100%	153,609,335.65

	31 December 2007	31 December 2006
Total of top five debts	421,619,485.68	614,906,404.89
Ratio against total other receivables	42%	65%
Debt duration	Within 1 year	Within 1 year

As at 31 December 2007, the balance in the account did not include debts of shareholding institutes who own 5% or more of the Company's shares or voting power (31 December 2006: Rmb 1,211,260.75).

(Rmb)

Changes in provision for bad debts of other receivables are as follows:

	2007	2006
Opening balance	153,609,335.65	139,326,223.69
Provision in the year	11,455,201.95	22,173,211.20
Transfer-in from consolidation under common control	1,342,704.32	-
Reversal of the year	(17,942,734.07)	(7,148,899.24)
Transfer-out due to disposal of subsidiaries	(143,453.81)	-
Writing-off	(76,583.82)	(895,200.00)
Writing-offs recovered	-	154,000.00
Closing balance	148,244,470.22	153,609,335.65

(10) Financial assets under reverse repos

	31 December 2007	31 December 2006
Securities	5,755,900,000.00	-

Financial assets under reverse repos are securities and other financial assets that the Group purchases in line with a resell negotiation and then resell at a fixed price. Purchases of resalable financial assets of the Group on the balance sheet date are all within a holding period of three months.

(11) Inventories

	31 December 2007	31 December 2006
Raw materials	11,927,478,226.33	9,103,434,354.42
Work-in-progress	12,215,784,432.97	9,436,431,399.38
Finished products	12,703,879,366.70	10,395,970,060.86
Spare parts and others	3,252,067,831.43	2,516,664,365.89
Less: provisions for reductions in the value of inventories	1,030,481,801.74	216,075,452.65
	39,068,728,055.69	31,236,424,727.90

The provisions for change of provisions for reductions in the value of inventories in the period are as follows:

	Raw material	Work-in-progress	Finished products	Spare parts and others	Total
Opening balance	7,329,115.85	108,331,310.49	21,424,374.75	78,990,651.56	216,075,452.65
Provision in the year	141,173,849.31	320,489,967.92	439,137,645.83	20,209,566.59	921,011,029.65
Reversal in the year	(4,872,714.00)	(10,289,790.75)	(67,949,446.69)	(22,701,711.05)	(105,813,662.49)
Writing-off in the year	-	-	(521,392.71)	(297,653.36)	(819,046.07)
Foreign currency translation difference	-	-	28,028.00	-	28,028.00
Closing balance	143,630,251.16	418,531,487.66	392,119,209.18	76,200,853.74	1,030,481,801.74

If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories is made and is included in the gains and losses of the reported period. The reversal of the provision for the cost of inventory is resulted from rise in value of the inventory.

(12) Loans granted and cash advances

	31 December 2007	31 December 2006
Medium- and long-term borrowings	768,100,000.00	676,610,000.00
Discount	53,052,762.97	57,010,533.71
Provision for loss of borrowings	(4,600,000.00)	(60,700,000.00)
Total	816,552,762.97	672,920,533.71

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

Changes in provisions for loss of short-, medium- and long-term borrowings:

	Opening balance	Provision in the year	Decrease in the year		Closing balance
			Reversal	Writing-off	
2007	60,700,000.00	-	(56,100,000.00)	-	4,600,000.00
2006	17,321,132.00	43,378,868.00	-	-	60,700,000.00

(13) Financial assets available for sale

	31 December 2007	31 December 2006
Financial bonds available for sale	157,276,220.20	176,611,687.30
Equity instruments available for sale	1,384,262,705.81	254,656,716.00
Others	56,523,000.00	39,043,500.00
Total	1,598,061,926.01	470,311,903.30

(14) Long-term equity investments

	31 December 2006	Increase of year	Decrease of year	Including: cash dividend received	31 December 2007
Cost method	582,556,476.70	416,293,935.74	(37,870,363.80)		960,980,048.64
Equity method	2,513,859,527.06	903,453,298.38	(631,893,501.76)	(292,228,453.17)	2,785,419,323.68
Equity transferred from old system trade right due to non-tradable share reform	7,949,489.18	-	-		7,949,489.18
	3,104,365,492.94	1,319,747,234.12	(669,763,865.56)		3,754,348,861.50
Less: Devaluation provisions for long-term equity investments	-				-
	3,104,365,492.94				3,754,348,861.50

(i) Long-term equity investments measured on basis of cost method

Invested companies		Percentage of equity (%)	31 December 2007	31 December 2006	Dividend received of the year
Baovale Mineracao.S.A.	Note 1	50	103,282,213.00	103,282,213.00	21,815,608.50
Taiyuan Baoyuan Chemical Co., Ltd.		15	9,000,000.00	9,000,000.00	-
CISDI Engineering Co., Ltd.		8	9,508,999.34	9,508,999.34	3,600,000.00
Jinchuan Group Automation Engineering Co. Ltd.		7.128	1,000,000.00	1,000,000.00	-
Dandong Harima Refractoriness Co., Ltd.		20	20,000,000.00	20,000,000.00	-
Zhongjingji Investment Consultant Co., Ltd		5	3,000,000.00	3,000,000.00	-
Ningbo Port Beilun Co., Ltd.		2.27	15,371,426.00	15,371,426.00	4,200,000.00
Hanyang Components Co., Ltd.		20	3,311,720.00	3,311,720.00	-
Anhui Huishang Co., Ltd.		3.53	3,000,000.00	3,000,000.00	-
Shanghai Yousi Property Management Co. Ltd		10	100,000.00	100,000.00	6,469.73
Shanghai Baoyin Color Coating Co., Ltd.		10	-	8,742,000.00	-
Shanghai No.5 Steel Logistics Co., Ltd.		10	5,862,500.00	5,862,500.00	-
Henan Longyu Energy Co., Ltd.		12.96	370,269,254.56	370,269,254.56	165,439,454.16
Shanghai CIMC Baowell Industries Co., Ltd.		13.16	-	28,878,363.80	11,184.00
Shanghai Luojing Mining Port Co., Ltd.		12	88,734,096.00	-	-
Anhui Wanbei Mining Co., Ltd.	[Note 6(53)]	8	2,990,125.47	-	3,328,117.60
Yongmei Group Co., Ltd.		10	279,000,000.00	-	-
Henan Zhenglong Coal Co., Ltd.		4.91	45,569,714.27	-	-
Others		Unsignificant	980,000.00	1,230,000.00	19,600.00
Total			960,980,048.64	582,556,476.70	198,420,433.99

Note 1: As the Company does not exert actual control or significant influence over the operating policies and financial decisions of Baovale Mineracao, the Company only receives certain fixed return in accordance with relative agreements and, therefore, the investment in Baovale was considered long-term equity investment and measured on basis of cost method.

(Rmb)

(ii) Investments on joint ventures measured on basis of equity method

Invested company	Investment period	Ratio against registered capital of the invested	Initial amount of investment Rmb	Total addition of investment	Investment cost Increase/(decrease)/ Transfer-out due to disposal	Investment cost 31 December 2007
BNA	20 years	50%	1,500,000,000.00	-	-	1,500,000,000.00
Bao-Island Enterprise	Long-term	50%	143,084,132.00	-	-	143,084,132.00
Shanghai Kebao	20 years	50%	37,011,238.50	-	-	37,011,238.50
Niagara Machinery	20 years	50%	123,721,439.29	-	-	109,080,147.98
China Shipping-Baosteel	20 years	50%	99,965,000.00	-	99,965,000.00	99,965,000.00
			1,903,781,809.79	-	99,965,000.00	1,889,140,518.48

(iii) Investments on associated entities measured on basis of equity method

Invested company	Investment period		Ratio against registered capital of the invested	Initial amount of investment Rmb	Total addition of investment	Investment cost Increase/(decrease)/ Transfer-out due to disposal	Investment cost 31 December 2007
STAL Precision	50 years		40%	122,004,541.93	129,452,880.00	63,980,000.00	251,457,421.93
Welding Co.	20 years		38%	46,170,000.00	-	-	46,170,000.00
Renwei Software	20 years		41.33%	5,131,591.00	-	-	5,131,591.00
Henan Zhenglong	50 years		35%	171,409,000.00	-	(171,409,000.00)	-
Guangzhou Wanbao	50 years		25%	24,840,000.00	22,633,752.00	22,633,752.00	47,473,752.00
Henan Pingbao	50 years		40%	120,000,000.00	80,000,000.00	-	200,000,000.00
Tianjin BCM	50 years		40%	56,000,000.00	-	-	56,000,000.00
Baojiang Shipping	20 years		40%	16,000,000.00	-	-	16,000,000.00
Wuxi Baomit	50 years	Note 1	51%	32,522,976.15	-	-	32,522,976.15
Anhui Qingyang	30 years		35%	5,250,000.00	-	(5,250,000.00)	-
				599,328,109.08	232,086,632.00	(90,045,248.00)	654,755,741.08

Baosteel-NSC/Arcelor Automotive Steel Auto Sheets Co., Ltd. (BNA)
Bao-Island Enterprise Co., Ltd. (Bao-Island Enterprise)
Shanghai Kebao Automobile Gearing Co., Ltd. (Shanghai Kebao)
Niagara Machinery Products Co., Ltd. (Niagara Machinery)
Shanghai China Shipping-Baosteel Steel Processing Co., Ltd. (China Shipping-Baosteel)
Shanghai STAL Precision Stainless Steel Co., Ltd. (STAL Precision)
Shanghai Baosteel & Arcelor Laser Welding Company Ltd. (Welding Co.)
Shanghai Renwei Software Co., Ltd (Renwei Software)
Henan Zhenglong Coal Co., Ltd. (Heinan Zhenglong)
Guangzhou Wanbaojing Automotive Spare Parts Co., Ltd. (Guangzhou Wanbao)
Henan Pingbao Coal Co., Ltd. (Henan Pingbao)
Tianjin BCM Distribution Co., Ltd. (Tianjin BCM)
Shanghai Baojiang Shipping Co., Ltd. (Baojiang Shipping)
Wuxi Baomit Steel Processing and Delivery Co., Ltd. (Wuxi Baomit)
Anhui Qingyang Baohong Mining Co., Ltd. (Anhui Qingyang)

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

Adjustment of equity					Investment in associates 31 December 2007
			Investment preparation		
Increase/ (decrease) in the year	Cash dividend received	Total increase/(decrease) 31 December 2007	Increase/(decrease) in the year/Transfer-out due to disposal	Total increase/(decrease)	
352,176,211.20	-	(80,452,773.40)	-	(3,027,142.34)	1,416,520,084.26
85,639,130.40	-	193,355,454.15	(15,647,516.05)	(24,062,019.45)	312,377,566.70
511,172.77	-	(2,867,967.04)	-	-	34,143,271.46
(22,024,576.75)	-	(23,952,837.33)	-	-	85,127,310.65
-	-	-	-	-	99,965,000.00
416,301,937.62	-	86,081,876.38	(15,647,516.05)	(27,089,161.79)	1,948,133,233.07

Adjustment of equity							Investment in associates 31 December 2007
				Investment preparation			
Increase/(decrease) in the year	Cash dividend received	Transfer-out due to disposal	Total increase/ (decrease) 31 December 2007	Increase/ (decrease) in the year	Transfer-out due to disposal	Total increase/ (decrease)	
47,956,055.12	-	-	135,639,132.25	1,831.46	-	35,995.91	387,132,550.09
3,888,807.35	-	-	(4,622,748.59)	-	-	6,048.78	41,553,300.19
1,217,448.43	-	-	(1,179,903.83)	-	-	-	3,951,687.17
201,616,791.57	(250,483,797.85)	(153,151,572.44)	-	-	(9,141.83)	-	-
18,319,331.25	-	-	22,233,042.46	-	-	-	69,706,794.46
-	-	-	-	-	-	-	200,000,000.00
577,755.05	-	-	(10,520,893.40)	-	-	2,240,000.00	47,719,106.60
4,160,698.76	(3,523,465.72)	-	8,858,499.33	-	-	579,303.72	25,437,803.05
28,580,848.35	(38,221,189.60)	-	29,261,872.90	-	-	-	61,784,849.05
139,696.60	-	(84,473.45)	-	-	-	-	
306,457,432.48	(292,228,453.17)	(153,236,045.89)	179,669,001.12	1,831.46	(9,141.83)	2,861,348.41	837,286,090.61

Note 1: As at the balance sheet date, the investment from the Group accounted for 51 per cent of the total of Wuxi Baomit and half of the directors on its board were from the Group. The board was chaired by one of the directors appointed by Mitsui & Co. Ltd. In accordance with the Corporate Charter of Wuxi Baomit, the chairman has the final say when votes for and against a decision are equal in number and a decision is impossible on basis of the Corporate Chater. As a result, Wuxi Baomit has been considered an associate of the Group and measured on basis of the equity method.

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

(Rmb)

(iv) Financial information of joint ventures and associated entities

	Place of registry	Businesses		Registered capital Rmb thousand	Percentage of equity held	Percentage of voting power
Joint ventures						
BNA	Shanghai	Production & sale of cold rolled steel sheets and hot-dip galvanized sheets	Rmb	3,000,000	50%	50%
Bao-Island Enterprise	Hong Kong	Ship chartering & shipping agency	HKD	3,300	50%	50%
Shanghai Kebao	Shanghai	Production & sales of automatic transmission & hydraulic speed change valve	CAD	10,890	50%	50%
Niagara Machinery	Ontario Canada	Production of valves, and sleeves, etc.	CAD	37,500	50%	50%
China Shipping-Baosteel	Shanghai	Processing of steel and other metals	Rmb	199,930	50%	50%
Associates						
STAL Precision	Shanghai	Production, processing & sales of precision stainless steel strips	USD	96,560	40%	40%
Welding Co.	Shanghai	Production of laser welding metal composites	Rmb	121,500	38%	38%
Renwei Software	Shanghai	Software & hardware development & production and technical support	USD	1,500	41.33%	41.33%
Henan Zhenglong	Henan	Development of coal recourses	Rmb	462,470	Disposed	Disposed
Guangzhou Wanbao	Guangdong	Processing and delivery of steel	Rmb	189,895	25%	25%
Henan Pingbao	Henan	Development of coal recourses	Rmb	500,000	40%	40%
Tianjin BCM	Tianjin	Steel processing & delivery and shipping services	Rmb	140,000	40%	40%
Baojing Shipping	Shanghai	Transportation services	Rmb	40,000	40%	40%
Wuxi Baomit	Jiangsu	Processing & sales of Silicon Steel and other steel products	USD	7,700	51%	See Note 1, (iii)
Anhui Qingyang	Anhui	Development of mining recourse	Rmb	15,000	Disposed	Disposed

	As at end of 2007 Total assets Rmb thousand	As at end of 2007 Total liabilities Rmb thousand	2007 Annual business revenue Rmb thousand	2007 Annual net profit Rmb thousand
Joint ventures	7,665,892	3,517,952	11,960,687	838,406
Associated enterprises	5,828,654	2,382,694	5,019,534	1,168,991

(15) Investment real estates

Subsequent measurement is made on basis of cost method.

	Houses and buildings
Original prices	
1 January 2007	230,121,433.29
Acquisition	4,393,304.00
Transfer from construction-in-progress	6,345,647.39
Decrease from disposals of subsidiaries	(50,019,131.04)
31 December 2007	190,841,253.64
Accumulated depreciation and amortization	
1 January 2007	49,594,916.75
Provisions	5,557,622.50
31 December 2007	55,152,539.25
Book value	
31 December 2007	135,688,714.39
1 January 2007	180,526,516.54

The management of the Company believes no provision was needed for impairment of the investment on real estates on the balance sheet date.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(16) Fixed assets

	Houses and buildings	Mechanical equipment	Transportation vehicles	Office and other equipment	Total
Original price:					
1 January 2007	35,629,025,355.73	110,642,915,025.74	13,289,989,440.01	12,418,972,435.66	171,980,902,257.14
Impact of business combinations under same control upon opening balance	293,080,361.06	617,907,315.64	15,667,453.88	262,444,449.77	1,189,099,580.35
Purchases	64,296,860.32	278,481,976.90	182,044,742.27	262,387,817.17	787,211,396.66
Transfer from construction-in-progress	2,920,834,608.34	12,020,413,742.98	705,423,953.46	862,573,886.39	16,509,246,191.17
Re-classification	74,150,525.68	104,212,906.03	(18,702,529.11)	(159,660,902.60)	-
Transfer from business combinations not under same control	37,692,746.11	89,978,175.82	331,813.40	1,252,234.32	129,254,969.65
Purchases from related entities	-	215,510.34	-	1,927,076.45	2,142,586.79
Sales to related entities	-	(3,167,318.53)	(3,600,555.02)	(601,780.45)	(7,369,654.00)
Disposals	(375,099,967.37)	(1,294,118,244.75)	(162,078,277.40)	(316,166,429.18)	(2,147,462,918.70)
Reduction from disposal of subsidiaries	(111,253,063.49)	(93,878,537.75)	(12,595,900.18)	(18,138,594.13)	(235,866,095.55)
Other reductions	(64,772,522.28)	(122,195,223.97)	(17,150,343.82)	(1,129,836.30)	(205,247,926.37)
Difference in foreign currency translation	(3,717,069.85)	50,390.63	(248,543.82)	(1,039,853.68)	(4,955,076.72)
31 December 2007	38,464,237,834.25	122,240,815,719.08	13,979,081,253.67	13,312,820,503.42	187,996,955,310.42
Accumulated depreciation:					
1 January 2007	14,270,975,391.15	61,221,251,249.29	10,552,172,295.00	9,365,850,711.48	95,410,249,646.92
Impact of business combinations under same control upon opening balance	62,261,432.92	156,110,662.31	10,529,313.05	103,425,933.22	332,327,341.50
Provision in the year	1,686,707,040.61	8,904,514,962.78	915,873,184.48	1,038,722,273.41	12,545,817,461.28
Re-classification	1,318,530.76	11,351,915.59	1,897,884.91	(14,568,331.26)	-
Transfer from business combinations not under same control	152,453.30	717,574.00	5,253.71	90,886.14	966,167.15
Purchases from related entities	-	476,038.03	-	144,253.28	620,291.31
Sales to related entities	-	(2,686,772.89)	(3,402,940.08)	(118,506.96)	(6,208,219.93)
Writing-off	(179,858,851.49)	(1,097,710,870.45)	(149,622,187.31)	(279,192,899.71)	(1,706,384,808.96)
Reduction from disposal of subsidiaries	(32,639,507.82)	(51,029,075.39)	(7,797,813.13)	(11,760,054.45)	(103,226,450.79)
Other reductions	(6,299,519.14)	(20,462,366.19)	(10,451,482.75)	(554,693.75)	(37,768,061.83)
Difference in foreign currency translation	(263,914.56)	35,308.16	(115,836.93)	(563,683.80)	(908,127.13)
31 December 2007	15,802,353,055.73	69,122,568,625.24	11,309,087,670.95	10,201,475,887.60	106,435,485,239.52
Net fixed assets:					
31 December 2007	22,661,884,778.52	53,118,247,093.84	2,669,993,582.72	3,111,344,615.82	81,561,470,070.90
1 January 2007	21,358,049,964.58	49,421,663,776.45	2,737,817,145.01	3,053,121,724.18	76,570,652,610.22
Impairment provisions					
1 January 2007	14,802,616.70	11,390,085.42	791,673.23	2,768,881.77	29,753,257.12
Impact of business combinations under same control upon opening balance	-	99,569.26	-	-	99,569.26
Writing-off from disposals	-	(7,439,872.31)	(68,393.00)	(846,135.21)	(8,354,400.52)
Reduction from disposal of subsidiaries	(11,782,705.95)	-	-	-	(11,782,705.95)
31 December 2007	3,019,910.75	4,049,782.37	723,280.23	1,922,746.56	9,715,719.91
Net fixed assets:					
31 December 2007	22,658,864,867.77	53,114,197,311.47	2,669,270,302.49	3,109,421,869.26	81,551,754,350.99
1 January 2007	21,343,247,347.88	49,410,273,691.03	2,737,025,471.78	3,050,352,842.41	76,540,899,353.10

As at 31 December 2007, a total book value of Rmb 58,671,164.19 of the above fixed assets was being mortgaged for a short-term mortgage loan; refer to Note 6 (24).

(Rmb)

As at 31 December 2007, a total value of Rmb 5,048,945.25 (2006: Rmb 17,827,577.10) of fixed assets were temporarily unused.

As at 31 December 2007, the property-user rights of the buildings and plants, which are worth Rmb 5,357,924,225.68 (2006: Rmb 4,570,788,041.54) in total, are still in the process of being transferred to the Group. The management sees no legal or other obstacles in obtaining the certificates when registration formalities are performed and related fees are paid.

Book value of operating leases of fixed assets as on the balance sheet date:

	Houses and buildings	Mechanical equipment	Transportation vehicles	Office and other equipments	Total
Closing balance	-	5,313,321.05	-	152,153.00	5,465,474.05
Opening balance	-	7,439,054.89	-	204,616.69	7,643,671.58

(17) Construction-in-progress

Names of projects		Technique updating and infrastructure construction
Opening balance		11,196,350,954.37
Impact of business combinations under same control upon opening balance		7,959,974.15
Increase of year		22,901,698,413.87
Transfer from business combinations not under same control		1,190,129.86
Fixed assets transferred in the year		(16,509,246,191.17)
Investment real estates transferred in the year		(6,345,647.39)
Reduction from disposal of subsidiaries		(11,369,952.45)
Other reductions		(1,206,876,830.01)
Closing balance		16,373,360,851.23
Budget amount		62,932,337,127.50
Capital source	Own	62,932,337,127.50
Investment-budget ratio		0.01%-92.22%

No capitalized interest expense was involved in the new constructions-in-progress.

The management of the Company believes no provision was needed for constructions-in-progress on the balance sheet date.

(18) Project materials

	31 December 2007	31 December 2006
Special materials	122,824,126.97	2,328,011.85
Special equipment	440,898,836.13	228,873,612.32
Prepayment for large equipment	190,906,549.35	337,599,161.54
Total	754,629,512.45	568,800,785.71

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(19) Intangible assets

	Land use right	Computer software	Others	Total
Original price:				
1 January 2007	4,149,206,519.25	31,124,882.83	71,620,453.83	4,251,951,855.91
Impact of business combinations under same control upon opening balance	57,286,891.26	-	-	57,286,891.26
Increase of year	1,771,908,595.24	5,315,394.90	20,518,543.69	1,797,742,533.83
Transfer from business combinations not under same control	4,800,000.00	-	198,826.00	4,998,826.00
Decrease of year	(996,015.51)	(32,429.30)	(1,338,154.84)	(2,366,599.65)
Reduction from disposal of subsidiaries	(11,650,658.83)	(43,692.00)	(7,489,553.06)	(19,183,903.89)
Foreign currency translation difference	-	(140.37)	-	(140.37)
31 December 2007	5,970,555,331.41	36,364,016.06	83,510,115.62	6,090,429,463.09
Accumulated Amortization:				
1 January 2007	250,749,586.16	15,502,411.38	25,610,939.59	291,862,937.13
Impact of business combinations under same control upon opening balance	29,081,256.72	-	-	29,081,256.72
Provision in the year	124,063,375.76	6,464,904.75	14,191,879.27	144,720,159.78
Transfer from business combinations not under same control	8,000.00	-	10,257.77	18,257.77
Reduction from disposal of subsidiaries	(886,767.35)	(33,930.99)	(834,559.37)	(1,755,257.71)
Writing-off	-	-	(249,583.49)	(249,583.49)
Foreign currency translation difference	-	(114.50)	-	(114.50)
31 December 2007	403,015,451.29	21,933,270.64	38,728,933.77	463,677,655.70
Book value:				
31 December 2007	5,567,539,880.12	14,430,745.42	44,781,181.85	5,626,751,807.39
1 January 2007	3,898,456,933.09	15,622,471.45	46,009,514.24	3,960,088,918.78

As at 31 December 2007, the Group was going though the procedures for land-use right certificates of land with a book value of Rmb 3,712,565,344.18. The management sees no legal or other obstacles in obtaining the certificates when registration formalities are performed and related fees are paid.

The management of the Company believes no provision was needed for the intangible assets on the balance sheet date.

(20) Long-term deferred expenses

	31 December 2007	31 December 2006
Leasing expenses	48,375,171.90	25,477,417.53
Fees for decorations	42,599,916.87	8,935,139.68
Others	4,378,167.65	6,584,751.33
Total	95,353,256.42	40,997,308.54

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54

(Rmb)

(21) Deferred income tax assets/liabilities

Recognized deferred income tax assets:

	1 January 2007	Impact of combination under same control upon opening balance	Recording into profit and loss	Transfer-out due to disposal of subsidiaries	Recording into foreign currency exchange difference	31 December 2007
Provision for asset impairment	237,753,780.81	9,499,529.90	118,862,076.21	(651,140.08)	-	365,464,246.84
Unrealized profit compensation in internal transaction	321,569,823.98	-	(66,443,029.13)	-	-	255,126,794.85
Difference in residuals of fixed assets	47,246,408.19	-	6,943,774.81	(180.22)	(66,217.56)	54,123,785.22
Loss from change in fair value	3,026,416.42	-	45,374,888.08	-	-	48,401,304.50
Termination benefit	85,706,908.48	4,758,812.88	27,657,932.35	-	-	118,123,653.71
Others	40,364,054.03	24,389,446.79	(25,454,122.17)	(2,315,076.89)	(97,511.26)	36,886,790.50
Total	735,667,391.91	38,647,789.57	106,941,520.15	(2,966,397.19)	(163,728.82)	878,126,575.62

Recognized deferred income tax liabilities:

	1 January 2007	Recording into profit and loss	Recording into capital reserve	Transfer-out due to disposal of subsidiaries	Recording into foreign currency exchange difference	31 December 2007
Tax allowance for investment income	144,037,093.71	(22,194,144.69)	-	-	-	121,842,949.02
Financial assets available for sale	36,939,102.94	-	258,257,517.44	-	-	295,196,620.38
Trading financial assets	29,979,877.81	48,721,288.99	-	(3,652,049.95)	-	75,049,116.85
Others	3,471,151.72	(218,478.54)	-	(12,657.13)	14,881.96	3,254,898.01
Total	214,427,226.18	26,308,665.76	258,257,517.44	(3,664,707.08)	14,881.96	495,343,584.26

(22) Other non-current assets

	31 December 2007	31 December 2006
Loans receivable from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Deposit	6,348,308.21	9,415,039.72
Others	3,062,204.09	1,201,189.98
Total	127,316,292.44	128,522,009.84

(23) Asset impairment provisions

	Provision for bad debts	Provision for loan loss	Provision for loss from inventories	Provision for fixed asset impairment	Total
Opening balance	518,816,998.69	60,700,000.00	216,075,452.65	29,753,257.12	825,345,708.46
Provision in the year	135,296,007.56	-	921,011,029.65	-	1,056,307,037.21
Impact of business combinations under same control upon opening balance	28,686,884.98	-	-	99,569.26	28,786,454.24
Reversal in the year	(83,941,655.37)	(56,100,000.00)	(105,813,662.49)	-	(245,855,317.86)
Writing-off in the year	(16,759,955.36)	-	(819,046.07)	(8,354,400.52)	(25,933,401.95)
Reduction from disposal of subsidiaries	(673,647.23)	-	-	(11,782,705.95)	(12,456,353.18)
Foreign currency translation difference	302,300.32	-	28,028.00	-	330,328.32
Closing balance	581,726,933.59	4,600,000.00	1,030,481,801.74	9,715,719.91	1,626,524,455.24

The change in preparation for borrowing loss of funds lent to other financial institutions in the period was a result of the fluctuation in USD exchange rate. Refer to Note 6 (2) for detail.

(Rmb)

(24) Short-term loans

	31 December 2007	31 December 2006
Bank loans		
Credit loans	19,839,730,015.58	18,708,038,105.62
Loans on mortgage	25,000,000.00	-
Guaranteed loans	8,613,300.00	21,411,510.00
Loans by pledge	607,785,228.59	215,689,925.62
Total	20,481,128,544.17	18,945,139,541.24

At the balance sheet date, among the Group's short-term loans, annual interest rate ranges from 5.43% to 6.93% for short-term loans in Rmb (from 4.86% to 6.696% in 2006); and it ranges from LIBOR+0.2% to LIBOR+0.8% for short-term loans in USD (LIBOR+0.34% to LIBOR+0.55% in 2006). Annual rate in Yen (Japan) is 1.24% (0.83% in 2006) and it ranges from LIBOR+0.35% to LIBOR+0.45% in Euro (LIBOR+0.42% to LIBOR+0.55% in 2006).

The foreign currency translation rate is Rmb 7.3046 (2006: 7.8087) vs. 1 USD; Rmb 0.0641 vs. 1 Yen (Japan) (2006: 0.0656); Rmb 10.6669 vs. 1 Euro (2006: 10.2665).

As on 31 December, 2007, an original value of Rmb 74,445,077.87 (book value: Rmb 58,671,164.19) of the Group's fixed assets was used as a pledge for a bank loan of Rmb 25,000,000.00. As on 31 December, 2007, among the pledges for the short-term loans, those for a total of Rmb 36,000,000.00 are bank notes, while the rest are unexpired discounted commercial acceptance bills of exchange. As on 31 December, 2007, among the guaranteed loans of the Group, Rmb 7,113,300.00 is collateralized by a guarantee letter issued by Mitsui & Co. Ltd. and Rmb1,500,000.00 is jointly guaranteed by Lakeside Materials Co., Ltd. and No.1 Carbonizing Factory, both in the city of Wuxi.

(25) Transactional financial liabilities

	31 December 2007	31 December 2006
Derivative financial liabilities	174,951,938.47	9,170,958.85

(26) Notes payable

	31 December 2007	31 December 2006
Bank acceptance bills of exchange	997,624,496.42	-
Commercial acceptance bills of exchange	2,343,433,751.47	1,846,992,658.85
	3,341,058,247.89	1,846,992,658.85

As at 31 December 2007, no balance in the account is due from shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power (2006: None).

(27) Trade payable

Trade payable is not interest-bearing and is usually paid within a period of three months.

As at 31 December 2007, the balance of the account included Rmb 4,832,057.00 (2006: Rmb 108,146,254.57) which were attributable to shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power. Refer to Note 8, "affiliated party relationships and transactions", for details.

As at 31 December 2007, trades payable with an age over one year, totaling Rmb 1,559,872,892.22, were uncleared constructions fees for technique updating and infrastructure projects, which last for a long period.

(Rmb)

(28) Advance receipt

	31 December 2007	31 December 2006
Advance receipt	9,337,924,203.53	7,207,058,563.81

As at 31 December 2007, the balance of the account included Rmb 3,490,970.85 (31 December 2006: Rmb433, 690.84) which were attributable to shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power. Refer to Note 8, "affiliated party relationships and transactions", for details.

The ages of payments in advance in significant amount in the Group were all within one year as on31 December 2007.

(29) Employee compensations payable

	1 January 2007	Increase of year	Decrease of year	31 December 2007
Wages, bonuses, allowances and subsidies	1,027,960,340.11	4,533,620,446.23	(4,515,240,376.59)	1,046,340,409.75
Welfare expenses	346,955,112.22	79,633,206.80	(426,588,319.02)	-
Social insurances				
Including: Medical insurance	837,394.50	245,150,972.62	(245,956,221.97)	32,145.15
Basic endowment insurance	3,151,471.14	608,623,975.46	(607,345,829.32)	4,429,617.28
Complementary endowment insurance	1,959,026.97	124,692,996.08	(126,051,108.50)	600,914.55
Unemployment insurance	938,866.90	55,175,569.42	(55,898,280.70)	216,155.62
Work injury insurance	195,229.59	14,081,330.08	(14,045,957.24)	230,602.43
Maternity insurance	37,902.80	13,497,736.78	(13,468,058.94)	67,580.64
Employment for the injured	768,817.78	18,880,141.90	(18,893,797.89)	755,161.79
Others	2,611,676.50	35,944,211.70	(31,745,953.75)	6,809,934.45
Housing accumulation fund	169,299.82	173,322,216.46	(173,265,319.18)	226,197.10
Labor union expenditure and employee education expenses	115,568,869.12	178,101,168.38	(182,243,290.86)	111,426,746.64
Compensations for the cancellation of the labor relationship	277,580,430.33	353,283,255.43	(151,276,532.10)	479,587,153.66
Others	17,015,725.52	245,103,635.38	(221,083,481.42)	41,035,879.48
Total	1,795,750,163.30	6,679,110,862.72	(6,783,102,527.48)	1,691,758,498.54

As on 31 December 2007, the total employee compensation payable amounted to Rmb 982,397,188.61 (Rmb 982,397,188.61 in the previous year), including unpaid portion which was accounted in line with work efficiency.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(30) Taxes and fees payable

	31 December 2007	31 December 2006
VAT	287,760,678.62	(31,028,528.49)
Business tax	20,691,142.39	15,582,194.69
Enterprise income tax	426,958,670.73	934,483,743.90
Individual income tax	93,654,912.84	59,063,565.79
Property tax	1,634,660.34	46,589,593.26
City construction and maintenance taxes	58,442,147.47	32,167,245.70
Others	175,496,687.26	136,544,731.95
Total	1,064,638,899.65	1,193,402,546.80

Details about methods to provisions of taxes and fees and tax rates are presented in Note (4), "Taxation".

(31) Dividends payable

	31 December 2007	31 December 2006
Dividend payable to Baosteel Group	-	517,633,725.92
Dividend payable to minority shareholders of subsidiaries	4,553,376.33	1,131,230.49
Total	4,553,376.33	518,764,956.41

(32) Other payables

	31 December 2007	31 December 2006
Guarantee and deposit fees	420,870,885.05	226,473,645.39
Advanced fund	167,168,778.30	155,640,776.89
Transportation and port dues	96,656,240.58	128,832,141.41
Profit for sales promotion	59,562,131.32	53,133,917.03
Construction fee payable	1,671,426.10	21,616,037.79
Safety risk fund	-	19,738,000.00
Rent	5,904,481.13	17,714,184.71
Land compensation	15,600,000.00	15,600,000.00
Return payable	55,841,486.86	15,525,363.43
Relief fund	13,016,932.34	13,016,932.34
Commission expense	21,793,812.01	12,158,085.61
Others	193,812,647.71	221,391,119.69
Total	1,051,898,821.40	900,840,204.29

As at 31 December 2007, the balance of the account included Rmb 52,891,647.44 (31 December 2006: Rmb 120,787,379.04) which were attributable to shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power. Refer to Note 8, "affiliated party relationships and transactions", for detail.

The age of the following trade receivable in significant amount in the Group is over one year as on 31 December 2007:

Nature	Amount payable	Reason for delay
Guarantee and pledge	69,355,090.47	Longer period of contract term

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(33) Long-term borrowings

	31 December 2007			Type	Rate	Duration
		Original currency	Translated Rmb			
ICBC			3,700,000,000.00	Credit loan	5.265%-5.913%	5 years
ICBC	Yen	879,290,999.85	56,362,553.09	Guarantee loan	4.19%	4.5 years
CCB			2,705,000,000.00	Credit loan	5.265%-6.78% or base rate *90%	3-8 years
CCB	USD	519,545.07	3,795,068.92	Credit loan	6.35%	12 years
CCB	USD	51,800,000.00	378,378,280.00	Credit loan	6.43-6.64%	10 years
CCB	Euro	23,001,538.96	245,355,115.93	Credit loan	FIBOR+0.305%	13 years
BOC			300,000,000.00	Credit loan	5.832%	2 years
BOComm			1,000,000,000.00	Credit loan	5.832%	4 years
SDB			100,000,000.00	Credit loan	5.27%	5 years
CCB			200,000,000.00	Credit loan	5.83%	2 years
CEB			200,000,000.00	Credit loan	5.43%	5 years
EIBC			4,000,000,000.00	Credit loan	4.05-5.832%	3 years
EIBC	USD	100,000,000.00	730,460,000.00	Credit loan	5.70125%	3 years
SMBC			16,090,000.00	Credit loan	6.48%-6.723%	1.5-3 years
SMBC	USD	760,000.00	5,551,496.00	Credit loan	5.315%	3 years
CDB			1,500,000,000.00	Credit loan	5.832%	5 years
Baosteel Group (Via Finance Co.)			3,500,000,000.00	Credit loan	4%	3 years
Less: Current portion of long-term borrowing						
	Rmb		2,027,651,496.00			
	USD		63,692,788.92			
	Euro		61,338,778.99			
	Yen		56,362,553.09			
Total			2,209,045,617.00			
			16,431,946,896.94			

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

		31 December 2006		Type	Rate	Duration
		Original currency	Translated Rmb			
ICBC			2,220,000,000.00	Credit loan	4.86%-5.022%	2 years
ICBC	USD	945,567.30	7,383,651.38	Guaranteed loan	6.25%	11 years
ICBC	Yen	2,286,721,571.80	150,008,935.11	Guaranteed loan	4.19%-4.79%	3-5 years
CCB			1,315,024,150.00	Credit loan	4.86%-5.3%	3-8 years
CCB			35,055,125.00	Pledge loan	5.18%	3 years
CCB	USD	1,560,940.31	12,188,914.60	Credit loan	6.35%	12 years
CCB	USD	60,000,000.00	468,522,000.00	Credit loan	LIBOR+1%~ LIBOR+1.2%	1-10 years
CCB	Euro	28,751,923.70	295,181,624.68	Credit loan	FIBOR+0.305%	13 years
BOC			1,000,000,000.00	Credit loan	5.022%	2 years
BOC	HKD	1,674,577.93	1,682,448.45	Pledge loan	10.25%	10 years
BOComm			860,000,000.00	Credit loan	4.86-5.022%	4 years
SDB			100,000,000.00	Credit loan	4.86%	1-5 years
CMB			200,000,000.00	Credit loan	Base rate*90%	2 years
CEB			200,000,000.00	Credit loan	4.860%	5 years
JBIC	USD	3,675,000.00	28,696,972.50	Guaranteed loan	LIBOR	1-9 years
EIBC			3,000,000,000.00	Credit loan	4.05%	3 years
SMBC	USD	1,520,000.00	11,869,224.00	Credit loan	5.32%	3 years
SMBC	Yen	8,764,006.10	574,918.80	Credit loan	2.125%	3 years
Less: Current portion of long-term borrowing						
	Rmb		35,055,125.00			
	USD		129,318,735.36			
	Euro		59,036,324.43			
	Yen		92,655,070.10			
Total			316,065,254.89			
			9,590,122,709.63			

Of the long-term loans of the Group as on the balance sheet day, Yen 879,290,999.85 (equal to Rmb 56,362,553.09) is collateralized by a guarantee letter issued by the Shanghai branch of the Industrial & Commercial Bank of China.

The long-term loans of the Group other than the above-mentioned one as on the balance sheet day were all credit ones. The applicable foreign exchange rates are Rmb 7.3046 (2006: Rmb 7.8087) v. one U.S. Dollar; Rmb 0.0641 (2006: Rmb 0.0656) against one Japanese yen; Rmb 10.6669 (2005: Rmb 10.2665) against one Euro, and Rmb 0.9364 (2006: 1.0047) against one HKD.

As on the balance sheet date, the outstanding balance of the Group and the Company's long-term loans included commercial loans of Rmb 305,512,737.94 from the China Construction Bank and the Industrial & Commercial Bank of China as the overseas banks' back-to-back long-term loans.

Bank credit-granting quota

As at 31 December 2007, the remaining bank credit-granting quota of the Company was Rmb 54 billion. The management of the Company believes that this quota and cash flow from operating activities would be adequate for the current liabilities due in the coming year.

(Rmb)

(34) Special payables

Type	Opening balance	Increase of year	Decrease of year	Closing balace
Appropriation for science and technology from previous year	39,352,903.75	-	(13,918,442.24)	25,434,461.51
Others	7,474,000.00	-	(7,474,000.00)	-
	46,826,903.75	-	(21,392,442.24)	25,434,461.51

(35) Long-term amount due to holding company

	31 December 2007	31 December 2006
Payment for acquisition of assets of Phase-3	1,600,000,000.00	2,400,000,000.00
Payment for acquisition of parts of assets in custody	-	600,000,000.00
Others: Loan to Bao-Trans Enterprise	-	11,218,602.02
Total of long-term amount due to holding company	1,600,000,000.00	3,011,218,602.02
Less: amount due within one year payment for acquisition of assets of Phase-3	800,000,000.00	800,000,000.00
Payment for acquisition of parts of assets in custody	-	600,000,000.00
	800,000,000.00	1,400,000,000.00
Balance of long-term amount due to holding company		
Payment for acquisition of assets of Phase-3	800,000,000.00	1,600,000,000.00
Others: Loan to Bao-Trans Enterprise	-	11,218,602.02
	800,000,000.00	1,611,218,602.02

The payment for the acquisition of assets for Phase-3 is unsecured and will be paid by installments to BGC, the parent company, from 2003 to 2009, in accordance with the Agreement of the Acquisition of Assets for Baosteel Phase-3 Construction as well as the Supplementary Agreement of the Acquisition of Assets for Baosteel Phase-3 Construction. As specified in the agreements, the Company shall pay Rmb 2, 600mn each year, from 2003 to 2006, and Rmb 800mn each year, from 2007 to 2009. The installment payments from 2003 to 2005 are not interest bearing; interest on the payments from 2006 to 2009 totals Rmb 800mn, and is due and shall be paid in the last five working days of December each year from 2002 to 2009. By 31 December 2006, the Company had paid a total interest of Rmb 656,000,000.00, including Rmb 80,000,000.00 paid in 2007, Rmb 148,000,000.00 in 2006, Rmb 148,000,000.00 in 2005, Rmb 152,000,000.00 in 2004, Rmb 120,000,000.00 in 2003, and Rmb 52,000,000.00 in 2002.

The payment for the acquisition of parts of assets in custody is unsecured and is not interest-bearing. It shall be paid by installments to the holding company BGC from 2003 to 2007, as laid down in the Agreement on Assets Acquisition signed on 29 October 2002. Based on this agreement, the Company shall pay Rmb 600 million each year from 2003 to 2007. The amount paid this year was Rmb 600 million.

Other long-term payments due to holding company included the long-term loan from Baosteel Group to Bao-Trans Enterprise, with a duration period of more than one year. The loan was unsecured and was not interest-bearing and it has been repaid in the reported period.

(36) Other non-current liabilities

Other non-current liabilities in the Group as on the balance sheet date mainly included the deferred profit due to government subsidies.

(Rmb)

(37) Share capital

The registered and paid-up capital of the Company totals Rmb 17,512,000,000 with par value of Rmb 1 each. The share class and structure is as follows:

	Opening balance Share	Additions and deductions for the year				Closing balance Share
		New share	Warrant	Expiration of time limit for share selling	Sub-total	
1. Shares with conditional right						
State-owned (held by SNGC)	12,776,517,441	-	-	(875,600,000)	(875,600,000)	11,900,917,441
Total shares with conditional ight	12,776,517,441	-	-	(875,600,000)	(875,600,000)	11,900,917,441
2. Shares without conditional rights						
Rmb ordinary share	4,735,482,559	-	-	875,600,000	875,600,000	5,611,082,559
Total shares without conditional right	4,735,482,559	-	-	875,600,000	875,600,000	5,611,082,559
3. Total outstanding shares	17,512,000,000	-	-	-	-	17,512,000,000

As at the end of 2007, 31 December, the Group holds 1,052,600,000 common shares of the total non-restricted stocks.

In accordance with the reform program reviewed and approved on the 2005 First Interim Shareholders' Meeting held on 12th August 2005, the Baosteel Group, the only non-tradable shareholder of the Company, shall make tradable its shares in the consideration of a payment of 2.2 shares for every ten tradable shares the holders have registered on the day of registration and a European style warrant of subscription right with an expiry period of 378 days till 10th august 2006 and an excise price of 4.50. The non-tradable share of the Group shall circulate on market when credits are made to the accounts of the shareholders. After the implement of the program, the total capital stock of the Company is still 17,512,000,000 and financial indexes such company assets, debts, owners' equities and earnings-per-share remain unchanged.

Baosteel Group has made the following promises for the above purpose: The Group shall not sell the new shares and is obliged to disclose the related information within the six months after the implementation of the program; within the twelve months since it is entitled the right to trade its shares, the Group shall not sell or transfer the Company's shares, and only twenty-four months after the entitlement the Group's shares shall be listed on the market; the total sales of the Company's shares the Group has conducted in stock exchanges within the thirty-six months since it is entitled circulating right of its shares shall not be more than five per cent of the total share of the Company and the price shall not be less than 5.63 per share; and within the three years since the entitlement, the shares of the Company that the Group owns shall not be less than 67 per cent of the total of the Company. However, new shares of the Company that the Group has acquired after the reform program shall be out of the province of the above limitations in regard of trading and transferring.

Baosteel Group has also promised that, in two month after the reform, if the A shares of the Company fall at a level below 4.53 per share, the Group shall inject no more than Rmb 2 billion in the aggregation to purchase the general public shares of the Company by means of competitive pricing at the Stock Exchange of Shanghai. The Group shall not sell the newly owned shares and is obliged to disclose the related information within the six months after the promotion program. Up to 21st September 2005 the Group had fulfilled the promise of Rmb 2 billion injection, with its holding of the Company amounting to 446,565,849 shares.

In order to further the non-tradable share reform program so as to prevent the Company's shares from irrational fluctuating and protect the interests of the investors, Baosteel Group made further efforts by promising the Company and its shareholders that, in case that the shares of the Company drop to a level below 4.53 per share six months after the above-mentioned two-month period, the Group shall inject another sum of no more than Rmb 2 billion in the aggregation, together with the remaining of the first injection if it has not being used up, to purchase the Company's shares by means of competitive pricing at the Stock Exchange of Shanghai until the promised sum has been used up or the Company's shares rise at a level above 4.53 per share. The promise shall be fulfilled before the China Securities Regulatory Commission exempts the Group from the duties in purchasing the shares of the Company and the non-tradable share reform program will be approve by the Company's Shareholders' General Meeting. The Group shall not sell the newly purchased shares and is obliged to disclose the related information within the six months after the supporting program. The document No. [2005]95 issued by the China Securities Regulatory Commission has agreed to exempt the Group from the duties in the purchase referred to. Up to 31 December 2005, 412,183,690 more shares were purchased by the Group. During 1 to 5 January, 2006, the Group increased its shares of the Company by 79,596,591. Up to 5 January 2006 the Group had fulfilled the promise of the second Rmb 2-billion injections, with its holding of the Company's shares amounting to 491,780,281.

On 15 April, 2006, the six-month duration as the time limit for share selling for the 446,565,849 shares of the Company owned by Baosteel Group with a first injection of Rmb 2 billion expired and the shares could be traded on the stock market. On 31 August, 2006, the European warrant was expired and some shareholders with tradable shares purchased 5,542,559 shares of the Company from Baosteel Group. On 16th October, 2006, the six-month duration as the time limit for share selling for the 491,780,281 shares of the Company owned by Baosteel Group with a second injection of Rmb 2 billion expired and the shares could be traded on the stock market.

With the promise that "total sales of the Company's shares the Group has conducted in stock exchanges within the thirty-six months since it is entitled circulating right of its shares shall not be more than five per cent of the total share of the Company", in the year of 2007 the 875,600,000 conditional shares of the Company held by the Group were converted to non-conditional ones, and the Group sold 761,346,130 of the Company's non-conditional shares.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54

(Rmb)

(38) Capital reserves

	1 January 2007	Impact of business combinations under same control upon opening balance / Increase of year	Decrease of year	31 December 2007
Reserve from conversion of state-owned share	5,726,556,609.73	-	-	5,726,556,609.73
Share premium	26,236,613,490.51	453,055,234.19	(601,183,901.66)	26,088,484,823.04
Reserve for equity investment	34,028,658.53	1,831.46	(15,647,516.05)	18,382,973.94
Change in pair value	228,930,686.40	921,536,045.19	-	1,150,466,731.59
Income tax impact due to change in pair value	(36,939,102.94)	-	(258,257,517.44)	(295,196,620.38)
Other capital reserves	800,001,235.06	162,443,601.01	(5,333,749.22)	957,111,086.85
Total	32,989,191,577.29	1,537,036,711.85	(880,422,684.37)	33,645,805,604.77

(1) The change in share premium for the year, Rmb 453,055,234.19, was resulted from the impact of a business combination under the same control (acquisition of Nantong Steel in 2007) upon the opening balance. The reduction in share premium was the result of recording into share premium under capital reserve of the negative balance between the combination cost and the net asset of the acquired enterprise in a combination under the same control (acquisition of Nantong Steel in 2007).

(2) Changes in this year's reserve for equity investment are mainly due to the change in the accounting of the capital reserve of associates and joint ventures by the equity method.

(3) The change in fair value is mainly due to change in capital reserve resulted from change in the fair value of assets available for sale held by the Group.

(4) Other changes in capital reserve for the Group in the reported period are mainly contributed to by the refund from the funding of the port construction in accordance with the relevant regulations of the Ministry of Transport and the Ministry of Finance on collection of port construction fee.

(39) Earnings reserve

	Opening balance	Increase of year	Decrease of year	Closing balance
Statutory earnings reserve	5,267,956,073.21	994,767,864.04	-	6,262,723,937.25
Discretionary earnings reserve	8,539,408,412.99	994,767,864.04	-	9,534,176,277.03
Total	13,807,364,486.20	1,989,535,728.08	-	15,796,900,214.28

According to the Company Law of China and the Corporate Charter, the Company allocates 10% of its net profit as a statutory earnings reserve until the reserve has accumulated to reach 50% of the Company's registered capital.

The discretionary earnings reserve is allocated after the statutory earnings reserve. As is approved, the discretionary earnings reserve can be used to make up the loss from the previous year or converted into the Company's share capital.

(40) Undistributed profit

	2007	2006
Opening balance of retained earnings	16,936,323,133.48	12,591,395,511.37
Initial implementation of new standards	84,868,330.38	(375,736,260.49)
Undistributed profit at beginning of year	17,021,191,463.86	12,215,659,250.88
Net profit	12,718,334,521.04	13,077,141,563.52
Decrease of the year	(8,118,735,728.08)	(8,271,609,350.54)
Less: Surplus reserve	(1,989,535,728.08)	(2,667,769,350.54)
Dividend distributed	(6,129,200,000.00)	(5,603,840,000.00)
Closing balance of retained earnings	21,620,790,256.82	17,021,191,463.86

Details about impacts of initial implementation of new accounting standards upon undistributed profit at the beginning of year are specified in Note 3 (26).

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(41) Minority interests

Minority interests of major subsidiaries of the Group:

	31 December 2007	31 December 2006
Yantai Lubao	146,558,889.35	123,701,457.64
Huangshi Coating & Galvanizing	76,985,432.27	67,682,249.47
Subsidiaries of Baosteel International	739,404,320.68	483,356,727.42
Meishan Steel and its subsidiaries	2,937,041,744.10	2,710,753,974.35
Ningbo Baoxin and its subsidiaries	956,721,997.96	1,026,940,412.98
Baosight Software and its subsidiaries	296,689,534.99	248,101,056.92
Finance Co.	613,300,168.76	341,255,969.44

(42) Business revenue and business cost

Business revenue

	2007	2006
Revenue from principal businesses	189,812,328,905.19	161,375,008,036.91
Revenue from other businesses	1,461,164,611.42	767,160,800.87
Total	191,273,493,516.61	162,142,168,837.78

Revenue and cost from principal businesses:

	2007		2006	
	Revenue	Cost	Revenue	Cost
Sales of goods	184,266,083,123.19	156,305,207,200.28	156,129,581,273.63	129,078,459,466.56
Others	5,546,245,782.00	5,248,875,742.24	5,245,426,763.28	4,782,151,572.53
	189,812,328,905.19	161,554,082,942.52	161,375,008,036.91	133,860,611,039.09
Total revenue from top five customers	15,644,055,094.20		16,993,335,076.39	
Ratio in total business revenue	8%		10%	

(43) Operating taxes and surcharges

	2007	2006
Sales tax	89,574,073.08	49,201,274.78
City construction tax & educational surcharge	842,367,161.66	635,157,586.82
Tariff	291,299,243.10	-
Others	29,120,095.09	11,361,074.48
	1,252,360,572.93	695,719,936.08

Refer to Note 4, “Taxation”, for relevant criteria and tax rates for the above items.

(Rmb)

(44) Financial expenses

	2007	2006
Interest expenses	1,878,363,285.21	1,408,683,068.34
Less: Interest income	80,932,430.68	63,329,762.15
Foreign exchange translation losses/gains	(889,443,311.12)	(382,728,601.97)
Others	47,064,067.02	55,194,002.14
	955,051,610.43	1,017,818,706.36

(45) Asset impairment loss/(reversal)

	2007	2006
Loss from bad debts	51,354,352.19	32,768,917.81
Loss from loans/(reversal)	(56,100,000.00)	43,378,868.00
Loss from provision for inventories/(reversal)	815,197,367.16	(610,980,589.42)
Loss from provision for fixed assets/(reversal)	-	(9,841,065.33)
Total	810,451,719.35	(544,673,868.94)

(46) Income from change in fair value

	2007	2006
Transactional financial assets	193,587,403.55	97,590,790.01
Transactional financial liabilities	(165,780,979.62)	(14,011,248.00)
Total	27,806,423.93	83,579,542.01

(47) Investment income

	2007	2006
Profit from investment on basis of cost method	200,474,755.06	101,645,292.41
Stock investment income	504,529,024.73	179,934,510.28
Bond investment income	123,378,853.89	28,684,654.25
Fund investment income	2,601,269.21	68,797,840.11
Loss from investment in forward exchange contracts and interest rate swaps	(168,679,540.89)	-
Recognized net profit and loss received from associates and joint ventures	722,759,370.10	572,873,837.06
Profit/(Loss) in equity transfer investment	109,461,240.66	(144,587,196.76)
Amortization of balance in equity investment	-	(24,648,612.48)
Others	4,097,949.52	1,239,923.82
Total	1,498,622,922.28	783,940,248.69

As at 31 December 2007, no significant limits existed regarding investment income repatriation.

(Rmb)

(48) Income tax expenses

	2007	2006
Current income tax expenses	5,965,690,506.58	5,643,862,598.80
Deferred income tax expenses	(80,632,854.39)	(40,231,352.36)
	5,885,057,652.19	5,603,631,246.44

Relationship between income tax and total profit:

	2007	2006
Total profit	19,307,687,400.38	19,204,288,486.33
Taxation by LTR (Note 1)	6,371,536,842.13	6,337,415,200.49
Adjustment to previous taxation	(68,996,552.97)	(220,054,600.37)
Tax-free revenue	(324,413,603.41)	(282,357,268.41)
Undeductible tax expense	119,727,328.34	134,800,047.41
Impact of change in tax rate (Note 2)	156,554,693.39	-
Previous tax loss used	(6,882,161.78)	(20,396,208.49)
Unrecognized tax loss	27,470,599.28	1,189,462.52
Subcharge preference	(295,405,408.41)	(202,974,455.29)
Others	(94,534,084.38)	(143,990,931.42)
Taxation by ETRs of the Group	5,885,057,652.19	5,603,631,246.44

Notes: 1. The income tax of the Group is based on the amounts of taxable income the Group has obtained in China at the tax rate applicable to the period. Taxation on the taxable income obtained in other countries is measured on basis of local laws, interpretations and conventions, and tax rate applicable.

2. The Enterprise Income Tax Law of the People's Republic of China (new enterprise income law) was approved by the Fifth Session of the Tenth National People's Congress closed on 16 March 2007. The new income law, with effect from 1 January 2008, includes a number of changes in enterprise income tax, one of them being that the tax rate is unified as 25 percent regardless of investment with or without foreign fund. The Group has adjusted the balances of deferred income tax asset and liability as at 31 December 2007 on basis of the estimated reversed temporary difference between the carrying amount of an asset or liability and the new tax base on income tax.

(49) Earnings per share

The basic earnings per share are calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public.

The basic earnings per share is calculated as follows:

	2007	2006
Profit		
Current net profits belonging to the shareholders of ordinary shares	12,718,334,521.04	13,077,141,563.52
Shares		
Weighted average number of ordinary shares issued to the public	17,512,000,000.00	17,512,000,000.00

As the Company owned no potential ordinary shares that likely possess dilution in the subsequent periods in 2006 and 2007, diluted earnings per share was not disclosed.

(50) Cash paid relating to other operating activities

Including: Flow of large sums of cash:

	2007	2006
Sales expenses	1,795,205,680.20	2,067,127,988.60
Management expenses	2,896,840,680.86	3,136,024,729.47

(Rmb)

(51) Cash flow from operating activities

	2007	2006
Reconciliation of net profit to cash flows from operations		
Net profit	13,422,629,748.19	13,600,657,239.89
Add: Provision for impairment losses of assets/(reverse)	810,451,719.35	(544,673,868.94)
Depreciation of fixed assets and investment properties	12,551,375,083.78	11,982,557,751.39
Amortization of intangible assets	144,720,159.78	40,579,011.82
Amortization of long-term deferred expenses	16,312,033.74	12,694,863.66
Losses on disposal of fixed assets, intangible assets and other long-term assets	275,771,644.00	73,100,745.70
Gains from change in fair value	(27,806,423.93)	(83,579,542.01)
Financial expenses	907,987,543.41	962,556,972.34
Income from investment	(1,498,622,922.28)	(783,940,248.69)
Increase in deferred income tax assets	(106,941,520.15)	(56,064,218.28)
Increase in deferred income tax liabilities	26,308,665.76	9,085,252.06
Decrease in inventories (less: increase)	(8,534,740,375.69)	(5,825,265,131.63)
Decrease in operating receivables (less: increase)	(4,350,467,715.82)	5,295,739,430.06
Increase in operating payables	5,869,275,101.22	529,725,888.10
Net cash flow from operating activities	19,506,252,741.36	25,213,174,145.47

(52) Business combinations

a. Business combinations under the same control

The year 2007 saw the Company's acquisition of the 92.5% equity Baosteel Group, the parent company of the Company, held of Nantong Steel with Rmb 649,996,652.44. The combination belongs to combination under the same control as the two parties were controlled by Baosteel Group, which was not contemporary. The equity transaction was completed on 1 October 2007, which was recognized as the date of combination. The Company owns an equity share of 92.5% after the combination, which makes Nantong Steel a subsidiary of the Company. The assets and liabilities accepted from the combination were measured on the basis of the book values of the assets and liabilities as on the date of combination.

Book values of assets and liabilities of Nantong Steel as on the combination day and the previous year on the balance sheet date are as follows:

	31 December 2007	31 December 2006
Current assets	774,035,300.27	614,532,120.52
Non-current assets	917,912,474.48	933,686,680.69
Current liabilities	(1,060,821,402.20)	(988,429,358.84)
Non-current liabilities	(70,563,874.70)	(70,000,000.00)
	560,562,497.85	489,789,442.37
Minority interests	(42,042,187.34)	(36,734,208.18)
Total	518,520,310.51	453,055,234.19
Balance (recorded in equity)	131,476,341.93	
Combination cost	649,996,652.44	
Including unpaid cash as at 31 December 2007	48,727,227.44	

Performance and cash flow of Nantong Steel from beginning of the year to combination date:

	1 January to 1 October 2007
Business revenue	2,223,243,474.03
Net profit	18,002,514.10
Net cash flow	(4,915,726.50)

(Rmb)

The acquistion of Nantong Steel on 1 October 2007 was considered a combination occurred at the beginning of the period (2007), since which the assets, liabilities, performance and cash flow have been consolidated in the financial statements of the Company. The opening balance has been adjusted in the consolidated balance sheet; the revenue, expense, and profit of the acquired enterprise from beginning of the period to the combination date were consolidated in preparing the consolidated income statement, and the cash flow-in and flow-out were of the acquired enterprise from beginning of the period to the combination date were consolidated in the consolidated cash flow statement. As no significant influence would have been resulted in the 2006 consolidated financial statements when a retroactive modulation were made for the 2006 performance of Nantong Steel, such a modulation has not been included in the year's financial statements. Such a retroactive modulation would make the following differences: the total asset and shareholders' equity as at 31 December 2006 would be Rmb 166.395 billion and Rmb 87.024 billion, respectively, while the business revenue and net profit for the year would be Rmb 164.450 billion and Rmb 13.604 billion, respectively. These differences would exert no significant impact on the total asset and shareholders' interest as at 31 December 2006 and business revenue and net profit of the year in the consolidated statements.

b. Business combinations not under the same control

In 2007, Baosteel International Trading, a subsidiary of the Company, injected Rmb 117,243,588 into Nanjing Baosteel Zhushang Metal Ware Co., Ltd. (Nanjing Zhushang), acquiring 51% equity of the invested enterprise. The equity transaction was completed in October 2007 and 31 October 2007 was recognized as the date of combination, since which Nanjing Zhushang has been consolidated in the financial statements of the Company.

Fair values and book values of identifiable assets and liabilities of Nanjing Zhushang as on the combination day as on the balance sheet date are as follows:

	31 October 2007 Fair value	31 October 2007 Book value
Current assets	144,739,219.51	144,739,219.51
Non-current assets	134,860,083.94	134,860,083.94
Current liabilities	(48,415,483.67)	(48,415,483.67)
	231,183,819.78	231,183,819.78
Minority interests	(113,280,071.69)	(113,280,071.69)
Total	117,903,748.09	117,903,748.09
Balance over combination cost recorded in profit and loss	(660,160.09)	
Combination cost	117,243,588.00	

Performance and cash flow of Nanjing Zhushang from combination date to end of the year:

	1 November to 31 December 2007
Business revenue	318,298.67
Net loss	(3,029,907.06)
Net cash flow	(47,153,017.42)

Net cash flow from the above subsidiaries from business combinations under the same control and those not under the same control:

	2007
Cash paid in acquisition of subsidiaries	718,513,013.00
Less: Cash owned by acquired subsidiaries	(275,349,910.45)
Net cash low in acquisition of subsidiaries	443,163,102.55

(Rmb)

(53) Disposal of subsidiaries

a. Former subsidiaries not consolidated in the period

	Place of registry	Businesses	Percentage of shares held		Percentage of total voting power		Reason for exclusion
			Before disposal	After disposal	Before disposal	After disposal	
Anhui Wanbao mining Co., Ltd. (Anhui Wanbao)	Chizhou	development and sales of non-metal mining products & providing mining equipment	53%	8%	53%	8%	Note 1
Bao-Island Trading Co., Ltd. (Bao-Island Trading)	Hong Kong	Trade of steel and iron	100%	-	100%	-	Note 2
Shanghai No.5 Pudong International Trading Co., Ltd. (No.5 Pudong International Trading)	Shanghai	Sales of steel and iron	90%	-	90%	-	Note 3
Shanghai Xinran Metal Co., Ltd. (Xinran Metal)	Shanghai	Recovery, processing & sales of Scrap steel	100%	-	100%	-	Note 4
Rizhao Baoxin Mining Resources Co., Ltd. (Rizhao Baoxin)	Rizhao	Mining & processing	51%	-	51%	-	Note 5
Shanghai Xinhua Steel & Iron Co., Ltd. (Xinhua Steel)	Shanghai	Disassembly of condemned & used ships	90%	-	90%	-	Note 5
Shanghai Baosheng Energy Co., Ltd. (Baosheng Energy)	Shanghai	Trade of coal	51%	-	51%	-	Note 5
Qingdao Baohan Transportation Co., Ltd. (Qingdao Baohan)	Qingdao	Cargo transportation	60%	-	60%	-	Note 5
Shanghai Baosteel Steel & Iron Resources Co., Ltd. (Baosteel Steel Resources)	Shanghai	Disassembly of condemned & used vehicles	100%	-	100%	-	Note 5
Shanghai Baoding energy Co., Ltd. (Baoding Energy)	Shanghai	Sales of coal and steel	51%	-	51%	-	Note 5

Notes: 1. In accordance with the equity transfer contract between Baosteel International, a subsidiary of the Company, and Baosteel Trading Co., Ltd. (Baosteel Trading), the Group transferred the 45% equity it held of Anhui Wanbao, with 31 July 2007 as the date of disposal. As a result, the equity of Anhui Wanbei the Group hold decreased from 53% to 8%. Anhui Wanbei has not been consolidated in the financial statements of the Group since 31 July 2007.

2. In accordance with the equity transfer contract signed in October 2006 between the Company and Baosteel Group, the Company transferred the 100% equity it held of Bao-Island Trading, with 1 January 2007 as the date of disposal. As a result, Bao-Island Trading has not been consolidated in the financial statements of the Group since 1 January 2007.

3: In accordance with the equity transfer contract signed in November 2006 between the Company and Baosteel Group, the Company transferred the 90% equity it held of No.5 Steel Pudong International Trading, with 1 January 2007 as the date of disposal. As a result, No.5 Steel Pudong International Trading has no longer been consolidated in the financial statements of the Group since 1 January 2007.

4. In accordance with the equity transfer contract signed in June 2007 between Baosteel International, a subsidiary of the Company, and Shanghai Baosteel Industry Co., Ltd. (Baosteel Industry), the Group transferred the 100% equity it held of Xinran Metal, with 31 July 2007 as the date of disposal. As a result, Xinran Metal has not been consolidated in the financial statements of the Group since 31 July 2007.

5. In accordance with the equity transfer contract signed in June 2007 between Baosteel International, a subsidiary of the Company, and Baosteel Trading, the Group transferred the 51%, 90%, 51%, 60%, 100% and 51% equity it held of Rizhao Baoxin, Xinhua Steel, Baosheng Energy, Qingdao Baohan, Baosteel Steel Source, and Baoding Energy, respectively, with 31 July 2007 as the date of disposal. As a result, the afore-mentioned companies have no longer been consolidated in the financial statements of the Group since 31 July 2007.

(Rmb)

Integrated financial information of afore-mentioned companies:

	Date of disposal	31 December 2006
Current assets	2,076,231,489.04	1,893,161,385.14
Non-current assets	241,219,589.18	188,343,332.01
Current liabilities	(1,886,748,734.03)	(1,647,412,006.45)
Non-current liabilities	(7,924,233.84)	(7,933,921.28)
	422,778,110.35	426,158,789.42
Minority interests	(52,859,507.34)	(52,607,807.80)
Balance of long-term equity investment after disposals	(2,990,125.47)	
Profit and loss from disposals	104,127,491.44	
Liabilities accepted	(105,828,800.54)	
Disposal consideration	365,227,168.44	
	1 January 2007 to date of disposal	
Business revenue	3,243,679,570.14	
Business cost	3,168,274,950.74	
Net profit	21,129,642.89	

b. Cash flow from disposal of subsidiaries

Net cash flow from disposals of the above subsidiaries:

	2007
Price of subsidiaries disposed (including liabilities accepted)	471,055,968.98
Cash received from disposals of subsidiaries	365,227,168.44
Less: Cash owned by subsidiaries	405,050,541.41
Net cash flow received from disposals subsidiaries	(39,823,372.97)

(54) Cash and cash equivalents

	2007	2006
Cash	9,353,589,268.58	16,181,233,056.54
Including: Cash reserve	1,811,031.91	1,924,933.30
Realizable bank deposit	9,303,665,212.76	16,122,607,801.37
Other realizable other monetary funds	48,113,023.91	56,700,321.87
Cash equivalent	5,755,900,000.00	-
Including: Purchases of resale financial assets	5,755,900,000.00	-
Closing balance of cash and cash equivalent	15,109,489,268.58	16,181,233,056.54

(Rmb)

7. Segment Reporting

Segment reporting consists of two forms:

(1) Primary segment report—business segment, and

(2) Secondary segment report—district segment.

When district segment is prepared, incomes are presented in the segment where customers belong, while assets are presented in the segment where the assets belong. As over 90% the assets of the Group are in China, only district segment on basis of districts where customers belong is presented.

The businesses of the Group are managed and organized according to the nature of each business and products and services it provides. Each segment makes a business unit, facing risks different from those in other segments and benefiting from products and services different from those of others.

Business segment is divided into steel, trade and others according to the industry where the Company and its subsidiaries belong. The steel segment consists of steel producing units and trade segment comprises trade units, while others include, among others, the finance unit, the chemical industry unit, the information unit. The district segment is divided into domestic segment and international segment according to place where a product is marketed. The business segments include:

Business segments	Branches and subsidiaries
Steel	the Company (excluding Chemical Branch), Meishan Steel, Ningbo Baoxin,Yantia Lubao, Huangshi Coating & Galvanizing,Yantai Baosteel, Baoyin Special Steel and other steel and iron producing units;
Trade	Baosteel International and its subsidiaries, Special Metal, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-Island Enterprises, Bao Brazil Trading and other trading subsidiaries;
Others	Finance Co., Chemical Branch of the Company, Baosteel Me chemical, Baosight Software, No.5 Steel Gas, Oriental Electronics and others.

The actual price of a transferred transaction among segments is based on current market price, with reference to the price at which a similar transaction is conducted with a third party.

As day-to-day activities of the Finance Co. are financial in nature, the investment income of Finance Co. has been included in the segment business income. Financial expenses, loss from asset impairment, profit and loss from changes in fair value and investment income (excluding Finance Co.) have been excluded from the segment business profit. The deferred income tax assets are not included in the segment assets, while short-term borrowings, current portion of non-current assets, long-term borrowings and deferred income liabilities have not been included in the segment liabilities.

(Rmb)

(1) Business segment

2007	Steel Rmb thousand	Trade Rmb thousand	Others Rmb thousand	Offset Rmb thousand	Total Rmb thousand
Business revenue	150,185,167	156,112,016	9,147,536	(123,251,222)	192,193,497
Including: External transaction income	40,001,304	147,382,229	4,809,964	-	192,193,497
Transaction income among segments	110,183,863	8,729,787	4,337,572	(123,251,222)	-
Business cost	133,172,304	154,255,970	7,295,363	(122,881,455)	171,842,182
Business profit	17,012,863	1,856,046	1,852,173	(369,767)	20,351,315
Total assets	167,558,690	35,559,317	28,488,021	(44,148,360)	187,457,668
Total liabilities	32,619,996	24,832,633	22,524,125	(25,859,420)	54,117,334
Complimentary information:					
Capital expenses	24,027,559	767,605	693,631	-	25,488,795
Depreciation or amortization expenses	12,303,041	250,245	159,121	-	12,712,407
Loss from asset impairment	564,957	191,576	(15,741)	69,660	810,452

2006	Steel Rmb thousand	Trade Rmb thousand	Others Rmb thousand	Offset Rmb thousand	Total Rmb thousand
Business revenue	124,634,207	144,842,999	7,453,917	(114,424,088)	162,507,035
Including: External transaction income	37,611,507	120,864,977	4,030,551	-	162,507,035
Transaction income among segments	87,022,700	23,978,022	3,423,366	(114,424,088)	-
Business cost	108,280,258	142,637,236	6,055,017	(113,788,276)	143,184,235
Business profit	16,353,949	2,205,763	1,398,900	(635,812)	19,322,800
Total assets	141,305,815	34,666,189	28,133,990	(39,995,004)	164,110,990
Total liabilities	25,668,210	26,391,628	22,675,935	(25,488,771)	49,247,002
Complimentary information:					
Capital expenses	17,968,396	433,824	158,635	-	18,560,855
Depreciation or amortization expenses	11,440,422	261,732	333,678	-	12,035,832
Loss from asset impairment	(613,584)	65,665	57,470	(54,225)	(544,674)

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(2) District segment

2007	Domestic market Rmb thousand	International market Rmb thousand	Offset Rmb thousand	Total Rmb thousand
External transaction income	170,138,207	22,055,290	-	192,193,497
Total assets	186,086,454	5,022,090	(3,650,876)	187,457,668

2006	Domestic market Rmb thousand	International market Rmb thousand	Offset Rmb thousand	Total Rmb thousand
External transaction income	145,784,850	16,722,185	-	162,507,035
Total assets	163,267,795	4,959,245	(4,116,050)	164,110,990

External transaction income includes:	2007 Rmb thousand	2006 Rmb thousand
Investment income of Finance Co.	634,511	181,469

Items not contained in segment business income, segment assets, and segment liabilities:

Items not contained in segment business income:

	2007 Rmb thousand	2006 Rmb thousand
Financial expenses	955,052	1,017,819
Losses from assets impairment	810,452	(544,674)
Losses and profits from changes in fair value	(27,806)	(83,580)
Investment income (excluding Finance Co.)	(864,112)	(602,471)
Total	873,586	(212,906)

Items not contained in segment assets:

	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Deferred income tax assets	878,127	735,667

Items not contained in segment liabilities:

	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Short-term borrowings	20,481,129	18,945,140
Current portion of non-current liabilities	2,209,046	316,065
Long-term borrowings	16,431,947	9,590,123
Deferred income tax liabilities	495,344	214,427
Total	39,617,466	29,065,755

(Rmb)

8. Related Party Relationships and Transactions

(1) Related party relationships

When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the affiliated party relationships are constituted.

The following parties constitute the affiliated parties of the Group:

(1) The parent company thereof;

(2) The subsidiaries thereof;

(3) Other enterprises under the control of the same parent company thereof;

(4) The investors having joint control over the enterprise;

(5) The investors having significant influence thereon;

(6) The joint ventures thereof;

(7) The joint management enterprises thereof;

(8) The main individual investors and the close family members thereof

(9) Key managerial personnel of the enterprise or of its parent company and the close family members thereof.

(10) Other enterprises the main individual investors, key managerial personnel, or close family members of such individuals control, jointly control or have significant influence over .

Enterprises are not regarded as related parties simply because they are all under the control of the state.

(2) Parent company and subsidiaries

Company	Place	Principal business	Ratio of share of the Company held	Voting power in the Company	Registered capital
Baosteel Group	Shanghai	Steel producing and processing	73.97%	73.97%	Rmb 49.478 billion

The ultimate controller of the Company is Baosteel Group, and details of the major subsidiaries of the Company are presented in Note (5), "Scope of consolidated financial statements".

(Rmb)

(3) Others affiliated parties

Entities affiliated to the Group in transactions:

Affiliated parties	Relationship with the Group
Bao-Island Trading Co., Ltd. ("Bao-Island Trading")	Brother companies
Baosteel Metal Co., Ltd. and its subsidiaries ("Baosteel Metal and its subsidiaries")	Brother companies
Shanghai Baosteel Engineering & Technology Co., Ltd. and its subsidiaries ("Engineering & Technology Co. and its subsidiaries")	Brother companies
Huabao Trust Co., Ltd ("Huabao Trust")	Brother companies
Baosteel Group Baoshan Hotel ("Baoshan Hotel")	Brother companies
Baosteel Development Co., Ltd. and its subsidiaries ("Baosteel Development and its subsidiaries")	Brother companies
Baosteel Group Shanghai No.2 Steel & Iron Co., Ltd. and its subsidiaries ("No. 2 Steel and its subsidiaries")	Brother companies
Baosteel Group Shanghai No.1 Steel & Iron Co., Ltd. and its subsidiaries ("No. 1 Steel and its subsidiaries")	Brother companies
Baosteel Group Shanghai Pipes Co., Ltd. ("Shanghai Pipes")	Brother companies
Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries ("Meishan Steel and its subsidiaries")	Brother companies
Baosteel Group Shanghai Pudong Steel & Iron Co., Ltd. and its subsidiaries ("Pudong Steel and its subsidiaries")	Brother companies
Baosteel Group Shanghai No.5 Steel & Iron Co., Ltd. and its subsidiaries ("No. 5 Steel and its subsidiaries")	Brother companies
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries ("Xinjiang Bayi and its subsidiaries")	Brother companies
Baosteel Trade Co., Ltd. and its subsidiaries ("Baosteel Trade and its subsidiaries")	Brother companies
Beijing Huili Real Estate Development Co., Ltd. ("Huili Real Estate")	Brother companies
Shanghai Baosteel Industrial Examination Co., Ltd. and its subsidiaries ("Examination Co. and its subsidiaries")	Brother companies
Nanjing Baori Steel Wires Co., Ltd. ("Baori Wires")	Brother companies
Shanghai Baosteel Technology & Economic Development Co., Ltd. and its subsidiaries ("Technology & Economic and its subsidiaries")	Brother companies
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. ("Examination & Maintenance Co.")	Brother companies
Shanghai Institute of Steel and Iron ("Institute of Steel and Iron")	Brother companies
Bao-Island Enterprises Limited	Joint venture
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. ("BNA")	Joint venture
Welding Co., Ltd.	Joint management Companies
Tianjin BCM	Joint management Companies

(Rmb)

(4) Affiliated transactions between the Group and Baosteel and its related companies:

(1). Sales to related parties

Related party	Note	2007 Rmb thousand	2006 Rmb thousand
Baosteel Group	(1)a	35,227	21,901
No. 1 Steel	(1)b	652,871	524,416
No. 2 Steel	(1)b	201,038	627,595
No. 5 Steel	(1)b	92,542	119,597
Pudong Steel	(1)b	1,367,082	2,225,542
Shanghai Pipes	(1)b	195,937	291,079
Baosteel Development	(1)b	3,095,932	3,748,496
Engineering & Technology Co.	(1)b	199,546	90,209
Baosteel Metal	(1)b	410,995	286,271
Baosteel-NSC/Arcelor Automotive Steel Sheets	(1)b	8,194,753	7,262,894
Meishan Steel	(1)b	1,380,808	1,799,806
Baori Wires	(1)b	123,031	86,321
Nantong Steel	(1)b	-	362,429
Examination & Maintenance Co.	(1)b	62,431	11,855
Examination Co.	(1)b	113,603	1,358
Technology & Economic	(1)b	97,922	296,816
Baosteel International Trade	(1)b	5,132,920	1,315,775
Welding Co.	(1)b	62,628	37,459
Tianjin BCM	(1)b	-	14,231
Others	(1)b	13,088	11,989
Total		21,432,354	19,136,039

(2). Sales from related parties

Related party	Note	2007 Rmb thousand	2006 Rmb thousand
No. 1 Steel	(2)a	213,916	1,137,008
No. 2 Steel	(2)a	15,529	52,931
No. 5 Steel	(2)a	99,079	107,398
Pudong Steel	(2)a	723,379	1,266,796
Engineering & Technology Co.	(2)a	863,461	475,945
Baosteel Development	(2)a	918,123	966,331
Nantong Steel	(2)a	-	192,631
Baosteel Metal	(2)a	30,188	18,625
BNA	(2)a	10,621,221	8,963,309
Examination Co.	(2)a	15,115	15,084
Examination & Maintenance Co.	(2)a	252,358	248,293
Shanghai Pipes	(2)a	4,753	3,421
Meishan Steel	(2)a	1,027,417	790,978
Technology & Economic	(2)a	105,793	59,039
Baosteel International Trade	(2)a	5,003,974	226,029
Tianjin BCM	(2)a	-	162,638
Bao-Island Trading	(2)a	1,732,004	-
Others	(2)a	111,098	936
Total		21,737,408	14,687,392

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(3). Other related transactions between the Group and Baosteel and its related companies:

Related transactions	Note	2007 Rmb thousand	2006 Rmb thousand
Transportation services provided	(3)a	273,068	54,762
Technical services provided	(3)b	32,000	56,102
Testing services provided	(3)c	37,205	50,186
Examination & maintenance fees paid	(3)d	1,647,420	913,077
Examination & checkout fees paid	(3)e	39,685	27,486
Research & technical support fees paid	(3)f	7,074	4,462
Processing fees paid	(3)g	393,156	222,716
Training fees paid	(3)h	23,354	22,410
Logistics services provided	(3)i	36,675	68,240
Logistics fees paid	(3)i	1,747,397	1,362,548
Transportation fees paid	(3)j	499,442	815,040
Leases paid	(3)k	152,417	189,428
Financial service income	(3)l	177,480	88,646
Financial service expense	(3)m	343,601	297,381
Interest expenses at acquisition of Phase-3 assets	(3)n	80,000	148,000
Baosteel Group (paid via Finance Co.) Interests for entrusted loans	(3)o	38,111	-
Engineering expenses	(3)p	678,927	523,521
Raw materials warehousing, shipping & labor services	(3)q	128,274	95,122
Equity acquisitions	(3)r	649,997	6,000
Equity transfers	(3)s	365,227	-
Equipment and subsidiary material agency income	(3)t	2,438	25,894

(Rmb)

Notes:

(1) Sales of products to the related party

(a) In 2007, the Group mainly sold BGC energy, raw materials and spare parts at market prices for a total amount of Rmb 35,227,083 (2006: Rmb 21,900,624)

(b) Since the Group completed the acquisition on 1 May 2005, the Group has provided steel products and byproducts for No.1 Steel, No.2 Steel, No.5 Steel, Pudong Steel, Meishan Steel, Technology and Economics, and Baosteel Development at the market price. Since 21 July, 2006, when Baosteel Trading was founded, the Group has provided it ores at market price. In 2007, the Group sold to these subsidiaries a value of Rmb 13,765,885,503 (2006: Rmb15,773,204,387) of major products and byproducts and a value of Rmb 6,425,299,073 (2006: Rmb 2,431,873,160) of other materials.

The sales of drinking water, industrial water, purified water, filtered water, electricity, and other types of energy the Group made to some of the Group's subsidiaries at the market price totaled Rmb 612,398,988 in 2007, as compared to Rmb 524,233,191 in the previous year.

The total value of spare parts the Group sold to some of the BGC subsidiaries reached Rmb 593,543,085 in 2007, compared to Rmb 384,827,489 in 2006.

(2) Purchases from related parties

(a) The Group has been purchasing spare parts from No. 5 Steel, Meishan Steel, Technology and Economic Co., Baosteel Development, and Examination & Maintenance; materials, such as steel and iron products and raw materials, from the BNC, Meishan Steel, Baosteel Development, Baosteel Trading, and Pudong Steel; and energies from No. 1 Steel. All purchases have been conducted at market prices.

The specific assets, spare parts, materials and energy the Group bought from the afore-mentioned companies in 2007 totaled Rmb 650,752,892 (2006: Rmb 346,868,294), Rmb 594,700,635 (2006: Rmb 493,062,053), Rmb 20,310,037,379 (2006: Rmb 13,673,813,454) and Rmb 181,916,948 (2006: Rmb 173,648,540), respectively.

(3) Other related party transactions

(a) The Group provided transportation services for Baosteel Group, BNA, Meishan Steel, Examination & Checkout, Baosteel Trading, and Pudong Steel based on contracted prices.

(b) The Group has provided Baosteel-NSC/Arcelor Auto Sheets and BGC and its subsidiaries with research projects, quality examination and testing and other technical services, at contracted prices.

(c) The Group has served as the examiner and tester for Baosteel-NSC/Arcelor Auto Sheets, with fees as agreed upon by the two parties in reference to the market price.

(d) Examination & Maintenance, Examination & Testing, Meishan Steel, No. 1 Steel, Meisteel, No. 5 Steel, Engineering & Technology, and Baosteel Development provided the Group with services of equipment and spare parts repair and maintenance and emergency repair for production facilities, equipment and machinery, electrical facilities, meter and measurement apparatus, plant structuring, and site development and construction. The service fees were based on market prices.

(e) Examination & Testing provided the Group on a regular basis with examination and testing services for its production facilities. Service fees were based on market prices.

(f) Engineering & Technology, Examination & Testing, Meishan Steel, and Examination & Maintenance provided, at negotiated prices, technical supports for the Group. Baosteel Baoshan Hotel provided, technical research related logistics services for the Group.

(g) No. 5 Steel served as a provider of spare parts processing for the Group at negotiated prices. Baosteel-NSC/Arcelor, Meishan Steel, and No.1 Steel provided supplementary material processing for the Group at negotiated prices.

(Rmb)

(h) Baosteel Group provided training to staff of the Group at negotiated prices.

(i) The Group provided Baosteel-NSC/Arcelor comprehensive logistic services such as production and labor at the negotiated price.

Baosteel Development, Meishan Steel, No. 1 Steel, and No. 5 Steel provided, at the contracted prices, services including cleaning, environmental safety, traffic control, food supplies, property management, and non-production maintenance, medical care and hygiene as well as production outsourcing.

(j) Baojin Shipping, Meishan Steel, No. 1 Steel, and No. 5 Steel are paid by the Group at contracted prices for transportation services.

(k) When founded, the Company signed a twenty-year agreement with BGC for the lease of the plant site land. In September 2001, the Company signed a further twenty-year lease agreement with BGC for the use of the land for the plant site for assets acquired in Phase 3. In November 2002, the Company signed a new twenty-year lease agreement with BGC for the land use of the plant site for assets in custody due to acquisitions. In the past year, the Group made an actual rental payment for Rmb 125,010,000 (2006: Rmb 125,010,000) to BGC.

The Group leased houses to such related parties as Baoshan Hotel and Baosteel Development at negotiated prices.

(l) The Group provided, via Finance Co., one of its subsidiaries, loans, discount and entrusted financing services and received interest income, discount income and fees from entrusted financing.

For Renminbi loans, the interest rate was the rate set by People's Bank of China; discount rate was decided on basis of the discount rate set by People's Bank of China; and prices of financing services were ones agreed upon between the involved sides.

(m) The Group received deposits from Baosteel Group and it subsidiaries and paid them interests at the Rmb interest rate as set by the People's Bank of China.

(n) In accordance with the Supplementary Agreement of the Acquisition of Assets for Baosteel Phase-3 Construction, the deferred interest related to acquisition payments by the Group to BGC shall be paid in the last five working days of December each year from 2002 to 2009. The details are presented in (35) of Note 6.

(o) According to the contract signed by the Group and Baosteel Group, the Group paid, via an account Finance Co., one of its subsidiaries, Baosteel Group entrusted loan interest every quarter of a year. The interest rate was decided on the basis of the market financing rate.

(p) Engineering & Technology provided engineering design services, construction, installation and management for the Group, with service fees based on contracted rates. Baosteel Development and Meishan Steel have been involved in the construction, supervision, and cost consultation and auditing work of the Group, with fees based on contracted rates. No.5 Steel provided services of pipe installation and cable laying at the contracted price.

(q) Examination & Testing and Baosteel Development provided material warehousing and transportation at negotiated prices.

(r) On 30 September 2007, the Group acquired the 92.5% Equity of Nantong Steel held by Boasteel, with a total amount of Rmb 649,996,652. The price was based on the net assets of the target equity in the asset assessing report as filed in the SASAC.

(s) The Group transferred the 100% equity it held of Bao-island Trading and 90% equity it held of Pudong International Trading and Commerce of No.5 Steel to Baosteel Group on 1 January 2007. It transferred the 100% equities it held of seven subsidiaries of Baosteel International and 45% equity it held of Anhui Wanbao to Baosteel Trading and Baosteel Metal on 31 July 2007. The afore-mentioned transfers totaled Rmb 365,227,168 and the prices were based on the net assets of the target equities in the asset assessing reports as filed in the SASAC.

(t) The Group sold subsidiary materials and spare parts to Examination & Maintenance, Engineering & Technology, Baosteel Development and Examination and Testing, with an agent fee of no more than 2.5%.

(Rmb)

(5) Balance of receivables and payables of related parties

Trade receivable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	5,518	6,143
Baosteel Development and its subsidiaries	87,713	38,920
Meishan Steel and its subsidiaries	99,934	142,610
Pudong Steel and its subsidiaries	519,683	153,390
No. 5 Steel and its subsidiaries	18,487	10,648
Baosteel International Trade and its subsidiaries	163,965	128,975
Engineering & Technology Co. and its subsidiaries	42,793	7,015
Examination Co. and its subsidiaries	33,859	2,896
Examination & Maintenance Co.	18,065	11,654
BNA	490,616	679,643
Welding Co.	10,716	-
Nantong Steel	-	48,060
Others	16,381	28,395
Total	1,507,730	1,258,349

Notes receivable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Development and its subsidiaries	204,375	506,465
No. 2 Steel and its subsidiaries	108,850	57,170
Meishan Steel and its subsidiaries	-	470,000
Pudong Steel and its subsidiaries	-	620,000
No. 5 Steel and its subsidiaries	1,645	13,930
Baori Wires	28,620	10,370
Tianjin BCM	29,602	-
Total	373,092	1,677,935

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

Advance payments	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Development and its subsidiaries	84,433	451
No. 2 Steel and its subsidiaries	-	51,094
Meishan Steel and its subsidiaries	17,873	32,543
Pudong Steel and its subsidiaries	36	48,036
Xinjiang Bayi and its subsidiaries	56,904	-
Baosteel International Trade and its subsidiaries	92,567	-
Engineering & Technology Co. and its subsidiaries	287,508	92,732
Technology & Economic and its subsidiaries	-	41,066
Examination & Maintenance Co.	30,296	-
BNA	284,020	282,795
Others	40,414	22,854
Total	894,051	571,571

Dividend receivable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Wuxi Bigamist	22,046	-

Other trades receivable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	-	1,211
No. 1 Steel and its subsidiaries	-	4,424
Meishan Steel and its subsidiaries	56,625	62,156
No. 5 Steel and its subsidiaries	1,554	2,073
Baosteel International Trade and its subsidiaries	-	56,058
Institute of Steel and Iron	-	1,209
Others	1,255	2,236
Total	59,434	129,367

(Rmb)

Loans granted and cash advances	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Development and its subsidiaries	33,278	46,136
No. 2 Steel and its subsidiaries	-	50,000
Pudong Steel and its subsidiaries	200,000	217,000
Baosteel International Trade and its subsidiaries	164,000	-
Baori Wires	22,000	43,000
Baosteel Metal and its subsidiaries	-	19,000
Engineering & Technology Co. and its subsidiaries	248,000	246,880
Examination & Maintenance Co.	90,779	15,000
Welding Co.	30,000	31,500
Others	30,332	27,000
Total	818,389	695,516

Trade payable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	4,832	108,146
Baosteel Development and its subsidiaries	244,267	229,316
No. 1 Steel and its subsidiaries	45,320	20,537
Meishan Steel and its subsidiaries	110,448	323,802
Pudong Steel and its subsidiaries	89,648	11,807
No. 5 Steel and its subsidiaries	25,726	67,803
Baosteel International Trade and its subsidiaries	338,554	-
Engineering & Technology Co. and its subsidiaries	185,465	75,024
Examination Co. and its subsidiaries	47,610	19,864
Examination & Maintenance Co.	109,012	77,804
BNA	273,949	86,936
Others	71,884	32,341
Total	1,546,715	1,053,380

(Rmb)

Advance receipts	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	3,491	434
Baosteel Development and its subsidiaries	140,264	30,432
No. 2 Steel and its subsidiaries	32,155	10,425
No. 1 Steel and its subsidiaries	17,541	98,094
Meishan Steel and its subsidiaries	134,273	7,372
Pudong Steel and its subsidiaries	10,992	128,000
Baosteel International Trade and its subsidiaries	20,098	480
Baosteel Metal and its subsidiaries	27,096	-
Tianjin BCM	13,587	-
Others	18,935	5,623
Total	418,432	280,860

Other payables	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	52,892	120,787
Baosteel Development and its subsidiaries	15,393	10,312
No. 5 Steel and its subsidiaries	879	5,130
Baosteel International Trade and its subsidiaries	5,000	-
Engineering & Technology Co. and its subsidiaries	1,358	294
Institute of Steel and Iron	938	1,644
Others	926	157
Total	77,386	138,324

(Rmb)

Notes payable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Development and its subsidiaries	100,524	-
Xinjiang Bayi and its subsidiaries	56,000	-
Baosteel International Trade and its subsidiaries	506,486	-
BNA	444,088	310,811
Others	48,035	11,942
Total	1,155,133	322,753

Acceptance of current deposits and deposits from or to other financial institutions	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	17,031,445	16,739,958
Bao-Island Trade	-	1,924,397
Xinjiang Bayi and its subsidiaries	311,948	-
Huabao Trust	-	673,000
Others	679,969	852,828
Total	18,023,362	20,190,183

Interests payable	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group	77,454	108,018
Xinjiang Bayi and its subsidiaries	3,216	-
Others	1,796	1,497
Total	82,466	109,515

Long-term borrowings	31 December 2007 Rmb thousand	31 December 2006 Rmb thousand
Baosteel Group (Entrusted loans via Finance Co.)	3,500,000	-

Receivables from and payables to related parties concerning related party transactions other than those under notes receivable, loans granted and cash advances, notes payable, deposits from or to other financial institutions, and long-term borrowings are free from interests, pledges, and maturity. Refer to Note 6 (35) for information about long-term payables to the controller.

(Rmb)

9. Contingencies

Up to the balance sheet date, the Group has no contingencies that need to be disclosed.

10. Leases

As leaser

Significant operating leases:

Minimum rents for unchangeable leases as specified in lease agreements with leases:

	31 December 2007	31 December 2006
1 year and within 1 year	151,667,419.71	131,242,589.06
2 years and 1-2 years	149,158,259.87	133,017,342.16
3 years and 2-3 years	130,469,355.21	128,061,048.84
Over 3 years	1,257,446,474.75	1,384,613,775.08
Total	1,688,741,509.54	1,776,934,755.14

11. Commitments

Capital commitments	31 December 2007	31 December 2006
Contracted but not provided for	17,960,912,192.96	25,395,276,062.10
Approved by the Board but not contracted	28,800,264,266.49	10,799,139,792.51
	46,761,176,459.45	36,194,415,854.61

(Rmb)

12. Financial Instruments and Risk Analysis

The financial instruments of the Group mainly include monetary funds, transactional financial assets, purchases of resale financial assets, loans granted and cash advances, short-term borrowings, acceptance of deposits and deposits from or to other financial institutions. These financial instruments are for financing for and investment on the Group's operation. The Group owns other types of financial assets and liabilities, such as trade and notes receivable and trade and notes payable, by a variety of means.

The Group engages in derivative transactions, mainly including forward contracts and interest rate exchange contracts, for the purposes of management of the operation of the Group and avoidance of currency risks and interest rate risks.

The Group's price risk exposure relates to market risks and financial risks. These risks are dealt with by following means: (1) a strict systematic procedure and a sound decision-making mechanism, which are being improved dynamically; (2) an information management system of financial instruments for transparency and follow-up services in financial transactions; (3) a system of process-control and inspection and review; and (4) improving the feasibility and scientific nature of decisions-making by means of bettering the qualification of related personnel's, analysis techniques, and teamwork.

Accounting policies of the Group concerning derivative financial instruments are specified in Note 3 (16).

Market risks

Market risk are related to potential change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

(1). Foreign-exchange risk

The Group's foreign currency risk exposure relates to fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business.

Transactions of purchase of raw materials and sales of products in the Group are primarily counted in dollars, which results a relatively great deficit. With the expectation of continuous strengthening of the Renminbi against the dollar, the demand for the dollar has been managed by means of borrowing and trade financing in the dollar, for some of which forward exchange contracts are used to lock in exchange rate risks from an initial stage. As the growth of appreciation of Renminbi against the dollar is expected to exceed that of the quota of forward exchange contract, the Company has been using an exposure policy to benefit itself from the exchange gain. At the same time, the Company practices dynamic research on the trend of Renminbi against the dollar and the forward exchange contract may be resumed to lock in the possible exchange rate risks resulted from its financing activities in the dollar.

As the one-way appreciation of the exchange rate of Renminbi against the dollar continues, funds will not be found to exert a negative impact on the performance of the Group. However, as the Renminbi is to be re-evaluated and its fluctuation becomes sharper, the rates of foreign currencies against Renminbi will probably bear upon the performance of the Group.

(2). Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values fluctuate as a result of changes in market prices. They are principally available-for-sale and trading financial assets carried at fair value through profit or loss.

Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

(Rmb)

Equity price risk

Equity price risk refers to potential loss in fair value of equity security resulting from adverse changes in a particular stock or stock index. As at 31 December 2007, the Group was exposed to equity price risks from individual equity investments which belong to transactional equity investment (Note 6(3)) and investment available for sale (Note 6(13)).

The exchange traded investment of the Group is at Shanghai Stock Exchange and is measured on basis of market quota on the balance sheet date.

The stock index on the day nearest to the balance sheet date at the following stock exchange and the highest and lowest closing prices in the year is as follows:

	31 December 2007	Highest/Lowest 2007	31 December 2006	Highest/Lowest 2006
Shanghai—A share indexes of Shanghai Stock Exchange	5,521	6,395/2,744	2,815	2,815/1,241

The following chart represents the sensitivity of the pre-tax profit and equity against every 5% change in fair value of equity instruments (on basis of thebook value as on the balance sheet date), while all other variables remain constant and before any impact of taxation is considered.

	Book value of equity investment Rmb thousand	Increase/decrease of pre-tax profit Rmb thousand	Increase/decrease in equity Rmb thousand
2007 Investments at following stock exchange:			
Shanghai——Investment available for sale	1,384,263	-	69,213
——Investment held for sale	636,862	31,843	-
2006 Investments at following stock exchange:			
Shanghai——Investment available for sale	254,657	-	12,733
——Investment held for sale	374,072	18,704	-

(3). Interest rate risk

The Group is exposed to interest rate risks primarily associated with its liabilities whose interests are calculated at a floating interest rate. The policy of the Group is to manage interest expense by means of combining liabilites with fixed rates and those with floating rates.

The interest rate of an Rmb borrowing of the Group is adjusted, when it is due or on any date as is specified in the contract, in line with corresponding base interest adjustment by the People's Bank of China. The risks of some long-term foreign currency borrowings with floating rates are managed by interest rate swaps, which lock in interest risks, while the rates of most short-term foreign currency borrowings are locked in for the whole period at the beginning.

Interest rate risks the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

Securities

	31 December 2007		31 December 2006	
	Transactional financial assets	Financial assets for sale	Transactional financial assets	Financial assets for sale
Within 1 year	986,914,949.50	-	1,591,861,955.13	-
Over 1 year	-	157,276,220.20	-	176,611,687.30
Total	986,914,949.50	157,276,220.20	1,591,861,955.13	176,611,687.30
Actual rate (annual)	1-4.86%	0.8-5.65%	1.4-4.34%	1.7-4.8%

(Rmb)

Other financial assets

	31 December 2007			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset management
Within 1 year	42,366,680.00	5,755,900,000.00	-	-
Over 1 year	-	-	816,552,762.97	-
Total	42,366,680.00	5,755,900,000.00	816,552,762.97	-
Actual rate (annual)	LIBOR+0.03%	2.25-2.475%	4.2-7.38%	-

	31 December 2006			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset management
Within 1 year	-	-	-	1,000,000.00
Over 1 year	-	-	672,920,533.71	-
Total	-	-	672,920,533.71	1,000,000.00
Actual rate (annual)	-	-	2.64-6.48%	-

Financial liabilities

	31 December 2007		31 December 2006	
	Borrowings	Acceptance of deposits	Borrowings	Acceptance of deposits
Within 1 year	22,690,174,161.17	18,042,366,892.70	19,261,204,796.13	20,204,990,896.58
Over 1 year	16,431,946,896.94	-	9,590,122,709.63	
Total	39,122,121,058.11	18,042,366,892.70	28,851,327,505.76	20,204,990,896.58
Actual rate (annual)	1.24-7.38%	0.72-3.87%	0.83-10.25%	0.72-2.7%

(Rmb)

Financial risks

(1) Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make payment of any principal or interest when due in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure.

The Group is exposed to credit risks primarily associated with its trade receivables, payments in advance, and loans granted and cash advances. The Group seeks to manage its credit risks by carrying out transactions with widely recognized third parties with high reputation. The advance payment in full amount is used sales transactions or the full amount is usually paid upon receipt of the shipping documents when the down payment method is used. For a minority of customers, credit line and period of payment are measured in credit assessment, but the bank acceptance is encouraged in settling accounts, while in purchasing transactions the pay on receipt method and the credit payment method are generally preferred. For constructors, suppliers of equipment that requires a long period of building or providers of materials in short supply, a down payment can be made after their credit lines and period for payment are decided in an assessment.

The Loans granted and cash advances of the Group are all managed by Finance Co. and possible debtors are limited to member units of the Group with credit so that credit risks are managed within a reasonable degree.

Other credit risks to which The Group is exposed from financial assets and liabilities primarily associated with traders who break contracts. Without a guarantee available or a means of credit enhancement, the greatest risk the Group is exposed to is loss of the book value of a financial instrument. The Group has not provide any form of guarantee which may put it in a situation of risks. As at 31 December 2007 only 17% of the receivables were due from the top five debtors, the Group is not found to be exposed to significant intensive credit risks.

(2) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds to meet the Group's obligations as they become due. The Group seeks to manage its liquidity risk by ensuring its financing availability and flexibility by means of trade finance, long-and-short-term borrowings, and other interest-bearing activities and adequate credit-granting quota from major financial institutes so as to meet short- and long-term fund demand of the Group. The Group monitors its short-and long-term fund demand so that its cash reserve and realizable market security are kept adequate.

Fair value

Methods and assumptions used by the Group to estimate the fair value of a financial instrument:

(a) Investment with a fixed date of maturity: the Group adopts the market quoted price to determine the fair value of the said investment. When the market quoted price is not accessible, the Group estimates the price on the basis of the latest transaction or the current cash flow of the available prices or interest rates of similar investment.

(b) Investment funds and equity securities: the Group adopts the market quoted price to determine the fair value of the said investment, while those of some unmarketed investments are determined reasonably by its cost.

(c) The book values of all assets and liabilities approximate their fair vales.

13. Events occurring after the balance sheet date

As approved at the eleventh meeting of the Third Board of Directors held on 26 March 2008, the Board proposed a cash dividend payout of Rmb3.5 per 10 shares (pre-tax) to the shareholders, with total of dividend payable of Rmb 6,129,200,000.00. The proposal has been submitted to the 2007 General Shareholders' Meeting for approval.

(Rmb)

14. Other Significant Matters

Resolutions approved at the first 2007 interim Shareholders' Meeting of the Company held on 27 December 2007:

(1) The Company will acquire from Baosteel Shanghai Pudong Steel Co., Ltd its Luojing assets, including fixed assets and constructions-in-progress but no liabilities. The consideration of the transaction is Rmb 13.03 billion as the assets have been assessed (the final amount will be the asset value as filed, same blow). The price of Luojing assets will be adjusted on basis of the change in net book value of the assets from date of assessment to date of transaction. It is estimated that the amount of adjustment due to its follow-up investment and change in fixed assets will be about Rmb 1.25 billion and, as a result, the estimated total price will be about Rmb 14.28 billion. The payment will be made by interest-free mortgage within a period of five years, with 20% of the total, or Rmb 2.857 billion, paid each year. The first sum will be paid within five working days after the effective date of the agreement; the others will be paid on 31 December every year since 2009, with the last sum on 31 December 2012. The acquisition is still under its way as on the balance sheet date.

(2) The Company has decided to publicly issue convertible corporate bonds with attached warrants (hereafter "convertible bonds"). In accordance with Company Law of the People's Republic of China, Securities Law of People's Republic of China, Administrative Measures for the Issuance of Securities by Listed Companies (by the CSRC) and other related laws and regulations, the Board of Directors has confirmed that the Company meets the conditions as required to issue convertible bonds. The Company is about to issue no more than Rmb 10 billion convertible bonds, or no more than 0.1 billion bonds. The ultimate subscriber of bonds will obtain warrants from the Company. The convertible bonds will be issued in China and the convertible bonds will allocate in priority to current unrestricted tradable shareholders no less than 40% of the total shares in circulation. The Board, who has been entrusted by the General Meeting, will finally decide the figure and the decision will be disclosed in the prospectus. The rest, including the portion that has been given up by shareholders with the priority, will be distributed, based on market value, to institutional investors, and subscribed on the network of Shanghai Stock Exchange. Baosteel Group has agreed to guarantee the activity without charge, if it is approved officially.

The proceeds from the bonds and warrants in the convertible bonds are to be used for the following purposes:

(a) To invest in No.5 Cold-rolling Mill Project, Cold-rolled Stainless Strip Steel Project and debt restructuring of the Company. When the funds form the convertible bonds lag behind the progress of the projects, others funds will be invested instead, which will be replaced when the expected funds are materialized and the progress of fund use will be scheduled on basis of the demand and importance of a project. When the expected funds from the convertible bonds do not meet the demand of the projects, the Company will resort to other means; when a positive balance is resulted, the surplus will be used as current fund. In accordance with "Regulations for Fund-raising" of the Company, the financed funds will be deposited into a special account of directors' choice.

(b) To acquire Luojing Assets from Baosteel Group Shanghai Pudong Steel Co., Ltd. When the funds form the convertible bonds lag behind the progress of the transaction, others funds will be invested instead, which will be replaced when the expected fund are materialized, and the progress of fund use will be scheduled on basis of the demand and importance of the project. When the expected funds from the convertible bonds do not meet the demand of the project, the Company will resort to other means; when a positive balance is resulted, the surplus will be used as current fund. In accordance with "Regulations for Fund-raising" of the Company, the financed fund will be deposited into a special account of directors' choice.

As when the financial statements were approved, the issue of the above convertible bonds is still to be completed.

15. Comparative Data

As this is the first adoption of the new Standards, the comparative data are re-presented as required by the Standards.

(Rmb)

16. Explanatory Notes to Financial Statements of Parent Company

(1) Notes receivable

The credit period of notes receivable is usually one month and notes receivable are not interest-bearing.

Ageing analysis of the trade receivables as follows:

	31 December 2007	31 December 2006
Within 1 year	6,324,347,473.11	4,419,795,194.71
1-2 years	1,513,911.63	3,970,724.64
2-3 years	3,969,676.83	2,293.82
More than 3 years	82,117,057.05	91,562,656.41
Total	6,411,948,118.62	4,515,330,869.58

	31 December 2007			31 December 2006		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	2,523,953,598.30	39%	202,725,141.27	2,526,259,572.60	56%	206,507,439.99
Receivable with insignificant single amounts but with considerable credit risk features in combination	3,887,994,520.32	61%	198,445,269.02	1,989,071,296.98	44%	107,237,569.86
	6,411,948,118.62	100%	401,170,410.29	4,515,330,869.58	100%	313,745,009.85

Change in bad debt provision for receivables:

	31 December 2007	31 December 2006
Opening balance	313,745,009.85	328,722,677.26
Provision for the year	117,047,348.12	92,811,731.69
Amount recovered of written-off bad debt	-	662,706.50
Reversal for the year	(27,214,525.90)	(61,928,780.89)
Bad debt writing-off for the year	(6,162,478.39)	(8,690,621.49)
Transfer-out for re-operation of Baosteel Chemical	(1,322,383.26)	-
Transfer-in due to acquisition of assets	5,077,439.87	-
Reduction due to transfer of assets and liabilities	-	(37,832,703.22)
Total	401,170,410.29	313,745,009.85

	31 December 2007	31 December 2006
Total of top five debts	2,443,398,375.82	2,441,844,350.10
Ratio against total receivable	38%	54%
Debt duration	Within 1 year	Within 1 year

(Rmb)

(2) Other receivables

Ages of other notes receivable:

	31 December 2007	31 December 2006
Within 1 year	125,990,978.50	108,864,552.92
1-2 years	13,230.53	304,722.05
2-3 years	-	-
Over 3 years	-	1,000.00
Total	126,004,209.03	109,170,274.97

	31 December 2007			31 December 2006		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	110,845,845.30	88%	3,283,542.27	91,125,192.10	83%	3,777,674.58
Receivable with insignificant single amounts but with considerable credit risk features in combination	15,158,363.73	12%	697,147.10	18,045,082.87	17%	909,507.50
	126,004,209.03	100%	3,980,689.37	109,170,274.97	100%	4,687,182.08

Change in bad debt provision for other receivables:

	31 December 2007	31 December 2006
Opening balance	4,687,182.08	13,197,442.64
Provision for the year	101,701.68	481,874.92
Amount recovered of written-off bad debt	-	154,000.00
Reversal for the year	(727,831.57)	(8,250,935.48)
Bad debt writing-off for the year	-	(895,200.00)
Transfer-out for re-operation of Baosteel Chemical	(80,362.82)	-
Total	3,980,689.37	4,687,182.08

	31 December 2007	31 December 2006
Total of top five debts	110,845,845.30	91,125,192.10
Ratio against total receivable	88%	83%
Debt duration	Within 1 year	Within 1 year

(Rmb)

(3) Long-term equity investment

	31 December 2006	Increase of year	Decrease of year	Including: Cash dividend received	31 December 2007
Cost method	17,435,607,779.94	5,081,336,521.08	(680,773,025.32)	(233,987,259.29)	21,836,171,275.70
Equity method	1,609,677,273.12	534,105,712.13	(27,752,784.20)	-	2,116,030,201.05
	19,045,285,053.06	5,615,442,233.21	(708,525,809.52)		23,952,201,476.75
Less: Impairment provisions for long-term equity investment	-				-
	19,045,285,053.06				23,952,201,476.75

(i) Long-term equity investments in subsidiaries measured on basis of cost method

Invested entity		Percentage of equity (%)	31 December 2007	31 December 2006	Dividend received
Yantao Lubao		79.82	430,503,007.28	489,288,917.16	58,785,909.88
Huangshi Coating & Galvanizing		39.37	41,980,867.66	43,949,367.66	1,968,500.00
Baosteel International Trading		100	6,013,886,552.67	6,013,886,552.67	-
Meishan Steel		74.01	7,502,257,988.14	7,675,224,588.14	172,966,600.00
Ningbo Baoxin		54	1,199,965,377.57	1,199,965,377.57	-
Baosight Software		55.5	297,497,773.58	297,497,773.58	-
Baosteel America		100	187,562,180.98	187,562,180.98	-
Howa Trading		100	221,975,780.12	221,975,780.12	-
Baodao Trading	See Note 6 (53)	100	-	119,474,145.37	-
Baosteel Europe		100	328,631,981.58	328,631,981.58	-
Baosteel Singapore		100	154,883,364.09	154,883,364.09	-
Bao-Island Enterprises		100	97,117,732.14	97,117,732.14	-
Bao Brazil Trading		100	728,647.73	728,647.73	-
Suzhou Baohua	See Note 5	60	-	232,077,289.99	-
No.5 Steel Gas		94.5	120,755,597.59	120,755,597.59	-
No.5 Pudong International Trading	See Note 6 (53)	90	-	57,399,970.86	-
Dongguan Baote	Note 1	10	-	3,996,862.17	-
Anhui Wanbao	See Note 6 (53)	8	2,825,690.49	3,091,939.90	266,249.41
Oriental Steel	Note 1	38	-	24,837,497.64	-
Special Metal		100	50,000,000.00	50,000,000.00	-
Baosteel Chemical	See Note 5	100	3,006,227,819.74	-	-
Finance Co.	Note 2	62.1	697,854,294.83	-	-
Baoyin Tubes	See Note 5	65	130,000,000.00	-	-
Yantai Tubes	See Note 5	80	640,000,000.00	-	-
Nantong Steel	See Note 5	92.5	518,520,310.51	-	-
Total			21,643,174,966.70	17,322,345,566.94	233,987,259.29

Notes: 1. In accordance with the contract signed by the Company and Baosteel International Trading in December 2006, the Company transferred to Baosteel International Trading the 10% and 38% of equity the Company held of Dongguan Bate and Oriental Steel, respectively.

2. In accordance with the contract signed by the Company and Baosteel International Trading in November 2006, the Company acquired from Baosteel International Trading and its subsidiaries the 62.1% they held of Finance Co.

(Rmb)

(ii) Other long-term equity investments measured on basis of cost method

Invested companies		Percentage of equity held (%)	31 December 2007	31 December 2006	Dividend received
Baohuarui Mining Co., Ltd.	Note	50	103,282,213.00	103,282,213.00	21,815,608.50
Taiyuan Baoyuan Chemical Industry Co., Ltd.		15	-	9,000,000.00	-
Shanghai Luojing Mining Port Co., Ltd.		12	88,734,096.00	-	-
Others			980,000.00	980,000.00	19,600.00
Total			192,996,309.00	113,262,213.00	21,835,208.50

Note: As the Company does not exert actual control or significant influence over the operating policies and financial decisions Baohuarui Mining, the Company only receives certain fixed payment in accordance with relative agrees and, therefore, the investment in Baohuarui was considered long-term equity investment and measured on basis of cost method.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

(iii) Investments on joint ventures measured on basis of equity method

Invested Company	Investment period	Ratio against registered capital of the invested	Initial amount of investment Rmb	Investment cost Increase/(decrease)	Investment cost 31 December 2007
BNA	20 years	50%	1,500,000,000.00	-	1,500,000,000.00
Bao-Island Enterprise	Long-term	50%	143,084,132.00	-	143,084,132.00
			1,643,084,132.00	-	1,643,084,132.00

(iv) Investments on associates measured on basis of equity method

Invested Company	Investment period	Ratio against registered capital of the invested	Initial amount of investment Rmb	Total addition of investment	Investment cost Increase/ (decrease)/ Transfer-out due to disposal	Investment cost 31 December 2007
Welding Co.	20years	28%	34,020,000.00	-	(34,020,000.00)	-
STAL Precision	50years	40%	122,004,541.93	129,452,880.00	63,980,000.00	251,457,421.93
			156,024,541.93	129,452,880.00	29,960,000.00	251,457,421.93

(v) Financial information of joint ventures and associated entities

	Place of reiteration	Businesses		Registered capital Rmb thousand	Percentage of equity held	Voting power of the Group
Joint ventures						
BNA	Shanghai	Production & sales of cold rolled steel sheets and hot-dipgalvanized sheets	Rmb	3,000,000	50%	50%
Bao-Island Enterprises	Hong Kong	Ship chartering shipping agency	HKD	3,300	50%	50%
Associated enterprises						
STAL Precision	Shanghai	Production, processing & sales of precision stainless steel strips	USD	96,560	40%	40%

	As at end of 2007 Total assets Rmb thousand	As at end of 2007 Total liabilities Rmb thousand	2007 Annual Business revenue Rmb thousand	2007 Annual Net profit Rmb thousand
Joint ventures	6,946,212	3,209,021	11,635,267	881,433
Associated enterprises	1,107,272	139,440	971,170	119,890

(4) Business revenue and business cost

Business revenue

	2007	2006
Revenue from principal businesses	135,834,025,384.28	117,603,912,247.41
Revenue from other businesses	526,335,539.47	488,079,808.75
Total	136,360,360,923.75	118,091,992,056.16

Revenue and cost from principal businesses:

	2007		2006	
	Revenue	Cost	Revenue	Cost
Sales of goods	135,834,025,384.28	115,526,426,143.81	117,603,912,247.41	96,887,325,523.44
Total revenue from top five customers	80,086,278,662.80		83,878,702,857.74	
Ratio in total business revenue	58.73%		71.03%	

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2007

(Rmb)

Adjustment of equity					
Increase /(decrease) in the year	Cash dividend received	Total increase/(decrease) 31 December 2007	Investment preparation: Increase/(decrease) in the year	Investment preparation: Total increase/(decrease)	Investment in joint ventures 31 December 2007
352,176,211.20	-	(80,452,773.40)	-	(3,027,142.34)	1,416,520,084.26
85,639,130.40	-	193,355,454.15	(15,647,516.05)	(24,062,019.45)	312,377,566.70
437,815,341.60	-	112,902,680.75	(15,647,516.05)	(27,089,161.79)	1,728,897,650.96

Adjustment of equity							
Increase /(decrease) in the year	Cash dividend received	Transfer-out due to disposal	Total increase/ (decrease) 31 December 2007	Investment preparation: Increase/(decrease) in the year	Investment preparation: Transfer-out due to disposa	Investment preparation: Total increase/ (decrease)	Investment in associates 31 December 2007
-	-	6,273,264.58	-	-	(6,048.78)	-	-
47,956,055.12	-	-	135,639,132.25	1,831.46	-	35,995.91	387,132,550.09
47,956,055.12	-	6,273,264.58	135,639,132.25	1,831.46	(6,048.78)	35,995.91	387,132,550.09

(5) Investment gains

	2007	2006
Loss from forward investment on foreign currencies	(173,451,233.37)	-
Net profit received from subsidiaries	-	2,571,110,764.31
Recognized net profit and loss from joint ventures and associates	485,771,396.72	334,550,020.31
Profit and loss from transfer of equities	76,771,256.35	(198,859.72)
Income from equity investments	21,835,208.50	22,723,715.00
Other income from equity investments	-	21,188.97
Total	410,926,628.20	2,928,206,828.87

(6) Bank credit-granting quota

As at 31 December 2007, the remaining bank credit-granting quota of the Company was Rmb 47.3 billion. The management of the Company believes that this quota and cash flow from operating activities would be adequate for the current liabilities due in the coming year.

17. Approval of Financial Statements

The Financial Statements have been approved by the meeting of Board of Directors held on 26 March 2008. In accordance with Corporate Charter of the Company, they will be submitted to shareholders' meeting for approval.

Baoshan Iron & Steel Co., Ltd.

Supplementary Information to Financial Statements

31 December 2007

(Rmb)

1. Rate of Return on Common Stockholders' Equity (ROE) and Earnings per Share (EPS)

2007	ROE		EPS (Rmb)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to common shareholders of the Company	14.37%	15.22%	0.73	Note
Net profit attributable to common shareholders of the Company excluding non-recurring profit and loss	14.17%	15.01%	0.72	Note

Note: As the Company owned no potential common shares that likely possess dilution in the subsequent periods in 2006 and 2007, diluted earnings per share was not disclosed.

Including: Net profit attributable to ordinary shareholders of the Company excluding non-recurring profit and loss

	2007 Rmb thousand	2006 Rmb thousand
Net profit attributable to common shareholders of the Company	12,718,334	13,077,142
Add/(Less) non-recurring profit and loss		
Loss from disposal of non-current assets	166,310	217,687
Profit and loss from balance between combination cost and fair value of identifiable net assets obtained from acquirees	(660)	-
Net profit and loss of subsidiaries from combinations under same control from beginning of year to date of combination	(16,652)	-
Government subsidies	(145,092)	(44,735)
Net income from other non-operating activities	39,362	303,052
Reversal of welfare fees payable	(323,661)	-
Income tax impact of non-recurring items	106,858	(152,775)
Net profit attributable to common shareholders of the Company excluding non-recurring profit and loss	12,544,799	13,400,371

Non-recurring items were recognized by the Group in accordance with "No. 1 Guideline on Contents and Format for Information Disclosure of Companies That Make Public Offering of Securities—Non-recurring Gains and Losses" by CSRC ([2007] No.9).

2. Analysis of Modulation to Shareholders' Equity on Initial Implementation Date

Item	Note	Project name	Modulation to shareholders' equity in 2006 annual report	Adjusted modulation to shareholders' equity
		Shareholder' interest as on 31 December 2006 (under original standards)	81,960,545,925.11	81,960,545,925.11
1		Business combination	(618,849,558.38)	(618,849,558.38)
		Including: Book value of goodwill (balance of equity investments) from combinations under the same control	(351,890,262.71)	(351,890,262.71)
		Book value of long-term deferred expenses from acceptance and combination	(266,959,295.67)	(266,959,295.67)
2	1	Welfare due to cancellation of labor relationship	-	(277,580,430.33)
3	2	Financial liabilities which are measured at their fair values, of which the variation is recorded into the profits and losses of the current period and financial assets available for sale	101,923,400.35	321,961,366.35
4		Derivative financial instruments	(8,720,893.65)	(8,720,893.65)
5	1 & 2	Income tax	(122,436,804.98)	(69,735,591.40)
6		Impact of above modulations upon minority shareholders' interest	(27,256,008.33)	(21,427,176.07)
		Shareholders' interests attributable to parent company as on 1 January 2007 (under new standards)	81,285,206,060.12	81,286,193,641.63
7		Change in minority shareholders' interests due to scope of consolidation	312,043,707.48	312,043,707.48
8	1	Change in presentation of minority shareholders' interests	4,941,492,138.80	4,935,663,306.54
		Shareholders' interests as on 1 January 2007 (under new standards)	86,538,741,906.40	86,533,900,655.65

Notes:
1. In accordance with the "Opinions of Expert Group Concerning Implementation of Enterprise Accounting Standards" of 30 April 2007, the Group recognized the expense for internal retirement as at 1 January 2007 that met related regulations of the Company about internal retirement as well as conditions of expected liabilities that should be recognized and whose retained earnings adjusted. The adjusted amount for internal retirement was the amount payable of basic living pension and social insurances as required for employees form 1 January 2007 to legal retirement age. As at 1 January 2007 the Group recognized an amount payable of Rmb 277,580,430.33 of benefits due to termination of a contract of employment. The reduction of income tax amounted to Rmb 85,706,908.48, while that of minority interest was Rmb 5,828,832.26.
2. The Group owns equities with restricted rights of listed companies, which the Group does not exert control, joint control or significant influence. In accordance with the "Opinions of Expert Group Concerning Implementation of Enterprise Accounting Standards" of 18 January 2008, the Group classified these equities into financial assets available for sale and made modulation to them on basis of their fair value on the initial implementation date. The fair values of these equities as at 1 January 2007 were measured on basis of closing prices of these equities as at the last trading date in 2006 at related stock exchanges. A balance of Rmb 220,037,966.00 between the fair value and book value of these assets available for sale was recorded in the capital reserve and the correspondent adjusted income tax amounted to Rmb 33,005,694.90.

Baoshan Iron & Steel Co., Ltd

Difference in Net Profit under Old and New Accounting Standards

31 December 2007

(Rmb)

	Amount
Net profit of 2006 (under original standards)	13,010,264,517.47
Modulation:	
Amortization of goodwill from combination under same control	206,373,414.79
Welfare due to cancellation of work relationship	(188,580,270.99)
Financial assets measured at their fair value and of which the alterations charged to the profits and losses in the current period	87,000,260.29
Derivative financial instruments	(13,523,751.82)
Income tax	(5,649,313.13)
Impact of above modulations on minority interests	(18,743,293.09)
2006 net profit attributable to shareholders of parent company	13,077,141,563.52
Change in profit and loss of minority interests due to change in consolidation scope	52,580,081.25
Change in presenting profit and loss of minority interests	470,935,595.12
Net profit of 2006 (under new standards)	13,600,657,239.89

Reference for possible differences when new standards had been fully adopted for the period

The management of the Company believes that no significant differences in the net profit in the year ended 31 December 2006, as modulated and presented in the financial statement in accordance with Accounting Standards for Enterprises No. 38—Initial Implementation of Accounting Standards for Enterprises and other related regulations, would have been resulted if the new accounting standards had been fully adopted for the period.

XI. Documents on Record for Reference

1. Financial Statements with signatures and seals of the legal representative, Financial Controller and Chief Accountant of the Company
2. Original copy of the Auditors' Report with the seal of the accounting firm and signatures and seals of certified public accountants
3. CSRC-designated newspapers in which the Company's disclosures available and their manuscripts

Board of Directors,

Baoshan Iron & Steel Co., Ltd.

26 March 2008

Auditors' Review Report to Internal Control

Ernst & Young Hua Ming (2008) Audit No. 60428378_B01

Board of Directors of Baoshan Iron & Steel Company Limited

We are engaged by Baoshan Iron & Steel Company Limited (the "Company") to audit the accompanying self-evaluation report to its internal control work prepared by the Board of Directors of the Company. In accordance with the regulations as specified in Internal Accounting Control Criteria (for Trial Implementation) by the Ministry of Finance, the Company evaluated the efficiency of the establishment and practice of its own internal control related to its financial statements as at 31 December 2007. The Board of Directors also explained the Company's work in the reported period in accordance with some of the requirements as stated in Guidance on Internal Control for Listed companies by Shanghai Stock Exchange. To developed and keep improving its internal control system and to maintain its efficiency in practice and to guarantee the development and implementation of the said internal control relevant to its financial statements are responsibilities of the management of the Company. Our responsibility is to express an opinion on the effectiveness of the said internal control system relevant to its financial statements.

We conducted our audit in accordance with the Guidance Opinion on Internal Control Verification. The work involved our understanding, testing and evaluating of the rationality of the designing of the system and the efficiency of its implementation as well as other procedures we believed necessary. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Due to the limitations inherent to any form of internal control, possibility of mistakes occurred but not detected might have existed because of error or fraud. In addition, it is risky to predict the effectiveness of internal control on the basis of the evaluation results of internal control, because changes may lead to inadequacy of internal control or lower its match to control policies and procedures. Therefore, the effectiveness of the internal control in the period does not guarantee it effectiveness in the future.

In our opinion, as at 31 December 2007 the internal control related to its financial statements as stated in the afore-mentioned self-evaluation report to its internal control maintains effectively the internal control related to financial statements as stipulated in related standards as specified in Internal Accounting Control Criteria (for Trial Implementation) by the Ministry of Finance.

Ernst & Young Hua Ming	Certified Public Accountants
Beijing, P.R.China	Registered in P.R.China
	He Zhaofeng
	Gu Xiaogang

26 March 2008

Appendix Self-Evaluation Report to Internal Control of the Group by the Board of Directors

The Group, since it went public, has strictly followed *the Corporate Law*, *the Law of the PRC on Securities,* and the relevant regulations of such supervising organs as the Ministry of Finance, China Securities Regulatory Commission, and Shanghai Stock Exchange and has made efforts to improve its governance and strengthen its management mechanism. As a result, it has formed a set of relatively meticulous and complete internal control system. In 2007, the Group further enhanced its internal control system through evaluation and built an upgraded mechanism featuring sustainable development through self-evaluation.

I. Structure of Internal Control

1. Control of environment

The Group gives first priority to quality and innovation in an effort to turn itself into a first rate enterprise and advocates a corporate culture featuring integrity and cooperation, creating a fine atmosphere for the implementation of internal control.

Strictly following the relevant regulations stipulated in *the Corporate Law*, *the Law of the PRC on Securities,* and *Code of Corporate Governance for Listed Companies in China*, the Group has constructed a sound corporate governance structure. Members of the board of directors have performed their duties whole-heartedly to ensure the healthy development and effective implementation of the Group's internal control and the authenticity, accuracy and completeness of the relevant information disclosed.

The Group constructs a well-knit organizational structure and responsibility allotment system based on the principle of concentration, consistency, and appropriate allotment. The Group and its sub-companies have clear-cut orientations, duties and responsibilities, which lays a solid foundation for the implementation of the Group's internal control.

The Group has established a detailed personnel policy regarding employment recruit, appointment, training, punishment and commendation, evaluation, and removal from office, which not only guarantees the quality of its employees, promotes its management and operation, but also ensures the effective implementation of its internal control.

2. Risk management system and risk evaluation

The management of the Group has established a management commission for full-scale risks, which is responsible for examining the working system, annual plans and work reports pertaining full-scale risk management, specifying major risk points and management strategies of the Group, checking and approving the effectiveness of such a management, and examining and testing each unit in its work regarding risk management. Under the commission is a risk management promotion team, responsible for organizing and promoting daily work on risk management.

The board of directors and the administration pay special attention to the internal and external risk factors that affect the realization of the Group's strategic objective and adopt measures to management risks of various kinds. The Group conducts regular analysis of the international and domestic steel market, the prices of raw material and fuel, customer demands, investment programs, budget use, and internal management, in an effort to timely disclose the risks in the Group's operation and management.

3. Major modes of control

(1) Control over authorization and approval

The rules and internal management system of the Group grant the right of examination and approval (or the decision-making right) to the shareholders' meeting, the board meeting, the supervisor board system, the administration, the management department of the headquarters and sub-companies respectively. Personnel at all levels in the Group must be appropriately authorized and approved to enter relevant business. They are not allowed to handle business without authorization and approval.

(2) Control over incompatible duties

The Group establishes organizational organs and work posts in accordance with the principle of separation of incompatible duties. Different departments and different posts in the same department form a mechanism of balance. Every business must be handled with the consent of two or more than two departments.

(3) Control over overall budget

The overall budget management system of the Group realizes the all-process control over activities of production and management. Taking the strategic plan as its orientation, annual budget as its objective of control, rolling budget as its mode of control, and cash flow as the core of control, the system covers every link from investment to research, from development to purchase and from production to sales. All the cash and finance related activities are include in budget control.

(4) Control over documents of management

The Group systemizes all operational and management activities through control over management documents. 11 major categories of management documents including those for personnel, finance, academic research, sale, purchase, project construction, environmental protection, and auditing and supervision have been established. Presently, the Group has over 300 management documents, supplemented by the detailed rules of each department and sub-company and operation brochures. These documents specify the duties and limits of power of all personnel in the Group at different level of administration and all the principles and policies of the Group. The content of them include a division of management responsibilities, business process, and the scope, standard, and requirements of management, which ensure everything to be done is done according to rules.

(5) Control over assets protection

The Group strictly prevents unapproved personnel from getting in touch with real assets. Only approved personnel are entitled to get in touch with them. Besides, such measures as regular inventory and assets checking are adopted to ensure the safety and completeness of the real assets. The department of the finance is authorized to manage the insurance and compensation of all assets of the Group.

4. Information and exchanges

(1) Accounting system and information revelation system

In accordance with *the Law of Accounting, Accounting Standards for Business Enterprises, Internal Accounting Control Criteria (for Trial Implementation)*, and the relevant laws and regulations of accounting and taxation, the Group works out a set of relatively detailed accounting management system, which involves accounting calculation, basic theory of accounting, cost management, capital management, assets management, tax management, budget management, and sub-company management. The system will be revised and perfected based on the state laws and rules and the change of the Group's business so as to standardize finance, accounting, timely and effectively specify and record business activities, and ensure the authenticity and completeness of the accounting information.

Strictly following the principles and rules of the Ministry of Finance and Securities Regulatory Commission, the Group works out a *Temporary Method on Managing Information Disclosure*. It explicitly specifies the information to be disclosed and the information disclosure duties of the Group's departments and of the secretary of the board of directors, high-ranking administrators, board directors and supervisors. Besides, it standardizes the annual reports and mid-term reports and other major information disclosure according to the requirements of supervisors.

(2) Integral production and sale information system and cooperative office system

The Group establishes a relatively mature complete production and sale information system and cooperative office system, basically realizing the sharing of information, data, and functional modules for public use within the Group and full exchange of information under highly concentrated environments in most of the business areas. The system can provide timely management information to personnel of different fields, turning itself to a major platform for corporate information exchange and communication.

5. Supervision

The Group's internal control system consists of two layers: daily supervision of the administration (including self-examination and correction) and the independent supervision of the internal auditing department. *The Group's Method on Managing Internal Control* specifies the duty and responsibility division of the corporate internal control system. The board of directors is responsible for the establishment, effective implementation, examination and supervision of the internal control system of the Group; the auditing commission of the board helps the board to examine and supervise the internal control system, puts forward suggestions for its improvement, audits the examination and supervision work reports, and report to the board on a regular basis; the administration of the Group is responsible for establishing a concrete and appropriate authorization, examination and graded responsibility system in accordance with the requirements of the internal control, urging the Group's departments to constantly improve the system and ensure its effective implementation; the auditing department supervises, examines, and guides the completeness, rationality, and effectiveness of the internal control and reports to the board major shortcomings it finds in the system; the department of finance conducts daily supervision and inspection of the internal accounting control of the headquarters and sub-companies to ensure the authenticity, accuracy and completeness of the finance information.

The perfect internal supervision mechanism ensures the effective corporate internal control and the efficiency and result of the control.

II. Inspection and Supervision of Internal Control in 2007

To further improve the management level of the Group and promote a new round of development, in 2007, the Group, according to the plan, finished the inspection and supervision of internal control in three aspects, improved the internal control system, innovated internal control management, and established a self-evaluation system for internal control.

1. Implementation of the examination of internal control

According to the resolution of the board of directors, in 2007, the Group selected an internationally well-known accounting firm through bidding, conducted a full-scale examination of the establishment and implementation of internal control system for the Group and its 12 major business processes based on the relevant laws and regulations of China and the best international practices. The examination covers the legal entity of the Group and the three subsidiaries of Baosteel: Meisteel, Baosteel International and Baosteel Chemical, involving an asset and sales volume equivalent to over 80% of the consolidated financial statement of the Group in 2007. The content of examination includes financial closings and report, purchase and payment, sales and collection, inventory management, fixed assets management, employment salaries, investment management, expense management, capital management, budget management, IT general control, and subsidiary control.

The examination of internal control this time is conducted on the basis of the internationally acknowledged COSO internal control framework, following the overall requirements of *Guidance to Listed Company Internal Control issued* by Shanghai Stock Exchange, against *Internal Accounting Control Criteria (for Trial Implementation)* and *Soliciting Comments on Regulating Corporate Internal Control (Solicit Opinion Draft)* of the Ministry of Finance, and in reference to the best practices of internal control of excellent domestic and international enterprises.

No major shortcomings in the Group's internal control are found in this examination and the main points of improvement in all business processes have been reported timely to the auditing commission. The Group has organized relevant departments to correct any points of improvement found in its internal control system and has worked out relevant plans for treatment and reform. Through this examination, the Group has further improved its internal control system, ensuring its effective implementation and healthy development.

2. Conducting self-evaluation of internal control

In order to promote the effective implementation of the internal control system and establish a healthy upgrading mechanism, the Group has organized self-evaluation of internal control since 2007. In 2007, self-evaluation was conducted in 7 departments in the headquarters, the Baosteel branch, the stainless steel branch, the special steel branch, the Meisteel, Baosteel International and Baosteel Chemical. Moreover, 14 main sub-subsidiaries of Baosteel International were also evaluated. The self-evaluation was mainly based on *Internal Accounting Control Criteria (for Trial Implementation)* of the Ministry of Finance. According to the evaluation results of the departments and units, internal control of the Group is generally good and has been effectively implemented, which ensured the realization of the key objective for internal control.

3. Conducting internal control spot-check

At the end of 2007, the auditing department of the Group spot-checked the internal control system, which covered the Group's legal entity, the Meisteel, Baosteel Chemical, Baosteel International and its 5 main sub-subsidiaries. Through the spot-check, the correction of problems found in the examination of the internal control system and internal control self-evaluation was verified and the successful implementation of internal control in such areas as the corporate financial statement, purchase and payment, sales and payment collection, inventory management, fixed assets management, capital management, IT general control, and subsidiary control was proved. Major problems found in the examination of the internal control system were rectified and there is no such problem as a weak internal control.

III. Overall Assessment of Internal Control

By 31 Decemeber 2007, the Group, in accordance with *Internal Accounting Control Criteria (for Trial Implementation)* of the Ministry of Finance and other relevant regulations on internal control, has established appropriate internal control system in all the major aspects. The effective operation of the management system of internal control ensures the implementation of the internal control system and the normal development of production and management.

In 2008, the Group will timely supplement and improve the internal control system according to its business development and internal organization adjustment. Besides, it will intensify efforts to recognize major risks and handle them accordingly and will improve the relevant management measures, so as to promote the continuous and healthy development of the Company.

Board of Directors,

Baoshan Iron & Steel Co., Ltd.

26 March 2008