



中国2010年上海世博会全球合作伙伴
Global Partner of Expo 2010 Shanghai China



2008 Annual Report

BAOSHAN IRON & STEEL CO., LTD.

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The impact of the financial crisis on real economies around the world, including China, was deeply felt in the past year. The change in the macroeconomic trend in China contributed greatly to the slowdown of the steel industry in the country: the fourth quarter GDP dropped drastically to 6.8%, against 9% for the whole year of 2008. Chinese steel industry experienced a rapid growth in the first three quarters, but the situation turned grim all of a sudden in the last quarter of the year: the downstream demand and overseas orders shrank and steel prices fell sharply. Due to the high cost of raw materials in the first half of the year, the selling prices of steel products dropped below cost, resulting in a tremendous loss in the last three months of the year across the industry.

In 2008, the sales of steel products totaled 22.8 million tons, basically flat with the previous year, and the business income reached RMB 200.85 billion, 4.8% higher yoy. However, the pre-tax profit, RMB 8.67 billion, fell by 55.1% yoy.

The global economy continues to reel from recession triggered by financial crisis and it remains uncertain when the macro-economy will bottom out. According to *Plans for Adjusting and Accelerating the Steel Industry*, by the end of 2008 the capacity for crude steel in China reached 660 million tons, 100 million tons more than was needed; indicating that the problem of oversupply will be a formidable challenge that the Chinese steel makers have to meet in the coming years.

From a longer perspective, the impact of economic recession from the outside is not expected to change the fundamentals of Chinese economy as well as its positive long-term trend. Our confidence and strength comes from the huge demand potential and market space generated by the development of infrastructure and the upgrading of the industrial structure and consumption patterns in the process of industrialization and urbanization. The series of measures taken by the government to encourage investment and promote the domestic demand enhanced our belief. Our confidence and strength also comes from the supporting elements such as sound financial system, ample capital and labor resources. As the pillar industry in the national economy, the steel industry is expected to continue to grow in the medium and long run.

The development focus of the steel industry is, as suggested in *Plans for Adjusting and Accelerating the Steel Industry* published March 20, 2009, by the State Council, to optimize the industry through controlling new capacity growth along with eliminating the backward capacity, to encourage consolidation and to support enterprise innovation. The purposes are to restructure and upgrade the steel industry, enhance the quality and international competitiveness of the steel makers in China.

Facing the new market dynamics, Baosteel management are determined to turn the crisis into an opportunity by strengthening its business management, lowering overall cost, promoting coordination among supply, production and marketing, and perfecting product quality. A balance between production and marketing are to be stricken and profit to be maximized by means of "demand-driven, profit-oriented, optimized industrial structure". Measures will also be taken to improve the inventory management to shorten the turn-over period and to strengthen its risk management to avoid operational risks.

The Company will follow the combined strategy of the cost leadership and product differentiation to consolidate its leading position through technical innovation and management reforms, so as to maintain sustainable development of the company and to safeguard the interests of our shareholders.

Important Notice

The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter the Company), along with their directors, supervisors and senior management, hereby guarantee that the *Annual Report* (hereinafter the *Report*) is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the *Report*.

Ten of the eleven directors attended the board meeting. While Ouyang Yingpeng was absent from the board meeting, Director Li Haiping was entrusted, by Mr. Ouyang himself, to vote on his behalf.

The Company acquired Luoqing assets and its relative businesses from Baosteel Group Pudong Steel on 1 April 2008 to establish the branch of medium and heavy plates. The acquisition is recognized as business operation under the same control, which should be dealt with using the standards of business combinations under the same control in accordance with the new *Accounting Standards for Business Enterprises* (2006). The acquisition of the assets and businesses are considered to occur at the beginning of the current period (2008) and the opening balance has been adjusted in the consolidated balance sheet; the acquired assets and businesses of the combining party from the beginning of the current period to the combining date have been included in the consolidated profit statement and consolidated cash flow statement of the Company. Since the acquired assets and businesses in the comparative statement period was still under construction and did not benefit the Company, the cash flow statement of the acquired assets and businesses was included in the comparative cash flow statement. At the same time, pro-forma consolidated financial statements were presented in “Financial Report” in Chapter X, to reveal, in the format of the pro-forma statement, the consolidated accounting report of the branch of medium and heavy plates from the combination date. To distinguish between the two presentation ranges, the former is termed “standard range” and the latter “pro-forma range”. The financial data presented in the Directors’ Report in Chapter VII are displayed as pro-forma data, for a better understanding of investors about the management, financial status, business performance of the Company.

Mr. Xu Lejiang, Chairman of the Board, Ms. Chen Ying, Financial Controller and Vice President of the Company, and Ms. Yuan Lei, Chief Accountant of the Company, attest to the truth and accuracy of the financial statements contained in the *Annual Report*.

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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: Xu Lejiang
3. Secretary to Board of Directors: Chen Ying
Representative of Securities Affairs: Yu Hong
Address: Board of Directors' Office, 1813 Mudanjiang Road, South Building of Baoshan Hotel, Baoshan District, Shanghai
Zip Code: 201900
Telephone: 86-21-26647000
Fax: 86-21-26646999
E-mail: ir@baosteel.com
4. Registered Address: South Building, 1813 Mudanjiang Road, Baoshan District, Shanghai
Office Address: South Building of Baoshan Hotel, 1813 Mudanjiang Road, Shanghai
Zip Code: 201900
Official Website: <http://www.baosteel.com>
E-mail 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: Baosteel
Stock Code: 600019
7. Date of Incorporation: 3 February 2000
Place of Incorporation: Guoyuan, Fujin Road, Baoshan District, Shanghai
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 CPA Firm
Office Address of Accounting Firm: Floor 16, Unit E3, Economics & Trade Tower, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, China

II. Accounting and Financial Highlights

(I) Major Financial Data

(RMB million)

Item	Amount	
	Standard range	Pro-forma range
Operating profits	8,304	8,824
Pre-tax profit	8,154	8,675
Net profit attributable to shareholders of listed company	6,459	6,849
Net profit attributable to shareholders of listed company less non-recurring gains and losses	6,958	6,958
Net cash flow from operating activities	16,244	16,553

Non-recurring gains and losses

(RMB million)

Item	Amount	
	Standard range	Pro-forma range
Losses from disposal of non-current assets	-312	-312
Net profit or loss of subsidiaries from business combinations under common control since beginning of reported period to date of combination	-390	-
Net increase from other non-operating activities	174	174
Impact from income taxes	29	29
Total of non-recurring gains and losses	-499	-109

II. Accounting and Financial Highlights

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

	(RMB million)						
	2008		2007		Increase (%)		2006
	Standard range	Pro-forma range	Standard range	Pro-forma range	Standard range	Pro-forma range	
Total revenue	200,638	200,851	191,559	191,559	4.74	4.85	162,326
Business revenue	200,332	200,545	191,273	191,273	4.74	4.85	162,142
Pre-tax profit	8,154	8,675	19,308	19,308	-57.77	-55.07	19,204
Net profit attributable to shareholders of listed company	6,459	6,849	12,718	12,702	-49.21	-46.08	13,077
Net profit attributable to shareholders of listed company less non-recurring gains and losses	6,958	6,958	12,545	12,545	-44.54	-44.54	13,400
Net cash flow from operating activities	16,244	16,553	18,886	19,506	-13.99	-15.14	25,213
Basic earnings per share (RMB)	0.37		0.73		-49.21		0.75
Diluted earnings per share (RMB)	0.37		0.73		-49.21		0.75
Basic earnings per share less non-recurring gains and losses (RMB)	0.40		0.72		-44.44		0.77
Average Return-on-equity (%) (fully-diluted)	7.02		12.72		Down by 5.7 percentage points		16.09
Average Return-on-equity (%) (Weighted)	6.99		13.74		Down by 6.75 percentage points		17.13
Return rate on equity excluding non-recurring gains and losses (%) (fully diluted)	7.57		12.55		Down by 4.98 percentage points		16.49
Return rate on equity excluding non-recurring gains and losses (%) (weighted)	7.53		13.55		Down by 6.02 percentage points		17.55
Net cash flow from operating activities per share (RMB)	0.93		1.08		-13.89		1.44

	(RMB million)						
	As at end of 2008		As at end of 2007		Increase (%)		As at end of 2006
	Standard range	Pro-forma range	Standard range	Pro-forma range	Standard range	Pro-forma range	
Total assets	200,021	200,021	202,008	188,336	-0.98	6.20	164,847
Shareholders' equity (interest) attributable to listed company	91,957	91,957	99,982	88,504	-8.03	3.90	81,286
Book value per share attributable to listed company (RMB)	5.25		5.71		-8.03		4.64

III. Capital and Shareholders

(I) Changes in Share Capital

1. Changes in share capital

(10 thousand shares)

	Beginning of year		Changes in the period (+, -)		End of year	
	Shares	%	Expiry of shareholding period	Sub-total	Shares	%
I. Shares subject to conditional sales						
1. Government shares	1,190,091.74	67.96%	-1,190,091.74	-1,190,091.74	0	0
2. Domestic state-owned legal entities						
3. Other domestic investors						
Including:						
Domestic legal entities						
Domestic individuals						
4. Foreign investors						
Including:						
Foreign legal entities						
Foreign individuals						
II. Shares not subject to conditional sales						
1. RMB ordinary shares	561,108.26	32.04%	1,190,091.74	1,190,091.74	1,751,200	100%
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	Shares from conditional to non-conditional in the period	Conditional shares added	Conditional shares at end of year	Reason for restriction	Date of expiry
Baosteel Group	11,900,917,441	11,900,917,441	0	0	Commitments in share reform	19 August, 2008

(II) Bonds and Bills

Approved by China Securities Regulatory Commission (CSRC) in the document of [2008]793, the Company issued, on 20 June 2008, RMB 10 billion convertible bonds with attached warrants with par value of RMB 100 per bond and a duration of six years (from June 20, 2008 to June 20, 2014). The annual coupon rate was 0.8%. On 30 June 2008, 100,000,000 corporate bonds (face value of RMB 10 billion) and 1,600,000,000 warrants were separated.

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

Approved by Shanghai Stock Exchange in the document numbered [2008]11, a total of 1,600,000,000 warrants after separation were listed in Shanghai Stock Exchange on 4 July 2008. The warrant was abbreviated as "Baosteel CWB1" with the code of 580024. The duration is from 4 July 2008 to 3 July 2010 and the exercising period in the trading days from 28 June to 3 July, 2010, during which the warrants are to cease trading.

III. Capital and Shareholders

(III) Shareholders

1. Shareholders and their shares

	(Share)
Number of shareholders	833,419

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	0	None
China Construction Bank—Great wall Brand Selected Stock Fund	Others	0.67%	118,062,961	0	None
Industrial & Commercial Bank of China—Shangzheng 50 Exchange Traded Funds	Others	0.41%	71,993,340	0	None
Industrial Bank—Industrial Global View Stock Fund	Others	0.32%	56,821,601	0	None
China Construction Bank—CIFM China Advantage Fund	Others	0.30%	53,244,007	0	None
Morgan Stanley & Co. International PLC.	Others	0.30%	52,892,877	0	None
China Construction Bank—Boshi Value Growth Fund 2	Others	0.27%	48,000,000	0	None
Industrial Bank—Industrial Trend Mixed Stock Investment Fund	Others	0.25%	42,999,926	0	None
Taikang Life Insurance—unit-linked Insurance—unit-linked life insurance	Others	0.24%	41,904,980	0	None
China Merchants Bank—Shangzheng Bonus Trading and Open Index Securities Investment Fund	Others	0.24%	41,424,114	0	None

Top 10 tradable-share holders

Shareholders	Shareholdings of unconditional share	Share type
Baosteel Group Corp.	12,953,517,441	RMB common share
China Construction Bank—Great wall Brand Selected Stock Fund	118,062,961	RMB common share
Industrial & Commercial Bank of China—Shangzheng 50 Exchange Traded Funds	71,993,340	RMB common share
Industrial Bank—Industrial Global View Stock Fund	56,821,601	RMB common share
China Construction Bank—CIFM China Advantage Fund	53,244,007	RMB common share
Morgan Stanley & Co. International PLC.	52,892,877	RMB common share
China Construction Bank—Boshi Value Growth Fund 2	48,000,000	RMB common share
Industrial Bank—Industrial Trend Investment Mixed Type Fund	42,999,926	RMB common share
Taikang Life Insurance—unit-linked Insurance—unit-linked life insurance	41,904,980	RMB common share
China Merchants Bank Co., Ltd—Shangzheng Bonus Trading and Open Index Securities Investment Fund	41,424,114	RMB common share

Remarks on affiliation, alliance or collusion among the aforementioned top ten shareholders

Industrial Global View Stock Fund and Industrial Trend Investment Mixed Type Fund are funds under Industrial Fund Management Co., Ltd.

2. Holding company and controlling shareholder

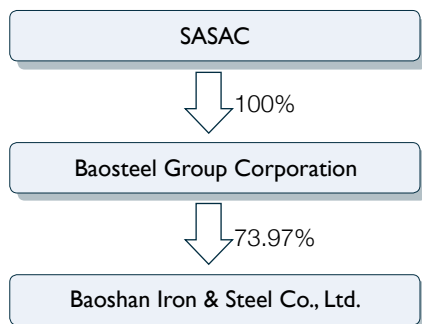
(1) Holding company

Name	Baosteel Group Corporation
Legal representative	Xu Lejiang
Date of incorporation	17 November 1998
Authorized capital:	RMB 51,082,620,998.89
Principal businesses and operations	As a governmental authorized investment vehicle and a state-owned holding company, Baosteel Group Corporation mainly deals with state-owned assets within the authorized scope set by the State Council. The Corporation has also been involved in investments in areas of iron & steel manufacturing, metallurgy and mineral products, non-toxic chemicals, electricity, piers, warehousing, transportation, and steel-related business, technological development, technology transfer, technical supporting, and technical management consulting, as well as in areas of import and export businesses approved by the Ministry of Foreign Trade & Economic Cooperation (MOFTEC), domestic and international trading where allowed, and import and export services of products and technology.

(2) Actual controller

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

(3) Relationship between the Company and its controller



IV. Directors, Supervisors, Senior Management and Employees

(I) Current Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Term of office
Xu Lejiang	Chairman of Board of Directors	M	49	2007.12-2009.04
Ouyang Yingpeng	Vice Chairman of Board of Directors	M	58	2006.05-2009.04
Fu Zhongzhe	Director, President	M	48	2007.04-2009.04
He Wenbo	Director	M	53	2006.05-2009.04
Li Haiping	Director	M	58	2006.05-2009.04
Wu Yaowen	Director	M	65	2006.05-2009.04
Laura Cha	Independent Director	F	59	2006.05-2009.04
Buck Pei	Independent Director	M	51	2006.05-2009.04
Katherine Tsang	Independent Director	F	51	2006.05-2009.04
Sun Haiming	Independent Director	M	52	2006.05-2009.04
Edward C. Tse	Independent Director	M	52	2006.05-2009.04
Li Li	Chairwoman of Board of Supervisors	F	55	2006.05-2009.04
Zhou Guiquan	Supervisor	M	53	2007.04-2009.04
Liu An	Supervisor	M	47	2006.05-2009.04
Han Guojun	Supervisor	M	53	2006.05-2009.04
Peng Junxiang	Supervisor	M	43	2008.04-2009.04
Zhao Zhouli	Vice President	M	52	2006.05-2009.04
Cui Jian	Vice President	M	48	2006.05-2009.04
Zhu Junsheng	Vice President	M	48	2006.05-2009.04
Li Yongxiang	Vice President	M	48	2008.03-2009.04
Jiang Licheng	Vice President	M	50	2008.03-2009.04
Chen Ying	Vice President, Financial Controller, Secretary to Board of Directors	F	37	2008.03-2009.04
Lou Dingbo	Vice President	M	46	2008.03-2009.04
Pang Yuanlin	Vice President	M	45	2008.03-2009.04
Chen Shouqun	Assistant to President	M	58	2006.10-2009.04
Xie Wei	Assistant to President	M	44	2006.05-2009.04
Wang Jianyue	Assistant to President	M	47	2008.03-2009.04
Zhou Shichun	Assistant to President	M	47	2008.03-2009.04
Wang Liqun	Assistant to President	M	52	2008.03-2009.04
Zou Kuan	Assistant to President	M	51	2008.03-2009.04

Notes:

(1) The term of office will end at the date when the 2009 Annual Shareholders' Meeting is held.

(2) As at the end of the reported period, Ms. Li Li and Mr. Zou Kuan owned 30,000 and 13,420 shares of the Company respectively, without any change in amount in the period. No shares of the Company were owned by other directors, supervisors, and executives in the Company.

Supervisor and senior executives left office in 2008

Name	Position	Gender	Age	Term of office
Li Haiping	Vice President	M	58	2006.05-2008.08
Zhou Zhuping	Supervisor	M	45	2006.05-2008.04
Wang Li	Assistant to President	M	52	2006.10-2008.03

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

- Xu Lejiang:** Chairman of the Board of Directors of the Company since December, 2007; Director of the Board from February, 2000 to May, 2006; Chairman of the Board of Directors of the Company from May, 2006 to March, 2007; Director of the Board and Vice President of Shanghai Baosteel Group Corporation (hereafter referred to as SBGC) from November, 1998, to December, 2004; Director of the Board and President of the SBGC from December, 2004 to October, 2005; Director of the Board and President of the Baosteel Group Corporation (hereafter referred to as BGC) from October, 2005 to January, 2007; Chairman of the Board of Directors of BGC since January, 2007.
- Ouyang Yingpeng:** Vice Chairman of the Board of Directors of the Company since February, 2000; Director of the Board of the SBGC from February, 2003, to October, 2005.
- Fu Zhongzhe:** Director and President of the Company since March, 2007; Assistant to President of the SBGC from June, 1999, to June, 2003; Chairman of the Board of Directors and President of Shanghai No.1 Iron & Steel Co., Ltd. since November, 1999; Chairman of the Board of Directors and President of Shanghai No.1 Iron & Steel 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.
- He Wenbo:** Director the Company since February, 2000; Director and Vice President of the SBGC from November, 1998, to October, 2005; Vice President of BGC since October, 2005; Director and President of BGC since April, 2008.
- Li Haiping:** Director of the Company since February, 2000; Vice President of the SBGC from November, 1998 to February, 2000; Vice President of the company from February, 2002 to September, 2008; Manager of Tubular Products Management Department of the company since August, 2007; Vice Director of BGC Development and Planning Committee of Iron and Steel since July, 2008.
- Wu Yaowen:** Director of the Company since May, 2006; currently External Director of BGC; Vice President of Petro China since December, 1996; Director as well as Vice Chairman of the Board of Directors of Petro China from October, 1999, to December, 2003; External Director as well as Chairman of the Board of Directors of China National Coal Group Corporation.
- Laura Cha (Shi Meilun):** Independent Director of the Company since May, 2006; Non-official Member of the Executive Council of the Government of the Hong Kong Special Administrative Region (HKSAR), Deputy Chairwoman of the Hongkong and Shanghai Banking Corporation Limited, Deputy Chairwoman of the International Financial Advisory Council of the CSRC in Beijing, Chairwoman of the University Grants Committee in HKSAR, Chairwoman of the Advisory Committee on Corruption of the Independent Commission Against Corruption in HKSAR, Member of the Shanghai International Financial Advisory Council of the Shanghai Municipal People's Government, Member of the International Advisory Board of Marsh & McLennan Companies, Inc.. She is also a Non-executive Director of Bank of Communications; Independent Non-executive Director of Johnson Electric Holdings Limited, Hong Kong Exchanges and Clearing Limited, Tata Consultancy Services Limited and China Telecom Corporation Limited. She is a Deputy of the 11th National People's Congress PRC and a Member of the Standing Committee of the Chinese People's Political Consultative Conference (CPPCC) Shanghai Committee.
- 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; Currently Chief Executive Officer and Acting Vice Chairwoman of the Board of Directors of Standard Chartered Bank (China); Group Head of Organization Learning, Standard Chartered Bank, from 2001 to May, 2005.
- Sun Haiming:** Independent Director of the Company since May, 2006; currently 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 Center of Finance and Economics, SUFE from 1994 to 2002; Chair of School of International Business Administration, SUFE, from 2002 to 2006.
- Edward C. Tse(Xie Zuchi):** Independent Director of the Company since May, 2006; Currently President of Booz & Company (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.

IV. Directors, Supervisors, Senior Management and Employees

- 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.
- Zhou Guiquan:** Supervisor of the Company since April, 2007; Party Secretary of the Hot-roll Factory of the Company since February, 2002, to May, 2005; Party Secretary of the Hot-roll Factory of Baosteel Branch of the Company from May, 2005, to May, 2006; Vice Secretary of CPC Committee for Discipline Inspection and Director of the Department of Supervision of the BGC as well as Vice Secretary of CPC Committee for Discipline Inspection of the Company since May, 2006.
- Liu An:** Supervisor 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 Steel Co., Ltd. from August, 2004, to June, 2005; Executive Vice President of Stainless Steel Branch of the Company from June, 2005, to May, 2006; President of Stainless Steel Branch from May, 2006, to August, 2007; Vice President of Stainless Steel Products Department from August, 2007, to March, 2008; Coordinator of steel project of Baosteel Group Barzil since March, 2008.
- Han Guojun:** Supervisor 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 Workers Union of the Baosteel Branch of the Company since May, 2005.
- Peng Junxiang:** Supervisor of the Company since April, 2008; Vice President of No. 5 Iron and Steel Company of Baosteel Group from May 2001 to May 2006; Vice President of Trading Branch of the Company from May 2006 to January 2007; Vice President of Shanghai Baosteel International from January 2007 to May 2007; Vice Director of Finance Department of Baosteel Group from May 2007 to March 2008; Vice President of Huabao Investment Co. Ltd. from March 2008 to September 2008; Assistant to Chief Commander of the Headquarters of Zhanjiang Iron and Steel Project as well as Director of Comprehensive Planning Department of the project since September 2008.
- Zhao Zhouli:** Vice President of the Company since May, 2000. Assistant to President of the SBGC from November, 1998, to February, 2000; Assistant to President of the Company from February 2000 to May 2000; Party Secretary of the Baosteel Branch of the Company from May 2005 to May 2007; President as well as Party Secretary of the Baosteel Branch of the Company from May 2007 to March 2008.
- Cui Jian:** Vice President of the Company since June, 2003. Assistant to President of the Company and Acting Vice Director of the Company's Technology Center from May 2001 to June, 2003; Vice President of the Company as well as Director of the Company's Technology Center from June 2003 to May 2006.
- Zhu Junsheng:** Vice President of the Company since June, 2003. Assistant to President of the Company from May 2001 to June 2003.
- Li Yongxiang:** Vice President of the Company since March, 2008. Director and Vice President of Shanghai Meishan Co. Ltd. from November, 1998; 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. from February, 2005, to May, 2006; Assistant to President of the Company and Chairman of the Board of Directors and President of Shanghai Meishan Iron & Steel Co., Ltd. from May, 2006, to March, 2008; Vice President of the Company as well as Chairman of the Board of Directors and President of Shanghai Meishan Iron & Steel Co., Ltd. from March, 2008, to June, 2008; Vice President of the Company as well as Chairman of the Board of Directors of Shanghai Meishan Iron & Steel Co., Ltd. since June 2008.
- Jiang Licheng:** Vice President of the Company since March, 2008. Assistant to President of the Company as well as Director of Department of Equipment from June 2003 to September 2003; Vice President of Baosteel Group Shanghai Meishan Co. Ltd. from September 2003 to March 2005; President of Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. from March 2005 to March 2008; Vice President of the Company as well as President of Baosteel Branch from March 2008 to April 2008; Vice President of the Company, President of Baosteel Branch and President of Heavy Plate Management Department since April 2008.

- Chen Ying:** Vice President of the Company since March, 2008. Secretary of Board of Directors and Financial Controller from November 2003 to March 2008; Vice President, Secretary of Board of Directors and Financial Controller of the Company since March, 2008.
- Lou Dingbo:** Vice President of the Company since March, 2008. Assistant to President of the Company from September, 2003, to March, 2005; President of Sales Center of the Company from March, 2005, to May, 2006; Assistant to President as well as President of the Sales Center from May 2006 to March 2008; Vice President of the Company as well as President of the Stainless Steel Products Management Department of the Company since March, 2008.
- Pang Yuanlin:** Vice President of the Company since March, 2008. Assistant to President of Baosteel branch of the Company from May 2005 to May 2006; Director of the Company's Technology Center from May 2006 to March 2008.
- Chen Shouqun:** Assistant to President of the Company since October, 2006; Assistant to President of the Company from August 2002 to May 2005; Vice President of the Baosteel Branch of the Company from May 2005 to October 2006; Assistant to President of the Company since October 2006, and head of Cold-rolling Project of Meishan Iron and Steel since January, 2007.
- Xie Wei:** Assistant to President of the Company since May, 2006; Chairman of Board of Directors as well as President of Baosteel Group No. 5 Co., Ltd. from June 2003 to June 2005; President of Special Steel Branch of the Company from June 2005 to May 2006; Assistant to President of the Company as well as President of Special Steel Branch since May 2006.
- Wang Jianyue:** Assistant to President of the Company since March, 2008; President of Shanghai Baosteel Equipment Examination and Maintenance Co., Ltd. from January 2004 to March 2008.
- Zhou Shichun:** Assistant to President of the Company since March, 2008; Assistant to President of Baosteel Branch of the Company from May 2005 to May 2007; Acting Vice President of Sales Center of the Company as well as Director of the Sales Management Department of Sales Center; Assistant to President of the Company and President of Sales Center since March 2008.
- Wang Liqun:** Assistant to President of the Company since March, 2008; Vice Director of Administrative Office of BGC and Director of Baosteel Liaison Center in Beijing from June 2001 to May 2007; President of Raw Material Purchasing Center from May 2007 to March 2008; Assistant to President of the Company as well as President of Raw Material Purchasing Center since March, 2008.
- Zou Kuan:** Assistant to President of the Company since March, 2008; Director of Energy Department from July 2000 to April 2005; Director of Environment & Resources Department from April 2005 to March 2008; Assistant to President of the Company and Director of Environment & Resources Department since March, 2008.

IV. Directors, Supervisors, Senior Management and Employees

(III) Annual Remunerations

The compensation of the Directors, Supervisors and Senior Executives for the year 2008 totaled RMB14,991,900 (pre-tax).

(RMB thousand)

Name	Position	Compensation from share-holders or affiliated company	Remuneration from the Company in reported period (pre-tax)	Non-yearly remuneration from the Company
Xu Lejiang	Chairman of Board of Directors	Yes	-	
Ouyang Yingpeng	Vice Chairman of Board of Directors	Yes	-	
Fu Zhongzhe	Director, President	No	980.8	
Li Haiping	Director	No*	349.1	2008.01-2008.07
He Wenbo	Director	Yes	-	
Wu Yaowen	Director	Yes	250	
Laura Cha	Independent Director	No	250	
Buck Pei	Independent Director	No	250	
Katherine Tsang	Independent Director	No	250	
Sun Haiming	Independent Director	No	250	
Edward C. Tse	Independent Director	No	250	
Li Li	Chairwoman of Board of Supervisors	No	250	
Zhou Guiquan	Supervisor	Yes	-	
Liu An	Supervisor	No	215.2	2008.01-2008.04
Han Guojun	Supervisor	No	822	
Peng Junxiang	Supervisor	Yes	-	
Zhou Zhuping	Resigned Supervisor	Yes	-	
Zhao Zhouli	Vice President	No	879.2	
Cui Jian	Vice President	No	879.2	
Zhu Junsheng	Vice President	No	808.4	
Li Yongxiang	Vice President	No	808.4	
Jiang Licheng	Vice President	No	879.2	
Chen Ying	Vice President, Financial Controller and Secretary of the Board of Directors	No	808.4	
Lou Dingbo	Vice President	No	808.4	
Pang Yuanlin	Vice President	No	808.4	
Chen Shouqun	Assistant to President	No	715.2	
Xie Wei	Assistant to President	No	569.6	
Wang Jianyue	Assistant to President	No	715.2	2008.04-2008.12
Zhou Shichun	Assistant to President	No	715.2	
Wang Liqun	Assistant to President	No	777.6	
Zou Kuan	Assistant to President	No	569.6	
Wang Li	Resigned Assistant to President	No	132.8	2008.01-2008.03
Total			14,991.9	

Note: "Compensation from share-holders or affiliated company" refers to whether the Director or Supervisor or any other senior executive is paid by a share-holder or an affiliated company. Li Haiping receives his compensation from BSG since he retired from the Company as Vice President.

The pre-tax annual allowance for External (including independent) Directors and Supervisors other than those from the controlling shareholder is RMB250,000. Expenses and fees for travel and accommodation incurred by Directors, Supervisors and other senior executives due to board meetings and shareholder's meetings are borne by the Company.

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

The 11th meeting of the third Board of Directors of the Company, held on 26 March 2008, approved the nominations of Li Yongxiang, Jiang Licheng, Chen Ying, Lou Dingbo and Pang Yuanlin as vice presidents of the Company and Wang Jianyue, Zhou Shichun, Wang Liqun and Zou Kuan as assistants to the President. At the same time, Wang Li resigned as assistant to the President.

The 2007 General Shareholders' Meeting, held on 28 April 2008, approved the appointment of Mr. Peng Junxiang as member of the third Board of Supervisors to replace Mr. Zhou Zhuping.

The 14th meeting of the third Board of Directors of the Company, held on 28 August 2008, approved the nomination of He Wenbo as member of Committee for Strategic Development of the Board and Katherine Tsang as member of Auditing Committee. At the same time, Li Haiping resigned as Vice President of the Company.

(V) Employees

Up the end of the period covered by the Report, the total number of the employees of the Company and its controlled companies were 43,789, including 26,327 who were involved in production, 13,211 in technical functions, and 4,251 in administration and management departments. Among them, 25,767 held three-year college or higher degrees. The total number of employees of the Company totaled 28,186, including 18,338 that were involved in production, 7,203 in technical functions, and 2,645 in administration and management departments. Among them, those held three-year college degrees or higher ones numbered 15,674. The company did not incur any expense for the retired employees in the past year.

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 publication, interactive relationship with investors, and strict and effective internal auditing and monitoring system, risk-controlling systems, sound credit and transparency in management, in strict compliance with the *Company Law*, the *Securities Law*, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the *Rules of Shanghai Stock Exchange for Stock Listing*. Efforts have also been made for further improvement in its corporate governance system by means of keeping abreast with domestic and international progress in management while focusing on creativity and innovation.

In the reported period, the Company established its basic management framework and gradually improved its 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 presidents 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 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 includes 11 directors, including five independent ones, 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 the corporate governance system of the Company. In addition, Mr. Wu Yaowen has been trusted by the State-owned Assets Supervision and Administration Commission of the State Council as an External Director as well as one of the Directors of the Company, which makes him fairly independent from the Company.

Three committees have been formed to be responsible for the Board of Directors: Committee for Strategic Development, Auditing Committee and Compensation and Performance Evaluation Committee.

For better efficiency, the third Board includes Executive Directors, who have been entitled to decide on certain affairs. At present there are five executive directors to the Board.

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, business management, finance, commerce, and human resources.

The Independent Directors are found to be active in bettering the special committees, playing an important role in the special committees of the Board of Directors. With Mr. Xu Lejiang as the director of the Committee for Strategic Development, one seventh of its members are independent directors. Mr. Buck Pei, an independent director, acts as the director of the Auditing Committee, whose independent directors take up three fourth of its members. Ms. Shih May-lung is the director of the Compensation and Performance Evaluation Committee, whose members are all outside directors, with three fourth of its members are independent directors.

The Company continued to enjoy praises in the capital market in the year ended 31 December 2008. It was awarded by the Magazine of *Board of Directors* titles of "Special Contribution in Board of Directors" and "Best Board of Directors" for listed companies in the fourth "Round Table Prize" (2007); it was listed by *China Securities News* and TX Investment Consulting among the Top 100 Listed Companies, Top 100 Companies in Revenue, and Top 100 Companies in Market Capitalization for the Golden Ox Prize; It was also selected as one of the "Top 100 Managements in Investor Relations" and "Best IR Websites" by Research Center of Investor Relations of Listed Companies; It won the titles of Top 50 Most Respected Listed Company and 2008 Best Board of Directors for Listed Companies by World Finance Lab, *Bossline* and *Chief Executive China*.

(II) Programs to Improve Corporate Governance

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 listed companies in the country to better 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 re-structuring and improving its work.

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 published 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 Shanghai Securities Regulatory Commission (SSRC) on 29-30 April 2007. the Company received on 7 June 2007 a response from the SSRC 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, the Shanghai Stock Exchange expressed its suggestions regarding the corporate governance of the Company in "Assessment Report to the Corporate Governance Baoshan Iron and Steel Co., Ltd.": as no violations of the regulations and rules 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.

The internal control system was further improved in 2008 and its management was reformed, the internal control work was evaluated and the self-evaluating system established.

The independent directors' access to information of the Company was further improved in the period. It has been a standard practice in the Company 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 executive position in BGC, the Company's controller, involved. In the reported period, the external directors of the third Board met for four times. At the same time, discussions and talks were held between the directors and senior executives of the Company to communicate the directors' concerns. Furthermore, the *Directors Monthly*, a monthly newspaper, has been published to bridge the outside directors and the Company.

The Board of Directors revised *Procedures for Work of Auditing Committee with Regard to Annual Reports* to include their right to receive and review complaints about or reports to malpractices in preparation of financial reports or exceeding one's authority in management. A special mailbox has been prepared by Auditing Committee to collect different opinions and complaints, which are forwarded to the auditing members. Also included are the self-evaluation practice of the committee and its evaluations of the auditing firm and the internal auditing department, to increase communications between the committee, the management, internal auditing department and outside auditing institution.

V. Corporate Governance

(III) Performance of Independent Directors

1. Attendance at Board meetings

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 leadership in the interests of the Company and its shareholders.

In the past year, the Independent Directors made comments on issues of related party transactions, guarantees provided by the Company, and the share incentive scheme. All significant related party transactions in the period were approved and commented by independent directors in written form.

In the reported period, independent directors attended one of the meeting held by the Committee for Strategic Development, four of meetings held by the Auditing Committee and two of those held by the Compensation and Performance Evaluation Committee. Their independent stands, professional perspectives and experiences have contributed greatly to the management, significant decision-making and corporate governance system of the Company.

Directors who were not able to attend a board meeting went over the proposals before they exchanged opinions with the director who would be entrusted to vote for them in a written form.

Independent directors	Number of board meetings convened in the period	Attendance in person	Attendance by representative	Absence
Laura Cha	5	4	1	0
Buck Pei	5	4	1	0
Katherine Tsang	5	4	1	0
Sun Haiming	5	5	0	0
Edward C. Tse	5	5	0	0

2. Dissents from independent directors

No independent directors have voiced their dissents on proposals of the Board of Directors and other proposals in the reported year.

(IV) Independence of the Controlling Shareholder in Respect of Business, Personnel, Assets, Organizations and Financial Team

- (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 the President, the Vice Presidents, the Financial Controller and the Board Secretary, did 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 smelting, steel manufacturing 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 processes.
- (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 or reporting to 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.

(V) Internal Control System

The internal control system was further improved in the reported period and its internal management and the internal control devices were strengthened.

The *Internal Control Management Regulations* of the Company was revised, in accordance with the *Basic Standard for Enterprise Internal Control* published by the Ministry of Finance in connection with four other ministries and committees of China, and implemented after the approval by the Board of Directors, helping to the internal control in the Company to develop in a more scientific, reasonable and normative manner.

The strengthen the consciousness to and techniques of internal control, the Company offered training courses for 291 employees, which took the *Basic Standard for Enterprise Internal Control* as their leading principle, the internal control brochure of the Company and case studies as their main contents, and business procedures—sales, procurement, engineering, personnel management, and financial analysis—as themes. The training courses, case studies and discussions helped the trainees to be more internal-control-conscious and more experienced in management. Their ability to control risks was further improved.

Specifically, the following measures were taken in the reported period to strengthen the internal control system:

1. A ten-volume *Internal Control Manual* was compiled on the basis of a comprehensive review of the internal control work in the previous year; to ensure a better understanding of the work of internal control in the Company and provide a guideline for promoting the best cases and continuing the self-evaluation of the internal control in the Company.
2. Within the framework of the Company's *Internal Control Manual*, the internal control program was extended to include the branch of medium and heavy plates. The improvement work of the problems discovered in 2007 progressed. A report to the work was prepared and the results were feeded back to specific departments. It has been found that the Company as whole has completed the improvement program and no significant deficiency has been discovered in the internal control network of the Company. The results have also been reported to the Auditing Committee in a timely manner.
3. The self-evaluation has been conducted on the basis of the work in the previous year and in accordance with the requirements in *Internal Control Management Regulations*, in order to improve the efficiency of the internal control measures and further strengthen the continual devices. The self-evaluation work involved all the important businesses and technical procedures in the headquarters and the branches of Baosteel, Stainless Steel, Special Steel, Medium and Heavy Plates, Meishan Steel, Chemical Corp., Baosteel International, Finance Co., and Baosight Software. In accordance with the requirements in *Basic Standard for Enterprise Internal Control*, the self-evaluation program was designed to cover the five aspects at the corporate level and business level. The latter involved financial closing and reporting, procurement and payment, sales and repayment, inventory control, management of fixed assets, management of expenses, management of funds, investment management, personnel and compensation management, management of subsidiaries, and IT general control.

V. Corporate Governance

(VI) Disclosures of Board's Self-evaluation Report and Auditor's Review Report

Refer to Appendix II attached to the *Report*.

(VII) Assessment and Appraisal Mechanisms for Senior Executives

The Company enjoys a well-formed structure of corporate governance, with an assessment and appraisal mechanism for senior executives, which was approved by the Compensation and Performance Evaluation Committee and the Board of Directors. The compensations of senior executives are dependant upon the performances of the Company as a whole and of themselves, and normative procedures have been well-established with regards to their targets, daily compensation management, achievements, assessments and achievement-assessment relationship.

VI. Shareholders' Meetings

The 2007 Shareholders' General Meeting of the Company was held on 28 April 2007, in Dalian, and the public notice of the resolution was posted in the next day's *China Securities News*, *Shanghai Securities News*, and *Securities Time*.

VII. Board of Directors' Report

(I) Review of the Company's Operation

In 2008, guided by *Policies for Development of Iron & Steel Industry* and *Circular Economy Promotion Law of the People's Republic of China*, a series of progress in the steel industry have been made: regional and cross-regional consolidation in China's domestic steel industry has been accelerated; the strategic coastal deployment of major steel enterprises has basically formed, optimizing the industrial layout; the technical equipment of these enterprises has been rapidly boosted, improving the mix of products; new development in obsolete capacity shutdown, energy conservation and emission reduction has been achieved.

The steel industry underwent a severe test in 2008 due to the continuous iron ore price hike from previous year's 9.5% to the highest 96.5% in 2008. During the first half of the year, propelled by an imbalance between supply and demand and cost increase, the prices of such raw and supplementary materials as coke, coal, and alloy registered continuous rise, supply and demand were prosperous on the steel market, and steel prices continued to set a new record. However, starting from the second half of the year, the fourth quarter in particular, because of the global economic recession caused by the financial crisis, demand on the steel industrial chain dropped in an all-round way, resulting in a slump in steel price. Steel enterprises, affected by a low steel price and high-cost storage, began to see a drastic drop in both sales and profit. Against the background of a continuous economic recession, export of steel products was confronted with an increasing number of international anti-dumping and anti-subsidy investigations and trade conflicts were becoming more and more intense.

As the world economy entered a down-moving cycle, China's steel industry also moved into an important period of transition, because oversupply would exist for a relatively long time on the domestic market and international trade protectionism would apparently gain ground. Against such a severe situation, the Company, united as a whole, had adopted active measures to ensure the overall stability of production and management by overcoming the rise in raw material cost and an extremely sluggish steel market, selling 22.813 million tons of finished products in 2008 and realizing a total revenue of RMB 200.85 billion and a pre-tax profit of RMB 8.67 billion.

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 coils, wide and heavy steel products, ordinary cold-rolled products, zinc-coated plates, tin-coated steel, color-coated plate, electric steel, seamless tubes and pipes, UOE & HFW welded pipes, hot-rolled pickling plate, high-speed wires and rods, stainless steel, and special steel, which are widely applied and used in industries such as auto, home appliances, oil industry, machine manufacturing, energy and transportation, construction and decoration, metal ware products, aviation, nuclear power, and electronic panels.

The Company implemented the competitive strategy of "Focus" for its main business of steel, focusing on the development such advantageous products as auto plate, steel for household appliance, electrical sheet steel, pipeline steel, steel for energy use, ship plate, stainless steel, high-alloy steel, in an effort to boost the competitive edge of the advantageous products and maintain the Company's leading position on the domestic plate market. It would adhere to the scientific outlook on development and follow a new road of industrialization featuring sustainable development and the unique characteristics of Baosteel.

2. Company priorities

(I) Boosting the operation and management capacity of the Company by deepening the construction of the strategic performance management system

Pushing forward strategic performance management in an all-round way and improving the system of performance evaluation. Efforts were made to push forward and improve strategic performance management with balanced score cards as the tool based on the 16 major tasks. A management mode featuring project-oriented management of major tasks, process-based performance evaluation, and transparency of incentive materialization was basically established.

Focusing on the manufacturing capacity to increase on-site competitiveness. With a view to increasing on-site competitiveness, enhancing the proportion of leading products specifically owned by the Company, and improving the profit-making capacity, the Company established and implemented the model of the assessment of corporate manufacturing capacity index based on 15 professional modules, such as total quality management, process control capacity, equipment support capacity, capacity for production and organization, tool method application capacity, and product realization capacity.

Accelerating the popularization and coverage of the integrated management information system. Centering around the plan for the popularization and coverage of the 8 major systems, the Company promoted the construction of the integrated management system and its coordinating

projects, stabilized and optimized the operation and function of the new online system, and popularized the systems among its main iron and steel manufacturing units and trading and service processing units from 11 aspects including marketing, accounting, purchasing, construction, human resources, technical innovation, coordinated work platform, data warehouse, infrastructure, operation and maintenance, and code management.

(2) Successfully completing the acquisition and restructuring of the assets of the Luoqing project of Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. and tapping synergies of integration

In April, 2008, the Company successfully completed the purchase of the assets of the Luoqing project of Shanghai Pudong Iron and Steel Co., Ltd, a subsidiary of Baosteel Group, and founded Baosteel Medium and Heavy Plate Branch, finishing the management and integration of relevant business, realizing the coverage and extension of such professional management as sale, purchase, project investment, accounting, and human resources, and basically wrapping up the coverage of the integrated information system of sale, purchase, and accounting. In addition, it accelerated its speed to transplant the production line and technology of five-meter heavy plate mill from Baosteel Branch and conducted quality certification, benefiting from the synergies of integration.

(3) Practical results obtained in new product development and market sale getting expanded

Starting from the latter half of 2008, the steel market had been extremely depressed. Against this background, the Company had made vigorous efforts to develop Only One & Number One products, realizing an annual sales volume of 8.4838 million tons, a 14.8% increase than the previous year; and substituting 2.28 million tons of imports.

The market share of high-grade non-oriented silicon steel continued to expand and wholesale supply of the steel was realized. Since oriented silicon steel was successfully put into production in May 2008, it had achieved stable production and been certified by over 40 users. As a result, the steel had been ordered wholesale and its quality had kept increasing, turning itself into another growth point for the Company's profitability.

Sales of auto plates maintained a strong momentum, with the annual sales volume reaching 3.486 million tons, among which the sales volumes of the cold-rolled high strength steel and the outer plates for passenger vehicles increased by 24.4% and 20.6% respectively than the previous year.

In terms of plates for household appliances, the hot dip galvanized fingerprint-free sheets had passed the second round of IBM certification, the highest standard in this industry, and sales to strategic users had kept rising. In addition, electrical galvanized sheets had also passed certification by LG and AUO, two major producers of liquid crystal plates. A batch of leading new products including fingerprint-free sheets and chrome-free self-lubricated electrical galvanized plates had filled the gap in China's steel industry and had successfully become substitutes for imports.

In terms of steel pipes, the HFW products were provided for the submarine pipeline project. UOEX80 pipelines were begun to be supplied wholesale for the second pipeline of West-to-East Gas Transmission project. Besides, welding pipes were successfully made with high-strength K70 pipeline steel and they met the technical demands of Eastern Siberia-Pacific Ocean Oil Pipeline, making Baosteel China's first company able to supply this kind of products. Finally, new breakthroughs were made in the sale of Ni-based alloy oil pipes.

In terms of heavy plates, new progress was made in expanding the strategic users in the fields of ship-building, engineering machinery, and nuclear power. SA738B, the steel for AP1000 nuclear power safety shells, was successfully developed and realized goods supply, enabling the Company to move an important step forward in the field of steel for nuclear power use.

In terms of stainless steel, the Company, based on regional consumption and the characteristics of market segmentation, strived to develop users of 2Cr13N stainless steel, to expand the number of strategic users of industrial plates and realize the wholesale of 316L steel, which enriched the stainless steel series, and to launch the certification of and goods supply to the strategic users of stainless steel auto exhaust pipes.

In terms of special steel, "TA15 large-sized steel bar and frame die forging for the use of aircraft key mechanical parts" and "TC18 titanium alloy large-sized crochet hook forged pieces" passed technical evaluation and were approved for application.

A series of Only One & Number One products such as high-strength weather resistant steel BRA520C, chrome-free self-adhesive coating electric steel, and low yield strength steel BLY160, were successfully used in some major projects including the World Expo project, Sanmen nuclear power project in Jiangzhang, Shanghai-Hangzhou magnetic suspension train project, and Guangzhou TV tower project.

(4) Major projects successively completed

In 2008, a series of key projects were put into production, such as Baosteel No. 5 cold-rolling project (18 production lines), phase II project of wide and heavy plate mill, UOE project, No.4 power generator project, the project of electrical furnace, the steel-making and continuous

VII. Board of Directors' Report

casting project of the Special Steel Branch, the wide and heavy plate mill project of Medium and Heavy Plate Branch, and the No.2 coke furnace and natural gas project of Meisteel, increasing the steel-making capacity by about 2 million tons, the cold-rolling capacity by 1.71 million tons, the after-coldroll treatment capacity by 1.80 million tons, the wide and heavy plate capacity by 2 million tons, the UOE welding pipe capacity by 500 thousand tons, the large billet production capacity by 1 million tons, and the power generation capacity by 350 thousand GW.

Key projects were moving forward according to plan such as the continuous annealing/galvanized pilot unit project of the Baosteel Branch, cold rolling stainless strip project of the Stainless Steel Branch(subsequent project), steckel mill project of the special steel subsidiary, structural adjustment and technical renovation of 1422 hot-rolling mill of Meisteel, and the overhaul of No.1 and No.3 blast furnaces. Construction of some other key projects started such as the project of technical renovation of titanium-nickel special metal sheet of the special steel subsidiary, the production line of hot-extruded steel tubes, Luoqing Erbu project of the medium and heavy plate subsidiary, and the relocation project of Lubao Steel Tube Co., Ltd and adjustment of its product mix.

(5) Taking innovation as the guide and promoting product upgrading and sustainable development

In 2008, the Company's R&D investment to revenue ratio was 1.15% and its new product sale ratio reached 18.9%. The number of transfer in new products was 82 and that of the patents acquired was 859 (among which 364 were patents for invention). Besides, there were 2,069 technical know-hows. The Company won the title of one of the first batch of national innovative enterprises. "Baosteel high-grade auto plate product development market expansion" and "the technical process of wide steel strip continuous cold roll and the development and integration of model control technology" won Award of China Iron and Steel Product Development and Metallurgical Technology Award (First Prize) respectively. The Company made major progress in new product development. High and low temperature oriented silicon steel products and laser scribing products had successfully come down the production line, which symbolized a major breakthrough in the independent innovation of oriented new silicon steel products. Besides, it had completed the before-procedure verification of DP980 hot-dip galvanizing and ultra high-strength (1500MPa) water quenching marten site steel and succeeded in welding X90 and X100 pipeline steel for energy use. High-strength austenitic stainless steel B316L products began to substitute imports and low-Ni austenite stainless steel (the BN series) had formed the capacity of fast development and mass production, for which the Company was applying for an international patent. What's more, the Company had succeeded in developing the T24 high-pressure boiler tube for the use of ultra-supercritical pressure boilers, filling a technological blank in China.

The Company promoted energy conservation, environmental protection and resources re-utilization with technological innovation: its environment-friendly product, chrome-free passivated steel strip for screen display explosion protection, won grade-A new and high technological achievements of Shanghai; the desulphurization system of Meisteel No. 3 sintering plant was operating stably, marking the progress of the Company in this field; the Company succeeded in developing the method of producing stainless steel slag composite cement and established the method of evaluating the influence of stainless steel slag on the environment.

(6) Establishing all-round risk management and internal management and control systems

The Company promoted the construction of the risk management system and worked out an all-round risk management method, producing the draft of *Manual of Corporate Risk Management* and *Tools and Methods of Corporate Risk Analysis*. It also organized an internal control training with the focus on such processes as purchase, sale, engineering, personnel, income, and accounting, continued to promote the management of internal control, implemented regular follow-up and evaluation of the 520 problems found in internal control evaluation, and completed the first-round internal control evaluation of the subsidiaries under the corporate legal entity. In addition, it improved the corporate *Manual of Internal Control* and completed all the procedures required of the self-evaluation of internal control based on the framework standard of international internal control, turning itself into one of the listed companies in China that took the lead in disclosing its self-evaluation report.

(7) Adopting effective measures to alleviate the impact of the financial crisis

Confronted with the severe financial crisis in a century, the Company had quickly adopted effective measures to adjust its production and sale strategies. Based on economic operation, it had made resolute, quick and orderly adjustment of its production strategies, such as enhancing stock management, lowering operational risks, adjusting the modes of settlement, strictly controlling cash spending, making effort to lower management expenses, strengthening expenditure management and control, raising purchasing efficiency, reducing purchasing cost, re-evaluating construction items, and adjusting construction progress and capital arrangement. These measures had helped to strike a balance between production and sale under an abnormal supply-and-demand relation, maintaining the overall stability of the Company's cash flow and alleviating the impact of the financial crisis.

(II) Overall Performance in the Period

1. Operating results

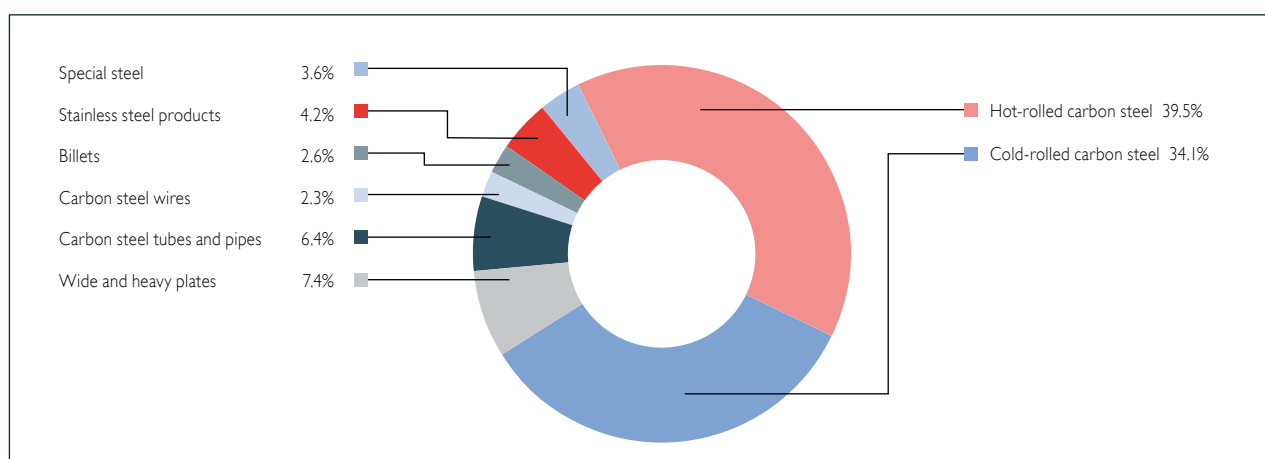
In the reported period, with its management focus on promoting the program of integrated co-ordinance and efforts to reduce cost and increase efficiency, the Company worked, with the common effort of the management and the whole staff, for its planned objectives. The sale of finished products in the year reached 22.813 million tons, a 0.9% increase as against the previous year; the total business revenue amounted to RMB 200.85 billion, a 4.9% rise as against the previous year; the pre-tax profit was RMB 8.67 billion, a fall of 55.1% as against that in the previous year; the net profit totaled RMB 6.99 billion, among which RMB 6.85 billion were attributable to the shareholders of the listed Company.

2. Distribution of income from principal businesses

(RMB Million)						
Industry	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin (percentage points)
Steel	165,683	147,690	10.86%	10.32%	16.06%	-4.41
Trade	172,768	169,274	2.02%	10.67%	11.22%	-0.49
Others	11,228	9,398	16.30%	22.74%	40.23%	-10.44
Deducted	-148,827	-150,337	-1.01%	20.75%	22.42%	-1.38
Total	200,851	176,026	12.36%	4.50%	7.76%	-2.65

3. Distribution principal products

(I) Distribution of sales of steel products



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A. Carbon steel

Carbon steel products of the Company include hot-rolled plates such as hot-rolled steel and heavy plates, cold-rolled plates such as ordinary cold-rolled products, zinc-coated plates, tin-coated steel, color-coated plate, and electric steel, steel tubes, wires, and billets.

Hot-rolled products

The hot-rolled steel products of the Company include pipe line steels, construction steels, steels for auto parts, mechanical structural steels, steels for anti-erosion constructions, steels for ship building, steels for boilers and pressure vessels, and tool steels, which are used for oil and natural gas pipelines, auto making, engineering mechanics, bridge construction, building industry, ship building, and pressure container manufacturing. The period reported witnessed the successful development and production of the ultra-high strength steel, with a yield strength up to 960MPa in the Company and a breakthrough in the sales 700MPa ultra-high strength steel, which is used for auto side member and the interconnect material in tractor trucks.

The sales of the hot-rolled products in the reported period reached 9.145 million tons, accounting for 42.9% of the total sales of carbon steel products of the Company, while the sales of pipe line amounted 864,000 tons, taking up to 31.4% of domestic market and sales of the high strength steel for construction equipments reached 167,000 tons, accounting for 34.4% of the market.

Wide and heavy plates

The wide and heavy plates include plates for ships, energy, pipes, and construction, among others, which are used in industries of shipping building, offshore oil platforms, pressure contains, oil and natural gas delivery, power, machinery, bridge building, and construction. The X80 pipeline steel, approved by a national authoritative testing institute and used in the second phase of West-to-East pipeline, which moves natural gas from remote regions in Northwestern China to Eastern parts of China, making the Company to be the first manufacturer in the country who is able to supply the type in batch. The Company is also the only enterprise which has been manufacturing the steel plate B610ECF-L2, a super-high strength steel which is used in ethylene and propylene spherical tanks at the temperature of -50°C, before which the material had been reported from other countries. The Company remained to be the top supplier in domestic market for strength steel plate B610E used for large oil tanks with capacity ranging from 100,000m³ to 150,000m³; The steel for the API1000 safety helmet for nuclear power plants, SA738B, was successfully developed and produced; TMCP shipping plate, pipeline plates, TMCP high-strength steel have been manufactured in the expected scale.

The shipments of wide and heavy plates in 2008 reached 1.71 million tons, accounting for 8.0% of total carbon steel products sold by the Company, including 906,000 tons of shipping plates (including those sold overseas), covering 6.4% of the home market.

Cold-rolled products

Cold-rolled products include ordinary cold-rolled plates, hot dip zinc galvanized plates, zinc electro-galvanized plates, color-coated plates, tin electro-galvanized plates, electric sheets, and hard-rolled coils for use in auto industry, home appliance, construction, packaging and transformer manufacturing. The auto sheets manufactured by the Company have been widely used in joint ventures and domestic auto makers in the country. To meet the auto market needs for lighter and safer materials, the Company was successful in developing high pressure steel products, high pressure dual phase steel, high pressure Complicated Phase steel, and Hydroformed and thermoformed steel products. The Company's home appliance steel varieties have been widely used in industries of the air conditioner, refrigerator, washer, micro-oven, color television, DVD player, and computer. Among them, the electrolytic zinc-coated steel sheet O5 and fingerprint resistant sheet are widely used for refrigerator front and side plates; the Company also made breakthrough in galvanized plates to go beyond the traditional construction industry to home appliance for self-cleaning, antistatic, and atmospheric corrosion resisting steel plates and other high-tech products. The electric sheets are used in generators, compressors and transformers. Great efforts have been made to increase its share in high pressure non-oriented electrical steel market, and the Company's products are used in high-energy particle accelerators and direct-current inverter compressors. Its high-grade electrical steels have been used in gyro- and thermal-generators and turbine generators. Furthermore, the oriented steel products of the Company have been tested in several companies and the Company is able to manufacture the type of steel products.

The shipments of cold-rolled products in 2008 reached 7.884 million tons, accounting for 37% of total carbon steel products sold. Among them, the Company sold 2.6 million tons of cold-rolled auto sheets, which made up 50.4% of the domestic market share; the home appliance steel sheets market in the year was 37.3% of the domestic market share, or 2.35 million tons; and the sales of non-oriented electric sheets reached 968,000 tons with a market share 17.6%.

Steel tubes and pipes

The steel tubes are of two types: seamless tubes and HFW welded pipes. The former includes oil-well casings, boiler tube and machining tubes, and the latter includes welded cases, tubes for pipelines and structural tubes. These products are found to be used in petrochemical industry, boiler building, mechanical processing, geology, gas containers, transportation, and mining industry. The premium thread products are available in large volume; Ni-based alloy product BG2830 has been successfully popularized in oilfields in Sichuan; HFW welding tubes have gradually expanded their market shares; efforts are being made to promote the research and development and trial making of HFW welding tube sub-sea pipelines. The overseas market for steel pipe products has been further expanded and a series of leading products specifically owned by the Company, such as thickened oil pipes, drill pipes, high anti-collapse casing, and 3Cr corrosion resistant casings, have entered well-known international oil companies in large volume. X70HFW pipeline obtained its first overseas order.

Total steel tubes sold in the period reported reached 1.47 million tons, accounting for 6.9% of the Company's total sales volume of carbon steel, including 483,000 tons of tubes for oil wells and 106,000 tons of alloy tubes for pressure boilers, with respective domestic market shares of 20.6 and 22.2 per cent.

Wires & rods

The Company's major wire & rod products include steel cords, spring steel wire rod, cold heading steel wire rod, high strength steel strand, bridge cable, and microalloy welding wire, which are mainly consumed in radial tyre manufacturing, auto industry, fastener making, bridge building, and mechanical manufacturing. The high pressure bridge cable, the only of its type in the country, was used in Taizhou Changjiang Bridge, among many others both at home and abroad.

The shipment of wires and rods totaled 532,000 tons in 2008, making up 2.5% of the Company's total sales volume of carbon steel products, including 71,000 tons of steel cords, which accounted 8.8% of the total in the country.

Steel billets

The Company's major products of steel billets include auto axle steel, oxygen bottle steel, die steel and other high extra-value products. The Company was honored as the leading producer in the country of the B series of non-quenched and tempered die steel.

The shipments of steel billets totaled 592,000 tons in 2008, making up 2.8% of the Company's total shipment of carbon steel products.

B. Stainless steels

The stainless steel products (including steel plates) of the Company include the austenitic stainless steel, ferritic stainless steel, martensitic stainless steel, and duplex stainless steel, which are mainly consumed by industries of cold rolling materials, manufacturing (such as nuclear power industry, railway construction, and mechanical industry) and metal ware industry (such as tableware). In the period reported, the Company developed, all by itself, a series of cold-rolled low-Ni austenite stainless steel products and a series of high pressure austenite stainless steels for pressure boilers and nuclear industry, represented by B316L and 304N.

The cold-rolled stainless steel products are primarily the cold-rolled austenitic stainless steel plates and ferritic stainless steel plates with surface finish of 2B, 2D, NO.3, NO.4, HL or BA, which are consumed by industries of elevators, auto making, home appliance, kitchen utensils, construction and decoration. The reported period also was the success of downstream products such as the stainless welded pipes for industrial purposes and pipes for auto making.

The shipment of stainless steel products totaled 965,000 tons in 2008, taking up 4.2% of the Company's sales of finished products and with a domestic market share of 16.9%.

C. Special steel

The special steel collection includes special metallurgical series, stainless steel series, and construction steel series, with steel rods, seamless steel tubes, steel wires, steel pipes, steel clasps, steel discs and shaped steel, which widely used in aeronautics, space industry, ship building, machinery, power station, electronic meters, and oil petroleum industry. As an important base of research and development in hi-tech metal material, the Company has been an owner of a series of universally competitive products with its own intellectual rights after years of efforts in research and innovation.

The shipment of special steel products totaled 824,000 tons in 2008, taking up 3.6% of the total sales of finished steel products. The sales of steels for auto industry and for ball bearings reached 24,7000 and 128,000 tons respectively, or 14.7% and 6.1% of the domestic market shares;

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sales of special steel and quality stainless steel accounted for 16% and 20%, respectively, of the domestic market shares, totaling 54,000 tons and 52,000 tons.

The revenues and costs of major 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 (percentage points)
Cold-rolled carbon steel	38,043	32,279	15.15%	17.22%	28.09%	-7.20
Hot-rolled carbon steel	47,858	40,035	16.35%	13.03%	24.35%	-7.62
Wide- and heavy plates	12,051	8,573	28.86%	51.84%	62.28%	-4.58
Stainless steel	14,976	16,382	-9.39%	-27.24%	-24.76%	-3.61
Special steel	9,650	9,926	-2.86%	-8.63%	-7.72%	-1.02
Other steel products	19,781	17,438	11.85%	36.60%	52.30%	-9.09
Total	142,359	124,633	12.45%	10.91%	16.86%	-4.46

Note: Included in the total sales of 22.813 million tons of the Company was the 1.435 million tons of hot-rolled products that the Company sold to the BNA Auto Sheet Company, but not the 1.745 million tons of cold-rolled products that the BNA sold in the year. In addition, the Company acquired Luojing assets and its relative businesses from Baosteel Group Pudong Steel Company on 1 April 2008 to establish the Mediun and Heavy Plate Branch. As a result, the sales income of the branch from January to March 2008 was not included in the sales income as listed in the above table. The total sales volume of the branch from April to December 2008 was 450,000 tons with revenue of RMB 3.25 billion.

During the first three quarters of the year, gross margin reached 16%. However, the market demand in the fourth quarter dropped dramatically due to the impact of the financial crisis and the average settlement price for carbon steels, stainless steels, and special steels fell by 15%, 49% and 20%, respectively, compared to the average of the previous three quarters. The production of iron, steel and finished steel dropped by 20%, 24%, and 24% respectively in contrast to the average of the first three quarters of the year. The reductions has great impact upon the cost allocation of the fixed expense and, as a result, the the ratio of margin fell accordingly.

4. Major markets

Sales income by geographical regions:

(Unit: RMB Million)

Products	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (percentage points)
Domestic market	176,309	155,757	11.66%	3.63%	7.44%	-3.13
Overseas market	24,542	20,270	17.41%	11.28%	10.25%	0.77

In 2008, the Company exported 2.565 million tons of steel products to the following areas:

Area	2008	2007
East Asia	45.1%	43.3%
Southeast Asia	21.1%	19.2%
America	16.0%	15.4%
Europe & Africa	17.8%	22.1%
Total	100.0%	100.0%

5. Major suppliers and customers

In 2008, the Company's procurement amount from the top five suppliers accounted for 34.6% of the total annual procurement.

In 2008, the Company's sales income from the top five customers accounted for 10% of the total business revenue.

6. Changes of assets structure

As at the of the reported period, the total of the consolidated assets of the Company reached RMB 200.02 billion, with an increase of 11.69 billion as compared with that at the beginning of the year. The total liability was RMB 102.18 billion, 8.45 billion more than that at the beginning of the year. The shareholder's equity reached RMB 97.84 billion, with an increase of 3.24 billion as compared with that at the beginning of the year. The debt-to-asset ratio of the Company was 51.1%, a rise of 1.3% as compared with that at the beginning of the year.

(RMB Million)							
Assets	2008	2007	Increase/ Decrease	Liabilities and shareholders' equity	2008	2007	Increase/ Decrease
Current assets	58,759	76,624	-17,865	Current liabilities	72,042	75,885	-3,843
Including: Inventory	35,645	39,069	-3,424	Including: short-term loans	24,104	20,481	3,623
Receivables	9,770	11,969	-2,199	Non-current liabilities	30,141	17,850	12,291
Long-term equity investment	3,850	3,754	96	Including: long-term loans	14,202	16,432	-2,230
Fixed assets	109,188	81,552	27,636	Total liabilities	102,183	93,735	8,448
Intangible assets	5,965	5,627	338	Shareholders' equity	97,838	94,601	3,237
Total assets	200,021	188,336	11,685	Total of liabilities and shareholders' equity	200,021	188,336	11,685

- (i) The monetary assets decreased by RMB 4.39 billion, mainly as a result of the Finance Co.'s reduction in absorbing deposits from Baosteel Group.
- (ii) As a result of the Company's active measures in payment reflow and control of cash outflow, the total receivable and advance payment were RMB 2.2 billion and 1.4 billion less than those at the beginning of the year, respectively.
- (iii) The inventory in the Company decreased by RMB 3.42 billion as compared with that at the beginning of the year; including RMB 5.9 billion of provision for inventory loss at the end of the year; a rise of RMB 4.87 billion. The inventory increased by RMB 1.45 billion as compared with that at the beginning of the year; without considering the impact from the provision for inventory loss.

The raw material increased by RMB 2.23 billion as compared with that at the beginning of the year. The ore in the first three quarters rose considerably both in number and price and the inventory of raw materials rose by RMB 6.3 billion at the end of September 2008. Due to tight control measures to raw material procurement in the last quarter, the raw material inventory fell greatly, but show an increase as at then end of the year.

The inventory for semi-finished and finished products fell by RMB 1.64 billion as compared with that at the beginning of the year; as a result of the Company's measures to reduce production volume and the decrease in cost of stainless steel products.

The spare parts increased by RMB 0.87 billion, including RMB 0.29 billion at the end of the period due to the addition of the branch of the medium and heavy plates in the second quarter of the year. At the same time, the spare parts to new projects and updating of some rollers contributed to the increase.

- (iv) The fixed assets increased by RMB 27.64 billion, mainly due to the first operations of the Luoqing assets (the wide and heavy plate rollers), No. 5 Cold-rolled Strip Steel Project and its necessary supporting facilities, and UOE Project.
- (v) The borrowing of the Company increased RMB by 1.39 billion in the reported period as compared to that at the beginning of the year, including a growth of RMB 3.62 billion of short-term borrowing and a fall of RMB 2.23 billion of long-term borrowing. The increase was resulted from the growth of fixed asset investment by the Company, which increased the demand for funds. At the same time, the Company took opportunity to replace some of the high-cost long-term loans with low-cost short-term loans to lower the financing cost as the interest rates were falling.
- (vi) The long-term payable increased by 7.55 billion as compared to that at the beginning of the year, mainly as a result of deferred interest-free payment to Luoqing assets within a period of five years.
- (vii) The bond payable was RMB 7.79 billion more than that at the beginning of the year; as a result of the RMB worth of 10 billion convertible bonds with attached warrants issued at par value of RMB100 by the Company in June 2008.

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7. Expenses and income tax changes during the report period

A. Operation and management expenses

(Unit: RMB Million)

Item	2008	2007	Difference	Difference rate
Sales expense	1,842	2,018	-176	-8.7%
Administrative expense	5,630	5,220	410	7.9%

The administrative expense was RMB0.41 billion more than that of the previous year, with an increase of RMB0.6 billion on R & D expenses.

B. Financial expenses

(Unit: RMB Million)

Item	2008	2007	Difference	Difference rate
Interest income	-157	-81	-76	93.8%
Interest paid	3,223	1,878	1,345	71.6%
Exchange gains or losses	-1,024	-889	-135	15.1%
Others	54	47	7	14.4%
Total	2,096	955	1,141	119.5%

The net interest expense of the Company in the period increased by RMB 1.35 billion as compared to that of 2007 as a result of the increase in the large scale of capital expense in 2007 and 2008 and the increase in financial scale. Furthermore, the average interest rate in RMB in the reported period was higher than that in the previous year. In addition, the interest expense for the rest of the payment to Luoqing assets acquired in April 2008 was prepared and confirmed on the basis of the actual interest rate. Finally, in the reported period, the Company expanded its scale in financing activities in USD, from which the Company benefited from the RMB one billion of exchange income, a rise of RMB 0.14 billion as compared with that of the previous year.

C. Income tax expense

(RMB Million)

Item	2008	2007	Difference	Difference rate
Consolidated pre-tax profit	8,675	19,308	-10,633	-55.1%
Consolidated income tax expense	1,683	5,885	-4,202	-71.4%
Effective tax rate	19.4%	30.5%	Down by 11.1 percentage points	

The decrease in effective tax rate came from the impacts of the new law of enterprise tax implemented in 2008, which lowered the rate from 33% to 25%, and the preferable policy in the R & D investment.

8. Measure of fair value and impact of its change upon profit

The financial assets and liabilities in the Company which are measured at their fair values include bonds, funds, stocks and derivative financial products. While the fair value of a bond, fund, or stock is measured on the basis of its market price, the fair value of a derivative financial product, which has no market price, is recognized by the value calculated and confirmed in the written form by the involved trading partner.

(RMB million)

Item	As at the end of 2008	As at the end of 2007	Increase	Impact upon profit of the period
Transactional financial asset	1,141	1,638	-497	9
Financial asset available for sale	860	1,598	-738	-
Transactional financial liability	12	175	-163	-6
Total	-	-	-	3

9. Cash flow analysis

The net cash inflow in the year 2008 in operating activities reached RMB 16.55 billion, the net cash outflow in investment activities hit RMB 26.83 billion and the net cash inflow from financing activities totaled RMB 1.62 billion, including:

A fall of RMB2.95 billion of net cash flow in operating activities. Finance Co.'s net cash flow of RMB 9.06 billion from its financial activities of lending, borrowing and payment receipts of interests was RMB 6.70 billion more than that of the previous year. Without considering the impact of Finance Co., the net cash flow in the Company was RMB 25.61 billion in 2008, a growth of RMB 3.74 billion. The year of 2007 witnessed an increase of RMB 12.38 billion, RMB 8.41 billion, and RMB 0.54 billion in cash received from sales of goods and labor services, cash paid for purchases of goods and services, and Cash paid to employees and for employees, respectively. At the same time, the taxation decreased by RMB 0.47 billion.

An increase of RMB 4.52 billion in investment activities. Without taking into account of the addition of RMB 0.79 billion of net cash flow that Finance Co. received from disposal of transactional financial assets, the net cash outflow for investment in the Company totaled RMB 28.12 billion in 2008, an increase of RMB 5.3 billion. This was primarily the result of the growth in investments on fixed assets, intangible assets and other long-term assets, which added by 5.53 RMB billion to the total payment as compared to that of last year. The money was mainly used in Meishan Steel's re-structuring of its 1422 model and updating of its equipment and techniques. The first half of the year also witnessed the progressive payment for the Luojing assets and a total of RMB 2.87 billion was paid during the year.

The net cash inflow in financing activities decreased by RMB 20 million, as compared with that in 2007. A total of RMB 9.94 billion of convertible corporate bonds issued by the Company added to cash inflow, while the payment for debts increased the cash outflow by RMB 9.19 billion.

10. Technology innovation and R & D investment

Aiming at the management target and the new strategy for development and focusing on the outline for technological innovation system, the Company made tremendous achievements in promoting technological creativity and knowledge property on the way to a creative enterprise. It invested 1.15% of its revenue in R & D, reaching a record high in the Group's history, which ensured a continual growth in the ability of independent innovation. The company was awarded the title of national innovative enterprise among the first in the country in 2008. "Comprehensive Technologies for Steelmakers' Utilization and Emission Reduction of By-product Gas" was awarded second prize of National Award for Scientific and Technological Progress, making Baosteel the first in Chinese metallurgical industry to win the honor for energy efficiency & emission reduction. "Wide Strip Tandem Cold Milling Technique and Its Model Control Technology" won the first prize of Metallurgical Award for Scientific and Technological Progress. "Development of Baosteel Quality Auto Plate and Its Market Promotion" was awarded title of "Market Pathfinder Award of China Iron and Steel Product Development".

Taking market demand as its guide, the Company spares no effort to conduct scientific research and develop new products and it has marked progress in the research and development of a series of new products. A great breakthrough has been made in the independent research and development of oriented silicon steel, which has realized mass production. In addition, the Company is also the biggest supplier of high-strength steel used in large-scale oil tank in China (with a market share of 60%) and the only enterprise that can provide high-strength steel plate used in 150,000 m³ crude oil tank. It has made a breakthrough in the development of high impact CO₂ and H₂S corrosion Ni-base alloy oil tubing/casting and the product quality has reached the advanced level compared with similar products at home and abroad. Low-Ni Austenite stainless steel products have realized serialization and they take the lead in deeping-drawing property and corrosion resistant property in China. The Company has succeeded in providing earthquake resistant high-strength low yield point steel to Shanghai World Expo projects, filling the blank in this area in China. The steel for nuclear power plants (SA738B) has been successfully used in manufacturing the safety shell for China's first 3rd-generation nuclear power plants, which symbolizes a major breakthrough of the Company in the application of quenched and tempered steel plates.

The Company has accelerated research and development in key areas for breakthroughs, as a result of which innovative achievements have emerged constantly and got applied one after another and the core technology chain has been further expanded. It has made vigorous efforts in the research and development of technologies concerning environmental protection and resources recycling and the desulfurization technique for sintering smoke has achieved engineering application. In addition, the Company has mastered the advanced technique of shape control of independent cold-rolling plates. The product performance prediction technique of the Company has achieved "prediction replacement adoption", realizing for the first time the online application of the performance prediction technique. Niño technology has been applied to industries, effectively expanding the useful life of the stretcher leveling roll. An industrialized plan has formed for the thin strip continuous casting technology, symbolizing an important step forward in the industrialization of forefront technology.

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11. Performance of controlled subsidiaries and invested entities

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

As at the end of 2008, 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 2008, Meishan had total assets of RMB20.26 billion, a net asset of RMB11.49 and a net yearly profit of RMB0.34 billion.

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

As at the end of 2008, 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 2008, Ningbo Baoxin had a total asset size of RMB6.14 billion and a net asset of RMB1.93 billion and reported a net profit of RMB -0.43 billion in 2008.

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

As at the end of 2008, 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 RMB4.74 billion and a net asset of RMB3.24 billion and realized a net profit of RMB0.22 billion as at the end of 2008.

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

As at the end of 2008, 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 RMB1.18 billion and a net asset of RMB790 million and reported a net profit of RMB150 million at the end of the reported period.

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

As at the end of 2008, the Company had 39.37% shareholding of Baosteel Huangshi Coating and Galvanizing. With a registered capital of USD8 million 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 total assets of RMB280 million, with a net asset of RMB100 million and reported a net loss of RMB20 million as at the end of 2008.

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

As at the end of 2008, 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 had a total asset size of RMB29.45 billion, with a net asset of RMB7.03 billion, and reported a net profit of RMB0.15 billion in 2008.

(7) Shanghai Baosight Software Co., Ltd.

As at the end of 2008, the Company had 55.5% of shareholding of Shanghai Baosight Software Co., Ltd. ("Shanghai Baosight"). With a registered capital of RMB260 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 RMB1.8 billion, with a net asset of RMB0.8 billion, and reported a net profit of RMB180 million as at the end of 2008.

(8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2008, the Company had 100% of shareholding of Shanghai Baosteel Chemical Co., Ltd, which has a registered capital of RMB2.1 billion and is mainly engaged in the production and sales of raw chemical materials and products, "for techniques" services in chemical industry, and import and export activities of its own products. By 31 December 2008, The total asset size of the Company reached RMB4.59 billion, with a net asset of RMB 3.33 billion, and pocketed a net profit of RMB 0.3 billion.

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

The Company, originally named Baosteel Group Nantong Iron and Steel Co., Ltd. was renamed Nantong Baosteel Iron and Steel Co., Ltd. in September, 2008. As at the end of 2008, the Company had 92.5% of the shareholding of Nantong Steel. With a registered capital of RMB0.346 billion, 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. By 31 December 2008, total assets of the Company reached RMB1.67 billion, with a total net asset of RMB0.48 billion and the net loss of RMB70 million was reported.

(10) Baosteel Group Finance Co. Ltd.

As at the end of 2008, the Company had 62.1% of shareholding of Baosteel Group Finance Co. Ltd. With a registered capital of RMB 0.5 billion, Finance Co. is mainly engaged in absorbing deposits from member companies, providing loans to them, conducting internal financial transfers between them, helping them in terms of borrowing and investment, and engaging in financial institution deposits and deposits from or to other financial institutions. By 31 December 2008, the scale of the Company reached RMB12.47 billion, with a total net asset of RMB1.46 billion and the net loss of RMB0.16 billion was reported.

(11) Overseas subsidiaries

By the end of 2008, the Company had overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, and Hong Kong. These overseas subsidiaries extended the Company's sales and purchase networks, and played a critical role in enhancing the Company's international competitiveness.

12. Special purpose entities controlled

None.

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13. Internal control system concerning fair value and related amounts

In order to effectively manage and control the operations and measurements of businesses related to the fair value, the Company drafted *General Principles in Exchange Risks Management, Regulations for Foreign Exchange Trading and Asset Operation*, and *Regulations for Swap Transactions of Foreign Exchange Debts*.

Items related to fair value measurement:

(RMB million)					
Item	Amount at beginning of the period	Changes in fair value in the period	Accumulated change in fair value recorded in equity	Increase in provision in the period	Amount at end of the period
Financial assets					
Including: 1. financial assets which are measured at fair values and the variation of which is recorded into the profits and losses of the current period	1,638	9			1,141
Including: derivative financial assets		284			115
2. Available-for-sale financial assets	1,598		-929		860
Sub-total	3,236	9	-929		2,001
Financial liability	175	-6			12
Total	-	3	-929		-

14. Financial assets and liabilities in foreign currency

(RMB million)					
Item	Amount at beginning of the period	Changes in fair value in the period	Accumulated change in fair value recorded in equity	Increase in provision in the period	Amount at end of the period
Financial assets					
Including: 1. financial assets which are measured at fair values and the variation of which is recorded into the profits and losses of the current period	-	284	-	-	115
Including: derivative financial assets	-	284	-	-	115
2. Borrowings and receivables	1,855	-	-	-	1,478
3. Available-for-sale financial assets	-	-	-	-	-
4. Held-to-maturity investment	-	-	-	-	-
Total	4,271		-	-	3,321
Financial liability	1,120	-6	-	-	1,038

(III) Group's Development in Prospect

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

(I) Trend of development of the steel industry

Affected by the global financial crisis, world economy has declined, as a result of which, Chinese economy has also entered a down-moving cycle, facing the risk of a too quick slowing-down of economic growth resulting from the joint work of industrial upgrading, change of development modes, and the deteriorating of the external environment. The world's steel industry began to enter the period of cyclical adjustment from the latter half of 2008 after experiencing a period of rapid development. Similarly, China's steel industry will also be in difficulty, characterized by a low growth of demand and a low product price.

The Chinese government has strived to adopt a series of measures to change this trend of slowing down and promote China's economic revitalization. The stimulus policies such as the RMB 4 trillion investment plan will accelerate the rejuvenation of investment to a certain extent, thereby promoting the development of the steel industry. The State Council has in principle passed the adjustment and rejuvenation plan for the auto, shipbuilding, and steel industries, which will help the structural adjustment and development mode change of China's steel industry, make the industry stronger; and increase the demand of steel products by the downstream industries.

The basic trend of continuous growth remains unchanged and so does the characteristics of current industrialization dominated by the heavy and chemical industry. Therefore, there is still space for the development of China's steel industry.

(2) The competitive market the Company faces

Competition on China's steel market in the current stage mainly manifests itself in the following aspects: 1) Along with the acceleration of the strategic consolidation of China's steel industry, a pattern featuring the co-existence of cross-regional and regional large enterprises and industrial concentration is enhanced. 2) With the product structure adjustment and technological advances of major steel enterprises, competition in homogeneity of high-end products has become increasingly fiercer. 3) Major foreign steel enterprises are accelerating their speed to compete and cooperate with China's major steel enterprises and privately-owned enterprises. 4) China's major steel enterprises have enhanced their supply chain management and will have competition and strategic cooperation with downstream industries in terms of raw material development overseas and overseas purchase. 5) Confronted with the adjustment of the steel market and the fiercer competition, major steel enterprises in China will focus more on the combination of scale, technology and cost, seeking sustainable and comprehensive competitive advantages on the basis of the harmonious and supplementary development of the three aspects. This trend of competition will have a far-reaching impact on the pattern of market competition the Company faces.

In the current fierce competition on China's steel market, the Company still maintains its advantageous position in the field of high-end products. In terms of carbon steel, its shares in such strategic products as cold-rolled auto sheet, high-grade color-coated plate, steel for household appliances, and high-strength steel for mechanical engineering on China's domestic market reached 50.4%, 49%, 37.3%, 34.3% respectively in 2008 and those in high-end DI tin plate and K plate accounted to 100% and 65% respectively. In terms of stainless steel, it maintained the second position in production and sale on the domestic market against a depressing market and an environment with increasingly fiercer competition and the strategic product stainless industrial plate had a domestic market share of 26% in 2008. In terms of special steel, the domestic market shares of such strategic products as high-grade stainless steel, high-grade tool & die steel, and special material reached 20%, 17.5%, and 16% in 2008, maintaining a relatively higher market share.

2. Future opportunities and challenges

(I) Opportunities

Promoting the change of development modes and maintaining a stable and relatively quicker economic development are the priority of China's economic work in 2009. For this end, the government has strengthened and improved macro regulation and control, implemented active financial policies and relatively relaxed currency policies, and required that the basic ways to cope with the changes in domestic and foreign environments and to realize sustainable development lie in maintaining growth, expanding domestic demands, and structural adjustment. The implementation of the adjustment and rejuvenation plan for the steel industry against this background will provide the following opportunities for the Company.

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In order to adjust the relation between domestic and overseas markets, the government will regulate and make a comprehensive plan for both markets. In other words, while adopting measures to expand domestic demand and increase domestic steel consumption, it will carry out moderate and flexible policies on export tax and stabilize the international market shares. This will improve the market environment the Company faces and benefit exports with high added values.

Adjusting the relation between the total output and structure: 1) The total output of steel will be strictly controlled, backward production capacity will be eliminated, and no projects for the sole purpose of expanding production capacity will be allowed. 2) Efforts will be made to give play to the leading role of large groups, promote the unification and reorganization of enterprises, cultivate large and super-large steel groups with international competitiveness, optimize industrial layout and enhance industrial concentration. 3) Efforts will be intensified in technological reform, research and development and import and a special fund will be established for infrastructural construction within the budget of the central government to promote the technological advances of the steel industry, adjust product structures, and improve steel quality. These measures will directly benefit competitive large enterprises.

The adjustment of the relation between production and sales means rectifying the order of the import market of iron ore, regulating the sales system of steel, establishing the mechanism of sharing the risk of production and sales. This will help maintain the stable operation of the main raw material and steel markets and the control of management risks by the Company.

(2) Future challenges

China's steel industry, like the Chinese economy, is experiencing the pressure of a cyclical adjustment and is confronted with the impact brought about by the global financial crisis. The Company is now faced with the severe challenge resulting from the drastic adjustment of the steel industry.

China's steel enterprises have long been confronted with the grave challenge of excessive production capacity, strained resources environment and high cost. The Company now has higher pressure optimizing production organization, lowering cost and inventory, and saving energy and reducing discharge.

As domestic steel enterprises have intensified their efforts to expand business, raise product structure and the levels of technology and management, a series of major projects have been put into production, which makes the competition in homogeneity fiercer for the Company. Besides, the global deployment of major steel enterprises overseas also increases the pressure the Company faces.

(3) Strategy for future development

Opportunism goes hand in hand with challenges. Though the external economic situation and the competitive environment have brought about severe challenges to the Company, they also offer opportunities. China's plan for the adjustment and rejuvenation of the steel industry has specified explicitly the basic principle of "ensuring the development of key enterprises, promoting development and adjusting structure", which provides policy support to Baosteel in its expansion of advantageous production capacity by making the best use of its advantages in technology, management and capital and offers opportunism for the Company to expand at low cost. Though it still takes time for Baosteel to walk out of the predicament, the Company will continue to take as its mission "becoming a world-class steel manufacturer and committing to providing premium products and service to the society", "integrity, cooperation, innovation, and the pursuit of the maximized value of the enterprise" as its core value, and "becoming the world's most competitive steel enterprise" as its strategic goal. It adheres to the strategy of "technology first", develops circular economy, and follows a new road of industrialization. In addition, it strives to achieve the strategy of leapfrog development which takes management innovation, coordination and cooperation, increase of the soft power, and enhancement of the competitiveness as strategic measures.

The Company establishes a complete, optimized and competitive supply chain system following the win-win principle and cooperates with the customers, suppliers and partners to supplement each other and enhance competitiveness.

The Company implements the competitive strategy of "Focus", focusing on the development such strategic products as auto sheet, steel for household appliance, electrical sheet steel, pipeline steel, steel for energy use, ship plate, stainless steel, high-alloy steel, in an effort to boost the competitive edge of these strategic products and maintaining the Company's leading position on the domestic plate market. It would adhere to the scientific outlook on development and follow a new road of industrialization featuring sustainable development and the unique characteristics of Baosteel.

3. Plan for capital needs and use and sources of capital

(1) Plan for capital needs and use

The Company is expected to make RMB 16.6 billion fixed assets investment in 2009, which will mainly be used for a batch of projects to be continued such as Luojing Phase 2 project of the Medium and Heavy Plate Branch, and the relocation project of Lubao Steel Tube Co., Ltd and optimizing of its product mix. It will also invest in projects of technical renovation.

After purchasing the relevant assets of the Luojing project of Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd, the Company will, according to the agreement, pay RMB 2.87 billion in 2009 to Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd for the purchase.

(2) Sources of capital

The above-mentioned capital will come from the Company's own capital and financing

4. Risks and counter-measures

(1) Major risks

The evolution of the global financial crisis and the uncertainty of its impact on the world economy and Chinese economy may produce further market and policy risks.

The domestic steel market has entered a transitional period in which supply and demand situation has changed dramatically. The production and sales of steel products will enter a period of adjustment and low growth and the difficulty in linking production and sale has increased. In addition, the Company is still confronted with the fluctuation risk exchange rate and raw material and fuel prices.

(2) Counter-measures

The Company is striving to push forward the construction of an all-round risk management system and has made and implemented the 2009 plan for key risk management programs so as to promote the implementation of ten key risk management programs, improve the mechanism of publicizing pre-warning information and pre-warning grades and of warning responses, enhance the connection between pre-warning and implementation, and further strengthen and optimize all-round risk management.

In order to overcome the unfavorable impact and risk brought about by the financial crisis and enhance the competitiveness of the Company in the market, the Company has implemented the following measures in such fields as product management, cost improvement, management reform and system ability elevation.

The Company gives priority to product series and quality, making efforts to explore customer needs, further coordinating production, sales and research, and accelerating product development and market expansion. It expands the proportion of and market for the sales of "Only one" and "Number one" products, accelerates the development and market access of such products and continues to improve and enhance manufacturing ability.

The Company conducts all-round activities on cost improvement participated by all its employees during the whole process of production in an effort to enhance cost competitiveness and value creation ability.

The Company promotes system innovation, optimizes the organizational structure, and raises the ability of operational management, establishing and improving marketing, purchasing and production organization systems that are geared to customer values and adapted to the requirements of multi-species and multi-bases.

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(IV) Operational plan for 2009

- I. 2009 is a crucial year for the Company to find opportunities in crisis. It will exert effort to lower product cost and continue to raise product quality under the theme of product management, consolidate and expand the advantages of the products based on technological innovation, enhance the competitiveness of the system by reforming management, and develop recycling economy to achieve sustainable development.

The Company puts forward the general principle of management: "Making achievements through changing concepts and seeking opportunities in crisis and raising management efficiency through product management and cost improvement".

In view of the unforeseeable global economic recession and the vague prospect of such raw materials and fuels as iron ore, the management of the Company will adopt effective measures to achieve the following goals if no major changes are to take place in the market: in 2009, the output of iron and steel will amount to 22.42 and 24.93 million tons respectively; the sales of finished products and billets will amount to 23.45 million tons; the total operating income and the cost will be RMB 145.7 and 129.8 million respectively.

2. Key work to be put forward

In 2009, the Company will promote 16 key programs emphasized on 3 major aspects as product management, cost improvement, management reform and system ability enhancement, focusing on corporate resources and increasing market response speed, in an effort to achieve a fine management performance in a severe market. The programs are as follows:

- Enhancing the ability of carbon steel to resist market risks
- Striving to reduce loss and turn loss into gain of stainless steel
- Striving to reduce loss and turn loss into gain of special steel
- Strengthening management of purchasing, lowering the cost of raw material
- Promoting the continuous optimization of production and sales management and of production organization mode
- Optimizing examination and maintenance mode and lowering maintenance cost
- Optimizing the management of production assistants and lowering its cost
- Enhancing manufacturing ability and lowering quality cost
- Lowering the cost of energy used
- Raising the rate of resources recycling
- Lowering the comprehensive cost of nickel
- Continuing to improve the ability of value management
- Lowering period expense
- Promoting system innovation, optimizing the organizational structure, and improving performance assessment
- Improving the assessment and enhancement of the ability of 11 major professional management systems
- Promoting the construction of the all-round safety protection system

(V) Investments

1. Investment in fixed assets

In 2008, the Company invested RMB 28.7 billion in fixed assets.

(1) Fundraising projects

The Baosteel No. 5 cold-rolled steel project was fully completed on 28th September, 2008, with a designed annual capacity of 1.71 million tons of cold-rolled products. On 15th May, 2008, the project's silicon steel production unit produced the first roll of qualified oriented silicon steel, which symbolized the realization of the Company's ten-year-long dream of producing oriented silicon steel.

The project of cold-rolled stainless strip was started on 26th April, 2006 and is expected to be fully completed in August, 2010.

(2) Non-fundraising projects

Key projects were moving forward according to the planned time slots such as the continuous annealing/galvanized pilot unit project of the Baosteel Branch, steckel mill project of the Special Steel Branch, structural adjustment and technical renovation of 1422 hot-rolled products of Meisteel, and the revamping and renovation of No.1 and No.3 blast furnaces. A series of key projects were put into production ahead of schedule or according to plan, such as the Baosteel Branch No. 5 cold-rolled steel project, the expansion project of wide and heavy plate mill, the UOE project, the No.4 power generator project, the project of optimizing the production system of long product billets, the heavy plate mill project of the Medium and Heavy Plate Branch, and the No.1 and 2 coke ovens project of Meisteel. Construction of some other key projects started such as the project of the technical renovation of titanium-nickel special metal sheet of the Special Steel Branch, the production line of hot-extruded steel tubes, Luojing Phase 2 project of the Medium and Heavy Plate Branch, and the relocation project of Lubao Steel Tube Co., Ltd and adjustment of its product mix.

(a) Completed projects having been put into operation

The expansion project of wide and heavy plate mill of Baosteel Branch: it was completed on 8th December, 2008, with a designed annual capacity of 400 thousand tons. With this project completed, the designed capacity of wide and heavy plate in Baosteel Branch will reach 1.8million tons.

The UOE project of Baosteel Branch: it was completed on 31st January, 2008, with a designed annual capacity of 500 thousand tons. It will be used to produce pipelines specifically for high-grade oil and gas transmission in high market demand.

No. 4 power generator project of Baosteel Branch: power network incorporation was successfully completed on 21st March, 2008, 10 days ahead of the overall schedule. The No. 4 power generator is a combustible low heat-value gas tower-like micro-positive pressure once-through boiler turbine generator with the largest capacity in the world, with an installed capacity of 350 thousand KW. After completion, the project will play a significant role in providing power to Baosteel Branch's projects in the tenth and eleventh five-year periods.

Baosteel Branch's project of optimizing the production system of long product billets: the bloom caster started the trial run period on 28th April, 2008, 3 months ahead of the overall schedule and the electric furnace started the trial run period on 3rd May, 2008, over 2 months ahead of the overall schedule. After completion, the project will produce 1 million tons of billets annually.

Meisteel No.1 and 2 coke oven project: No. 1 coke oven, No. 2 coke oven and coke dry quenching were put into production on 20th December, 2007, 20th February, 2008, and 18th June, 2008 respectively, producing over 1 million tons of metallurgical coke.

(b) Continued projects

Steckel hot rolling mill project of Special Steel Branch: it aims at building a set of steckel mills, which, after competition, will produce 282 thousand tons of steel plates and coils annually, among which will be 26 thousand tons of titanium and titanium-alloy, high-temperature alloy, Ni-base anti-corrosion alloy, and precision alloy. The project was started in September, 2007 and the plate production line is planned to be completed in July, 2009 and the coil production line in February, 2010.

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The project of structural optimization and technical renovation of I422 hot-rolled products of Meisteel: it aims to build a set of facilities for the post-treatment of pickling & rolling line, continuous annealing units, and hot dip galvanizing units. The project, after completion, will produce 850 thousand tons of tin plate, hot galvanized coils and sheets and hot galvanized aluminum coils and sheets annually. Started in March, 2007, the project is planned to be completed in September, 2009.

(c) Newly-started projects

The project of the technical renovation of titanium-nickel special metal sheet of the Special Steel Branch: it aims to build a production line for titanium-nickel special metal sheets, which will produce 75 thousand tons of cold-rolled special steel sheets and coils and 24 thousand tons of hot-rolled pickled coils every year. The project was started in 18th April, 2008 and is planned to be completed in December, 2010.

The project of the production line of hot-extruded steel tubes of Special Steel Branch: it aims to build a new hot-extruded steel tube unit and its coordinated equipment, which will produce 23 thousand tons of seamless steel tubes, including Ni-base alloy, titanium and titanium alloy, duplex stainless steel. The project was started on 9th January, 2008 and is planned to be completed in March, 2010.

Luoqing Phase 2 project of the Medium and Heavy Plate Branch: it aims to build the Corex process of iron-making, converter steel-making, slab-casting, rolling mills, oxygen production, CCPP power generator, etc., among which, the No. 3 continuous casting project was started on 28th February, 2008, the Corex process of iron-making on 20th April, 2008, and the oxygen producing project on 19th June, 2008. The continuous casting project is planned to be completed in May, 2011.

The relocation project of Lubao Steel Tube Co., Ltd and optimization of its product mix: it aims to build a production line for hot continuous rolling tubes and for tube processing, and a temper recoiling line for high-pressure boiler tubes, which will produce 500 thousand tons high-end seamless steel tube products, including high-grade corrosion resistant pipes for oil use only, high-pressure boiler tubes. The project was started on 28th April, 2008 and is planned to be completed in April, 2011 (the tube processing line will be completed in November, 2009).

2. Other investments

The Company completed RMB 640 million worth of equity investment programs in 2008. In addition, it purchased RMB 14.34 billion worth of the assets of Shanghai Pudong Iron and Steel (Group) Co. Ltd. Luoqing project.

3. Management and use of funds raised

(1) Funds raised

Approved by China Securities Regulatory Commission (No. [2008]739 document), the Company issued RMB 10 billion convertible bonds featuring the separation between warrants and bonds on 20th June, 2008, which was invested in the No. 5 cold-rolled mill and its coordinated equipments, cold-rolled stainless steel strip project, the purchase of the relevant assets of the Luoqing project of Baosteel Group Shanghai Pudong Iron and Steel (Group) Co. Ltd, and the adjustment of debt structure. It raised RMB 9.94 billion of funds after the RMB 60 million of underwriting fee and recommendation fee was deducted. The funds were deposited into a special account for raised funds on 26th June, 2008.

(2) Management of funds raised

- (a) The replacement of the funds raised. As was disclosed in the application document issued by the Company in July, 2008, the Company replaced the RMB 8.12 billion of funds raised by itself from January to June, 2008 and the funds were transferred from the special account for funds raised to the Company's general account.
- (b) Day-to-day funds raised are paid through a special account. According to the relevant stipulations in the Company's *Regulation of Raised Funds Management*, the user shall collect last month's actual use of the funds in investment projects early this month, which shall be transferred from the special account for raised funds to the Company's general account after examination and approval by the relevant head of the financial department of the user and the head of the financial department of the Company.

(3) Use of funds raised

(Unit: RMB million)						
Total funds raised	9,940	Total raised funds used in the present year		9,557		
		Total raised funds used		9,557		
Project of commitment	Whether to change the project	Funds to be invested	Funds invested	Whether conforming to the planned progress	Expected profits	Actual profits
No. 5 cold-rolled mill and its affiliated equipments	No	About 2,200	1,679	Yes	IRR: 13.35%	Not applicable
Cold-rolled stainless steel strip project	No	About 1,500	1,509	Yes	IRR: 11.2%	Not applicable
Purchasing the relevant assets of the Luojing project of Shanghai Pudong Iron and Steel (Group) Co., Ltd	No	2,869	2,869	Yes	IRR: 12.54%	-239
Adjustment of debt structure	No	3,500	3,500	Yes	Not applicable	Not applicable
Total		-	9,557	Yes	-	-
Statement of projects not meeting the planned progress and expected profits (based on individual project)		No				
Statement of the reason(s) and procedure(s) of project change (based on individual project)		No				
Future use and direction of remaining funds raised		Invest in No. 5 cold-rolling mill and its affiliated equipments as scheduled				

(4) General assessment of the storage and use of raised funds

In December 2007, the Board of the Company passed Regulation of Raised Funds Management in an effort to regulate the storage, use, management and supervision of the raised funds. At the end of 2008, its auditing department audited the use and storage of the funds raised, which showed that the storage and actual use of the funds raised conformed to the regulations stipulated in Regulation of Raised Funds Management and the use of the funds raised conformed to what was disclosed in the Prospectus.

VII. Board of Directors' Report

(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*.

- (i) The eleventh meeting of the Third Board of Directors was held in 26 March 2008, and the public announcement of resolutions was posted on 27 March 2008.
- (ii) The twelfth meeting of the Third Board of Directors was held in 28 April 2008, and the public announcement of resolutions was posted on 29 April 2008.
- (iii) The thirteenth meeting of the Third Board of Directors was held in July 2008, and the public announcement of resolutions was posted on 19 July 2008.
- (iv) The fourteenth meeting of the Third Board of Directors was held in 28 August 2008, and the public announcement of resolutions was posted on 29 August 2008.
- (v) The fifteenth meeting of the Third Board of Directors was held in 29 October 2008, and the public announcement of resolutions was posted on 30 October 2008.

(2) Board of Directors' implementation of resolutions of General Shareholders' Meeting

(i) Implementation of profit appropriation

According to the resolutions passed at the 2007 General Shareholders' Meeting held on 28 April 2008 the proposed profit appropriation for 2007 was as follows: All shareholders were entitled to a cash dividend of RMB0.35 per share (taxes included), for a total dividend payout of RMB6.1292 billion. Details of the dividend distribution were published in the *China Securities News*, *Shanghai Securities News* and *Securities Times* on 7 May 2008. The final share registration date for dividend entitlement was 12 May 2008, with the ex-dividend date set at 13 May 2008 and dividend payout date on 16 May 2008. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd. Shanghai Branch after the market closed on 12 May 2008, would be entitled to such cash dividends.

(ii) Issuance of convertible bonds with attached warrents

The First Interim General Shareholders' Meeting held on 27 December 2007 approved the proposal of issuing convertible bonds with attached warrents not more than RMB 10 billion, which was announced on 28 December 2007.

As approved in document numbered [2008]739 by China Securities Regulatory Commission, the Company issued a total of RMB 10 billion convertible bonds with attached warrents on 20 June 2008.

(iii) Acquisition of Luojing assets from Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd.

The First Interim General Shareholders' Meeting held on 27 December 2007 approved the proposal of purchasing Luojing assets from Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd., which was announced on 28 December 2007. On 2 to 29 January 2008, Pudong Steel listed Luojing assets to transfer. The Company got the consent and paid a first sum of RMB 2.87 billion on 29 January 2008.

3. Performance of Auditing Committee under Board of Directors

In preparing the 2008 annual report, the Auditing Committee under the Board of Directors gave a full play to its role of examining the Group's financial information, internal control system and supervising the observation of corporate law and regulations.

The Auditing Committee had examined the 2008 auditing plan and the financial statements compiled by the Company and issued its written suggestions for the documents before Ernst & Young Hua Ming, the accounting firm, started the auditing work. The Auditing Committee noticed the changes in the items of the report as against the previous year and required the Company to interpret the drastic changes of significant events in the 2008 annual report so that investors could have a better understanding of the financial situation of the Company.

Later, the auditing members issued a letter to Ernst & Young, urging the firm to complete the auditing according to the time limit stipulated in the annual auditing plan; the committee examined the accounting report again and offered their opinions in written form, after they reviewed Ernst & Young's initial suggestions for the auditing work. Meanwhile, the committee evaluated the auditors' performance and the quality of their auditing work. The auditors formed a book of suggestions for the problems found in the auditing, which helps the Group to standardize its operation. Therefore, the committee agreed to hire Ernst & Young to be the independent accountant in 2009.

4. Performance of Remuneration & Appraisal Committee

The BOD Remuneration and Appraisal Committee of the Company made a full discussion and examination of the *Report on the Annual Remuneration of Directors, Supervisors, and Senior Management, Proposal on the Performance Assessment and Remuneration of Senior Management in 2008, and Proposal on the Performance Assessment Target and Goal of Senior Management for 2009* in the annual report of 2008 and agreed to submit the above report and proposals to the Board of Directors for examination.

5. Performance of Strategic Committee

The Strategic Committee of the Board of Directors convened a meeting on 27 August, 2008, on which they had a full discussion and examination of *Proposal on the Establishment of Method of All-round Risk Management, Proposal on the Revision of Rules of Procedure for the Strategic Committee of the Board of Directors and Report on the Implementation of the Corporate Development Plan for 2007-2012 in 2007* and agreed to submit the above proposals and report to the Board of Directors for examination.

6. Procedures for work of Auditing Committee with regard to annual report

Refer to Appendix I attached to the Report.

(VIII) Proposed profit appropriation

The non-consolidated net profit of the Company in 2008 totaled RMB 5,077,478,565.37. With the addition of RMB19,464,261,354.03 of undistributed profit at the beginning of the year and deduction of RMB6,129,200,000.00 of cash dividend payment for 2007, the distributable profit at the end of 2008 was RMB 18,412,539,919.40.

For the Company's long-term sustainable development and the conception of 'maximizing shareholders' value', the Board of Directors proposes the following profit appropriation scheme for the year 2008:

1. Ten per cent of the net profit, or RMB507,747,856.54, shall be allocated as statutory earnings reserves;
2. Ten per cent of the net profit, or RMB 507,747,856.54, shall be allocated as discretionary earnings reserves;
3. In accordance with the estimated operation situation and capital demand of the Company in 2009, the Board of Directors has proposed a cash dividend payout of RMB1.8 per 10 shares (pre-tax), with total dividend payable of RMB 3,152,160,000.00.
4. Other models of distribution, such as capitalizing of common reserves, would not be adopted.
5. Dividend-net profit ratios from 2005 to 2008

Item	2008	2007	2006	2005
Cash dividend per share (pre-tax) (RMB)*	0.18	0.35	0.35	0.32
Total cash dividend (RMB 100 million)	31.52	61.29	61.29	56.04
Net profit in non-consolidated financial statements	50.77	99.48	133.39	130.48
Net profit attributable to parent company in consolidated statements	68.49	127.02	130.10	126.66
Cash dividend against non-consolidated net profit	62.08%	61.61%	45.95%	42.95%
Cash dividend against net profit attributable to parent company in consolidated statements	46.02%	48.25%	47.11%	44.24%

Note: The cash dividend for 2008 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2008 Shareholder's General Meeting.

VIII. Board of Supervisors' Report

(I) Summary of Board 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 *Chart of the Company*. The Board of Supervisors attended the eleventh, twelfth, fourteenth and fifteenth meetings of the third Board to supervise the convening of the Board meetings and ensure that voting procedures on resolutions conforming to relevant laws, regulations and the *Chart of the Company*.
2. The Board of Supervisors was convened for four meetings in the reported period and made public announcements of the resolutions in time. The details of the meetings by the Board of Supervisors are listed as follows:
 - (1) On 26 March, 2008, the Third Board of Supervisors held its tenth meeting in Shanghai and approved the following proposals:
 - Board of Supervisors' review on "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of 2007"
 - Board of Supervisors' review on "Proposal for Adjusting Some Items in the Balance Sheet of the Company at the Beginning of 2007"
 - Board of Supervisors' review on the "Report of the Final Annual Accounts of the Company at the End of 2007";
 - Board of Supervisors' review on "Proposal for 2007 Annual Profit Appropriation of the Company";
 - Board of Supervisors' review on "2007 Annual Report and Abstract";
 - Proposal of *Board of Supervisors' Report*;
 - Board of Supervisors' review on "Proposal of 2008 Budget of the Company";
 - Board of Supervisors' review on "Proposal of New Related Transactions of the Company in 2008";
 - Proposal for Re-election of Supervisors of the Company.
 - (2) On 28 April, 2008, the Third Board of Supervisors held its eleventh meeting in Dalian and approved the following proposals:
 - Board of Supervisors' review on "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Quarter 2008";
 - Review of the "First Quarter Report of 2008";
 - (3) On 28 August 2008, the Third Board of Supervisors held its twelfth meeting in Shanghai and approved the following proposals:
 - Review on Board of Directors' "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Half 2008";
 - Review on Board of Directors' "2008 Interim Report and Abstract";
 - Review on Board of Directors' "Proposal of the Analysis of the Company's Performance in the First Half of the Year and Prospect for the Second Half";
 - Review on Board of Directors' "Proposal of Drafting Regulations for All-round Risk Control";
 - Review on Board of Directors' "Proposal of Revising Procedures for Work of Strategic Committee and Revising Corporate Charter";
 - Review on Board of Directors' "Proposal of Donating to Chinese Antarctic Scientific Expedition Station and Frontier Guards on Black Bear Island";
 - Review on Board of Directors' "Proposal of Donating to Establish the Automatic Monitoring and Managing system for Environment Pollution in Baoshan Environment Monitoring Center";
 - (4) On 29 October 2008, the Third Board of Supervisors held its thirteenth meeting in Shanghai and approved the following proposals:
 - Review on Board of Directors' "Proposal of Provisions for Impairment Losses of Assets of the Company as at the Third Quarter of 2008"
 - Review of the "Third Quarter Report of 2008";
 - Review on Board of Directors' "Proposal of Revising Regulations for Internal Control";
 - Review on Board of Directors' "Proposal of Adjusting the Authority of Avoiding Price Fluctuation of Raw Materials".

(II) Opinions on the Company's Operations

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 laws and regulations, and regulated the Company's operations accordingly. 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' Meeting alike. None of the directors or senior managers was found to have breached any laws and regulations of the country and the *Chart of the Company* or conducted any deed that has harmed the Company's interest.

In the reported period, no breach of commitment to information disclosure has been discovered.

(III) Opinions on the Company's Financial Status

The Company was in good and solid financial status in the reported period. Its financial management and internal control system have been further strengthened. Its 2008 financial statements are a true reflection of the financial status and operating results of the Company in all major aspects, and the standard, unreserved opinion issued by Ernst & Young Hua Ming in the auditors' report is fair and objective. No malpractices were discovered by the Board of Supervisors with regard to their professional duties.

(IV) Opinions on the Company's Use of Fund from the Latest Financing Program

The fund from the latest financing program was used exactly in the way as the Company promised and no change was detected in the actual projects.

(V) Opinions on the Company's Acquisitions and Sales of Assets

No insider trading or deed that harmed the shareholders' interests or resulted in loss of Company's assets were discovered in acquisition and selling activities of the Company in the reported period.

(VI) Opinions on Related Party Transactions of the Company

In the period reported, the related party transactions were carried out according to *Baoshan Iron & Steel Co., Ltd. Related Party Transaction Management Regulations* 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 reported period.

(II) Bankruptcy and Re-structuring

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

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

1. Investment in securities

(Share/RMB million)

	Type	Code	Name	Initial investment cost	Shareholding	Book value as at end of the period	Ratio in total securities investment as at end of the period (%)	Profit/loss
1	Bond	0882016	08 Chalco MTNI	105.99	100,000	106.15	6.85	-
2	Bond	070211	07 CDB 11	99.90	100,000	101.41	6.54	1.51
3	Bond	0801101	08 CBB 101	98.18	100,000	99.30	6.41	-
4	Bond	0882003	08 Sinochem MTNI	77.08	70,000	72.54	4.68	-
5	Bond	0801114	08 CBB 114	58.73	60,000	59.48	3.84	-
6	Bond	0881036	08 Sichuan Express cp01	42.13	40,000	42.35	2.73	0.21
7	Bond	0801092	08 CBB 92	39.33	40,000	39.62	2.56	-
8	Bond	110002	Nanshan Bond	41.13	41,128	38.45	2.48	-2.68
9	Bond	0882019	08 Chinalco MTNI	21.83	20,000	21.94	1.42	-
10	Bond	0881153	08 SPD Bank CP01	20.00	20,000	20.60	1.33	-
Other bonds held as at the end of period				996.73	-	948.06	61.17	-265.05
Profit/loss in bonds sold in the reported period				-	-	-	-	378.30
Total				1,601.03	-	1,549.89	100%	112.29

2. Stocks held of other listed companies

(RMB million)

Stock code	Stock name	Initial investment cost	Shareholding in the Company	Book value as at the end of period	Profit/loss in the period	Change in shareholders' equity in the period	Accounting type	Share source
601699	Lu'an Environmental Energy	10.00	1.02%	146.13	-	-233.47	Financial assets available for sale	Investment when issued
600508	Shanghai Energy	11.00	1.53%	96.54	-	-181.38	Financial assets available for sale	Investment when issued
600997	Kailuan Corporation	7.00	0.75%	53.73	-	-110.53	Financial assets available for sale	Investment when issued
601001	Datong Coal	5.00	0.42%	39.69	-	-52.5	Financial assets available for sale	Investment when issued
601899	Zijin Mining	58.69	0.06%	39.51	2.45	-19.18	Financial assets available for sale	Purchase
600030	Citic Securities	27.93	0.02%	13.4	0.19	-14.53	Financial assets available for sale	Purchase
000002	Shenzhen Vanke	18.58	0.01%	6.08	0.06	-12.50	Financial assets available for sale	Purchase
600048	Baoli Estate	8.89	0.01%	4.62	-2.94	-4.28	Financial assets available for sale	Purchase
Total		147.09	399.70	-0.25	-628.37	-	-	

3. Transactions of shares of other listed companies

Ten thousand share/RMB million

Name	Shareholding as at the beginning of the period	Shares traded in the period	Shareholding as at the end of the period	Capital used	Investment gains
Stock	3,375.24		1,024.05		
Shares bought		2,711.52		824.66	
Shares sold		5,062.71			273.82

(IV) Significant Acquisition, Sales and Consolidation

The first interim general shareholders' meeting held on 27 December 2007 approved the proposal of purchasing Luojing assets from Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd., which was announced on 28 December 2007. On 29 January 2008, Pudong Steel listed to sell the Luojing assets and the Company got the consent. The total delivery price of the assets was RMB 14.34 billion and the first sum of RMB 2.87 billion of payment was made on 1 April 2008.

Luojing project and related assets are expected to improve the product mix of Baosteel wide and heavy plate and expand capacity so as to realize synergy and strengthen the product's competitiveness. The expected IRR of the project will be 12.5%. However, the project is still in its ramping up period, a total loss of RMB 240,000,000 was reported in the period from 1 April to 31 December 2008.

(V) Progress of "Share Incentive Scheme" and Its Impact on the Financial Status and Performance of the Company

None.

IX. Significant Events

(VI) Significant Related Party Transactions

1. Day-to-day related party transactions

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

(I) Purchases and sales of products and purchases of services

(RMB million)

Affiliates	Transactions	Pricing	Amount
Baosteel Development Corp.	Sales of iron and steel products, supplementary materials, etc.	Market	4,605
Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd.	Sales of steel products, energy, etc.	Market	530
Baosteel Metal Co., Ltd.	Sales of steel products, etc.	Market	1,007
Baosteel Resource Co., Ltd.	Sales of raw material and fuels	Market	4,715
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Sales of steel products, raw material and fuels, supplementary materials, etc.	Market	1,635
Baosteel Shanghai Pudong Iron & Steel Co., Ltd.	Sales of steel products, raw material and fuels, supplementary materials, etc.	Market	1,282
Sub-total of sales			13,774
Baosteel Development Corp.	Purchase of steel products, supplementary materials, etc.	Market	1,620
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Purchase of raw material and fuels, supplementary materials, etc.	Market	1,240
Baosteel Shanghai Pudong Iron & Steel Co., Ltd.	Purchase of steel products	Market	1,042
Shanghai Baosteel Engineering & Technological Co., Ltd.	Purchase of equipment and supplementary materials	Market	1,072
Baosteel Group Bayi Iron and Steel Co., Ltd.	Purchase of steel products	Market	1,698
Baosteel Resource Co., Ltd.	Purchase of raw material and fuels	Market	12,649
Bao-Island Trading Co. Ltd.	Purchase of raw material and fuels	Market	1,255
Sub-total of purchase			20,576
Baosteel Development Corp.	Comprehensive logistics, project construction and installation services, equipment examination & maintenance service, and transportation services	Negotiation	1,479
Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd.	Comprehensive logistics, project construction and installation services, equipment examination & maintenance service, and transportation services	Negotiation	779
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Comprehensive logistics, project construction and installation services, equipment examination & maintenance service, and transportation services	Negotiation	955
Shanghai Baosteel Engineering & Technological Co., Ltd.	Services in project and processing	Negotiation	550
Shanghai Baosteel Industrial Examination Corp.	Services in examinations and storage	Negotiation	575
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd.	Project construction and installation services and equipment examination & maintenance service	Negotiation	883
Sub-total of services			5,221

The above-mentioned products sold accounted for 6.9% of the Company's revenue from its principal businesses in the reported period; purchases and services received took up 11.7% and 3.0%, respectively, of the Company's cost for its principal businesses in the reported period.

All transactions were settled either by cash or by check.

(2) Financial services

Baosteel Group Finance Co., Ltd. (hereinafter referred to as Finance Co.), a non-bank financial company with Baosteel Group (with 35.2% of the shares), Baosteel International, a wholly-owned subsidiary of the Company (with 40.1% of the shares) and Pudong International Trading (with 20% of the shares) as joint-shareholders, 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 settlement, deposit and loan, short-term financial planning, investment and fund-raising for companies within group level.

In the reported period, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 3.14 billion loan to the Group's subsidiaries, with outstanding loan of 1.88 billion and a total interest income of RMB 100 million. At the same time, it got a total of RMB 68.19 billion deposit from the Group's subsidiaries, with outstanding deposit of RMB 9.24 billion at the year-end and a total interest payment of RMB 0.37 billion.

In the reported period, 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 4.97 billion and RMB 0.1 billion, respectively, while its income from the assets management was RMB 846,000.

(3) Necessity and continuity of related party transactions

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

2. Acceptance and transfer of assets or equity

Refer to Note 9 (4) for details.

3. Affiliated external investments with related parties

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

4. Claims, liabilities and guarantees between the company and the related parties

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

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

5. Fund appropriations and their solutions

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

IX. Significant Events

(VII) Major Contracts and Performance

1. Major trusteeships, contracts or leases

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

2. Major guarantees

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

3. Major entrusted cash management

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

(VIII) Convertible Bonds with Call Warrants

The Company issued a worth of RMB 10 billion convertible bonds with call warrants on 20 June 2008.

1. Top ten holders of 08 Baosteel Bond

No.	Holders	Bonds held
01	China Pacific Insurance (Group) Co., Ltd	17,002,640
02	New China Insurance Co., Ltd	15,441,280
03	Ping An Insurance (Group) Co., Ltd	9,213,990
04	Ping An Property & Casualty Insurance Company of China, Ltd.	6,285,210
05	Ping An Life Insurance Company of China , Ltd.	5,683,500
06	National Council for Social Security Fund	4,991,580
07	China Pacific Life Insurance Co., Ltd	3,841,080
08	China Petroleum Finance Co., Ltd.	3,377,040
09	Taikang Life Insurance Co., Ltd	2,963,000
10	Jiahe Life Insurance Co., Ltd	2,660,000

2. In the reported period, the conversion ratio and the price of the warrants were not adjusted. The profitability, assets status and credit rating of Baosteel Group, the guarantee of the Company, have not experienced significant changes.

3. At the end of the reported period, the asset-liability ratio was 51.1%, an indication of a stable capital structure. On December 18, 2008, Standard & Poor's announced that the long-term credit of Baosteel was rated A-, with an outlook of "stable". On January 16, 2009, the CCXR also reported that corporate credit rating of the Company was AAA for the year 2009, with an outlook of "stable". In the coming years, the Company would repay its due bonds by its own capital and debt financing.

(IX) 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 Group also promises that, when the Group 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 enjoys 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 Group 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 21 June 2001 and 12 September 2002 and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) as well.

IX. Significant Events

2. Commitments made in Issuance Prospectus by the Group

- (1) The Group 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 the 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 the Group undertook about New Factory Project of Handan Group

The Group sought 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 that 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 at a fair price in line with relative laws, regulations, and other documents and on basis of asset estimating results as conducted by an independent appraisal institutions.

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 the Group undertook about Luojing Land

Baosteel Group Shanghai Pudong Iron and Steel Co. Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter, Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3.228 million m², for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-assessing day (30 September 2007), RMB 2.8 billion as preliminarily estimated, need to be paid. The Group promises:

- (1) If the Company intends to purchase the Luojing assets, 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.

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

Baosteel Group promised in written form dated 11 April 2008 concerning the land use right and change in its area:

As regards to the piece of land whose use right has been suspended due to change in Baoshan land planning program, Baosteel Group shall fully cover the possible losses (including, but not limited to, the cost of the land and the interests involved, removing expenses, and loss due to closing down) due to loss of the land use right within 30 days.

The Group shall try its best to help when the Company applies to relevant official departments for the use right of the land in question or when it uses the land in the manner it is using now.

These commitments were included in *Prospectus of Convertible Bonds with Call Warrants*, publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on June 18, 2008.

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

IX. Significant Events

7. Commitments the Company undertook about land use right in 2005

- (1) The Company intended to purchase, by the fund from the five billion share issued in 2005, 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 transfer procedures for a piece of land in Baoshan District covering an area of 581,000m², which involved in the 2005 increase in share capital, has not completed. The Company was informed that the piece had been planned by Shanghai Municipal Planning Bureau as part of the "land for landscapes" due to change in the overall plan. Yet, up to the date of disclosure of the Report, the Company has not been informed that the land should not be used in the way it is used. Furthermore, on the land are workshops of bright steel plant and oxygen generating plant of Special Steel Branch of the Company rather than key operating workshops of the branch.

(X) 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 nine years, is detailed below:

1. The approach to and amount of the compensation payable to the accounting firm for services rendered to the Company is determined and subject to approval at the Shareholders' Meeting. Meanwhile, compensation for auditing services rendered to the Board of Directors is determined by the Board. Independent directors gave their unanimous consent to the compensation for the accounting firm.
2. As passed by 2007 Annual Shareholders' Meeting, the auditing fees payable to Ernst & Young Hua Ming in 2007 was RMB3.25 million. The auditing fees for the 2007 Annual Report were RMB 3.25 million. Expenses and costs related to auditing service and advanced by the accounting firm are reimbursed and borne by the Company. In addition, the Company paid Ernst & Young Hua Ming RMB 580,000 of auditing fee for its service concerning the convertible bonds issued by the Company in the period and RMB 150,000 for its service in the internal control auditing work.
3. Signatory auditors to the Company's 2008 Financial Statements are Yang Jun and Gu Xiaogang, while He Zhaofeng and Gu Xiaogang signed on the previous year's auditory report.

(XI) Neither the Company, nor the Board of Directors and any of its director, senior manager, shareholder or actual controller was the subject of an investigation by the China Securities Regulatory Commission in 2008, neither were they punished or penalized or cited by the commission, or openly denounced by any administrative department or Shanghai Stock Exchange for any wrongdoing.

IX. Significant Events

(XII) Index of Important Announcements

Item	Disclosure date
1 Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year of 2007	2008-3-24
2 Announcement of the Resolutions of the eleventh Meeting of Third Board of Directors and Announcement of the General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2008-3-27
3 Notice of Related Party Transactions in 2008 of Baoshan Iron & Steel Co., Ltd.	2008-3-27
4 Announcement of the Resolutions of the tenth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2008-3-27
5 Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2008	2008-4-25
6 Notice of Change in Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2008	2008-4-28
7 Announcement of the Resolutions of the twelfth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2008-4-29
8 Announcement of the Resolutions of the eleventh Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2008-4-29
9 Announcement of the Resolutions of the 2007 General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2008-4-29
10 Announcement of the CSRC Review Committee's Approval of Convertible Corporate Bonds with Attached Warrants by Baoshan Iron & Steel Co., Ltd.	2008-4-30
11 Announcement of Implementing 2007 Annual Dividends Appropriation of Baoshan Iron & Steel Co., Ltd.	2008-5-07
12 Announcement of Compensations of Directors, Supervisors and Senior Executives in the Year of 2007	2008-5-10
13 Announcement of the CSRC's Approval of Convertible Corporate Bonds with Attached Warrants by Baoshan Iron & Steel Co., Ltd.	2008-5-28
14 Announcement of the Online Roadshow for Convertible Corporate Bonds with Attached Warrants by Baoshan Iron & Steel Co., Ltd.	2008-6-18
15 Announcement of Issuance of Convertible Corporate Bonds with Attached Warrants by Baoshan Iron & Steel Co., Ltd.	2008-6-18
16 Prompts on Issuing Convertible Corporate Bonds with Attached Warrants by Baoshan Iron & Steel Co., Ltd.	2008-6-20
17 Suspension notice of Baoshan Iron & Steel Co., Ltd.	2008-6-23
18 Notice of Disclosure of Significant Information by Baoshan Iron & Steel Co., Ltd.	2008-6-24
19 Bulletin on Offline Issuance Results and Online Ballot Results of Baosteel Convertible Bonds	2008-6-25
20 Bulletin on Matching Results of Baosteel Convertible Bonds	2008-6-26
21 Notice of Disclosure of Significant Information by Baoshan Iron & Steel Co., Ltd.	2008-6-30
22 Prompts on separation of Call Warrants and Convertible Bills of Baoshan Iron & Steel Co., Ltd.	2008-6-30
23 Notice of Listing of Call Warrants of Baoshan Iron & Steel Co., Ltd.	2008-7-02
24 Notice of Listing of Convertible Bonds of Baoshan Iron & Steel Co., Ltd.	2008-7-02
25 Announcement of the first-day reference price of the CWBI by Baoshan Iron & Steel Co., Ltd.	2008-7-04
26 Announcement of the Resolutions of the thirteenth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2008-7-19
27 Announcement of Trading of the Restricted Shares of Baoshan Iron & Steel Co., Ltd.	2008-8-14
28 Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Half of 2008	2008-8-26
29 Announcement of the Resolutions of the fourteenth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2008-8-29
30 Announcement of the Resolutions of the twelfth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2008-8-29
31 Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Third Quarter of 2008	2008-10-27
32 Announcement of the Resolutions of the fifteenth Meeting of Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2008-10-30
33 Announcement of the Resolutions of the thirteenth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2008-10-30

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>).

(XIII) Other Significant Matters

No significant event occurred in 2008.

(XIV) Significant Matters in Controlled Companies

No significant event occurred in any of its controlled company in 2008.

X. Financial Report

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Auditors' Report

Ernst & Young Hua Ming
(2009) Audit No. 60428378_B01

To the shareholders of Baoshan Iron & Steel Company Limited (the "Company")

We have audited the accompanying balance sheet of Baoshan Iron & Steel Company Limited (the "Company") and the consolidated balance sheet of the Company and its subsidiaries (collectively referred to as the "Group") as of 31 December 2008 and the related income statement, statement of changes in equity and cash flow statement of the Company for the year ended, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year ended, 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 and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 Company and of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises and China Accounting System for Business Enterprises.

Ernst & Young Hua Ming
Beijing, P. R. China

Certified Public Accountants
Registered in P.R.China

Yang Jun
Gu Xiaogang

March 27, 2009

Baoshan Iron & Steel Co., Ltd.

Consolidated Balance Sheet

31 December 2008

RMB

Assets	Note 6	31 December 2008	31 December 2007
CURRENT ASSETS			
Monetary funds	(1)	6,851,604,374.54	11,240,041,072.36
Funds lent to other financial institutions	(2)	-	42,366,680.00
Trading financial assets	(3)	1,141,165,158.85	1,637,805,977.77
Notes receivable	(4)	4,501,112,144.38	5,656,985,157.79
Trade receivables	(5)	5,269,190,881.79	6,311,642,149.53
Payment in advance	(6)	4,600,807,313.48	6,003,758,547.07
Interests receivable	(7)	14,759,478.14	18,236,632.06
Dividends receivable		-	22,045,889.41
Other receivables	(8)	736,214,627.64	866,340,183.83
Buying financial securities and return sale		-	5,755,900,000.00
Inventories	(9)	35,644,590,875.74	39,889,674,168.60
Total current assets		58,759,444,854.56	77,444,796,458.42
NON-CURRENT ASSETS			
Loans granted and cash advances	(10)	1,907,753,092.68	816,552,762.97
Available-for-sale financial assets	(11)	860,182,984.66	1,598,061,926.01
Long-term equity investment	(12)	3,849,504,621.27	3,754,348,861.50
Investment real estates	(13)	136,754,792.01	135,688,714.39
Fixed assets	(14)	109,187,870,660.63	90,173,804,262.59
Construction-in-progress	(15)	16,275,909,358.26	20,602,574,394.69
Project materials	(16)	1,114,501,067.25	754,629,512.45
Intangible assets	(17)	5,964,551,561.91	5,626,751,807.39
Long-term deferred expenses	(18)	57,723,308.83	95,353,256.42
Deferred income tax assets	(19)	1,779,480,353.48	878,126,575.62
Other non-current assets	(20)	127,460,272.60	127,316,292.44
Total non-current assets		141,261,692,073.58	124,563,208,366.47
TOTAL ASSETS		200,021,136,928.14	202,008,004,824.89

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Balance Sheet (Continued)

31 December 2008

RMB

Liabilities & Shareholders' Equity	Note 6	31 December 2008	31 December 2007
CURRENT LIABILITIES			
Short-term borrowings	(22)	24,104,126,921.47	20,481,128,544.17
Financial institution deposits and deposits from or to other financial institutions		9,256,840,186.79	18,042,366,892.70
Transaction liabilities	(23)	11,500,444.73	174,951,938.47
Financial assets sold for repurchase	(24)	294,000,000.00	-
Notes-payable	(25)	4,251,242,725.68	3,341,058,247.89
Trade payables	(26)	18,621,675,643.72	19,369,578,125.32
Receipts in advance	(27)	9,219,197,161.95	9,337,924,203.53
Accrued payroll	(28)	1,716,327,357.44	1,691,758,498.54
Taxes payable	(29)	(1,799,441,237.31)	1,064,638,899.65
Interests payable		355,730,320.99	510,345,030.65
Dividends payable	(30)	19,951,672.62	4,553,376.33
Other payables	(31)	1,140,848,514.14	1,051,898,821.40
Current portion of non-current liabilities	(32)	4,050,420,366.30	2,209,045,617.00
Current portion of long-term amount due to holding company	(37)	800,000,000.00	800,000,000.00
Total current liabilities		72,042,420,078.52	78,079,248,195.65
NON-CURRENT LIABILITIES			
Long-term borrowings	(33)	14,201,884,772.41	16,431,946,896.94
Bond payable	(34)	7,785,029,718.21	-
Long-term payables	(35)	7,544,731,994.48	-
Special payables	(36)	18,878,920.71	25,434,461.51
Deferred income tax liabilities	(19)	431,657,612.06	495,343,584.26
Long-term amount due to holding company	(37)	-	800,000,000.00
Other non-current liabilities	(38)	158,846,453.73	96,907,084.32
Total non-current liabilities		30,141,029,471.60	17,849,632,027.03
Total liabilities		102,183,449,550.12	95,928,880,222.68
SHAREHOLDERS' EQUITY			
Capital stock	(39)	17,512,000,000.00	17,512,000,000.00
Capital reserves	(40)	36,806,692,595.98	45,123,935,138.80
Surplus reserves	(41)	16,812,395,927.36	15,796,900,214.28
Undistributed profits	(42)	20,935,302,003.95	21,620,790,256.82
Foreign currency translation difference		(109,520,780.55)	(71,485,650.92)
Equity attributable to the parent company		91,956,869,746.74	99,982,139,958.98
Minority interest	(43)	5,880,817,631.28	6,096,984,643.23
Total shareholders' equity		97,837,687,378.02	106,079,124,602.21
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY		200,021,136,928.14	202,008,004,824.89

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

The financial statements on pages 58 to 145 were signed by

Statutory representative: Xu Lejiang

Financial controller: Chen Ying

Chief accountant: Yuan Lei

(No text on this page)

Baoshan Iron & Steel Co., Ltd.

Consolidated Profit Statement

For the Year Ended 31 December 2008

RMB

	Note 6	2008	2007
I. TOTAL REVENUE		200,638,008,565.03	191,558,985,997.61
Including: Revenue from principal operations	(44)	200,331,773,819.59	191,273,493,516.61
Interest income		296,748,673.20	272,216,481.14
Income from service fees and commissions		9,486,072.24	13,275,999.86
II. TOTAL COST		193,014,426,451.59	173,607,686,315.52
Including: Cost of principal operations	(44)	175,893,827,316.50	162,925,588,046.09
Interest expenses		382,883,449.36	426,164,477.85
Expenses on service fees and commissions		105,218.50	143,141.78
Sales taxes and surcharges	(45)	1,219,135,766.64	1,252,360,572.93
Sales expenses		1,852,519,620.01	2,018,370,031.33
Administrative expenses		5,676,345,810.76	5,219,556,715.76
Financial expenses	(46)	2,095,741,117.57	955,051,610.43
Losses on the asset impairment	(47)	5,893,868,152.25	810,451,719.35
Add: Net income from changes in fair value	(48)	3,420,990.63	27,806,423.93
Investment gains	(49)	677,165,950.60	1,498,622,922.28
Including: Gains from Investments in joint ventures and associated entities		247,233,654.20	722,759,370.10
III. OPERATING PROFIT		8,304,169,054.67	19,477,729,028.30
Add: Non-operating income		472,477,453.45	256,576,766.74
Less: Non-operating expenses		622,280,870.69	426,618,394.66
Including: Losses on disposal of non-current assets		323,906,661.47	275,771,644.00
IV. PRE-TAX PROFIT		8,154,365,637.43	19,307,687,400.38
Less: income tax expenses	(50)	1,553,272,517.52	5,885,057,652.19
V. NET PROFIT		6,601,093,119.91	13,422,629,748.19
Net profit attributable to the parent company		6,459,207,460.21	12,718,334,521.04
Including: Net profit/loss of merged parties before combination under the same control		(390,190,885.33)	16,652,325.54
Net profit attributable to the parent company less net profit/loss of merged parties before combination under the same control		6,849,398,345.54	12,701,682,195.50
Profits and losses attributable to the minority shareholders		141,885,659.70	704,295,227.15
Including: Net profit of merged parties before combination under the same control		-	1,350,188.56
VI. EARNINGS PER SHARE			
Basic EPS	(51)	0.37	0.73

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended 31 December 2008

	Capital stock	Capital reserve
I. Closing balance of last year	17,512,000,000.00	33,645,805,604.77
Add: Business combinations under same control	-	11,478,129,534.03
II. Opening balance in the period	17,512,000,000.00	45,123,935,138.80
III. Amount of increase or decrease in the year		
(1) Net profit	-	-
(2) Profit and loss recorded into shareholders' interests		
1. Net change in fair value of financial asset available for sale	-	(877,129,907.87)
2. Impact of changes in other owner's interests in invested entities on basis of equity method	-	(19,941,455.10)
3. Income tax impact of items related those recorded in owner's equity	-	234,437,273.03
4. Foreign currency translation difference	-	-
5. Business combination under same control	-	(10,196,276,961.49)
6. Issuing convertible corporate bonds	-	2,332,472,977.02
7. Others	-	209,195,531.59
Total of (1) and (2)	-	(8,317,242,542.82)
(3) Capital investment and reduction from shareholders		
1. Capital investment from minority shareholders in subsidiaries	-	-
2. Acquisition of equity from minority shareholders in subsidiaries	-	-
3. 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	36,806,692,595.98

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

RMB

2008						
Shareholder's interests attributable to parent company				Minority shareholder's interests	Total of Shareholder's interests	
Earnings reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total			
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	
-	-	-	11,478,129,534.03	-	11,478,129,534.03	
15,796,900,214.28	21,620,790,256.82	(71,485,650.92)	99,982,139,958.98	6,096,984,643.23	106,079,124,602.21	
-	6,459,207,460.21	-	6,459,207,460.21	141,885,659.70	6,601,093,119.91	
-	-	-	(877,129,907.87)	(52,266,259.86)	(929,396,167.73)	
-	-	-	(19,941,455.10)	-	(19,941,455.10)	
-	-	-	234,437,273.03	13,066,564.96	247,503,837.99	
-	-	(38,035,129.63)	(38,035,129.63)	(14,576,764.50)	(52,611,894.13)	
-	-	-	(10,196,276,961.49)	-	(10,196,276,961.49)	
-	-	-	2,332,472,977.02	-	2,332,472,977.02	
-	-	-	209,195,531.59	2,938,120.58	212,133,652.17	
-	6,459,207,460.21	(38,035,129.63)	(1,896,070,212.24)	91,047,320.88	(1,805,022,891.36)	
-	-	-	-	26,829,500.00	26,829,500.00	
-	-	-	-	(21,684,391.12)	(21,684,391.12)	
-	-	-	-	(108,659,086.86)	(108,659,086.86)	
1,015,495,713.08	(1,015,495,713.08)	-	-	-	-	
-	(6,129,200,000.00)	-	(6,129,200,000.00)	-	(6,129,200,000.00)	
-	-	-	-	(203,700,354.85)	(203,700,354.85)	
16,812,395,927.36	20,935,302,003.95	(109,520,780.55)	91,956,869,746.74	5,880,817,631.28	97,837,687,378.02	

Baoshan Iron & Steel Co., Ltd.

Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the Year Ended 31 December 2008

	Capital stock	Capital reserve
I. Closing balance of last year	17,512,000,000.00	32,989,191,577.29
Add: Business combinations under same control	-	5,646,419,327.86
Including: Nantong Steel	-	453,055,234.19
Luoqing Assets	-	5,193,364,093.67
II. Opening balance in the period	17,512,000,000.00	38,635,610,905.15
III. Amount of increase or decrease in the year		
(1) Net profit	-	-
(2) Profit and loss recorded into shareholders' interests		
1. Net change in fair value of financial asset available for sale	-	921,536,045.19
2. Impact of changes in other owner's interests in invested entities on basis of equity method	-	(15,645,684.59)
3. Income tax impact of items related those recorded in owner's equity	-	(258,257,517.44)
4. Foreign currency translation difference	-	-
5. Business combination under same control	-	5,683,581,538.70
Including: Nantong Steel	-	(601,183,901.66)
Luoqing Assets	-	6,284,765,440.36
6. Others	-	157,109,851.79
Total of (1) and (2)	-	6,488,324,233.65
(3) Capital investment and reduction from shareholders		
1. Capital investment from minority shareholders in subsidiaries	-	-
2. Acquisition of equity from minority shareholders in 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' equity	-	-
IV. Closing balance of the year	17,512,000,000.00	45,123,935,138.80

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

RMB

2007						
Shareholder's interests attributable to parent company				Minority shareholder's interests	Total of Shareholder's interests	
Earnings reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total			
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	
-	-	-	5,646,419,327.86	36,734,208.18	5,683,153,536.04	
-	-	-	453,055,234.19	36,734,208.18	489,789,442.37	
-	-	-	5,193,364,093.67	-	5,193,364,093.67	
13,807,364,486.20	17,021,191,463.86	(43,553,885.72)	86,932,612,969.49	5,284,441,222.20	92,217,054,191.69	
-	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)	
-	-	-	5,683,581,538.70	-	5,683,581,538.70	
-	-	-	(601,183,901.66)	-	(601,183,901.66)	
-	-	-	6,284,765,440.36	-	6,284,765,440.36	
-	-	-	157,109,851.79	419,910.89	157,529,762.68	
-	12,718,334,521.04	(27,931,765.20)	19,178,726,989.49	721,311,610.26	19,900,038,599.75	
-	-	-	-	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)	99,982,139,958.98	6,096,984,643.23	106,079,124,602.21	

Baoshan Iron & Steel Co., Ltd.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2008

RMB

	Note 6	2008	2007
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		233,286,853,216.99	221,132,605,707.76
Net decrease in deposit reserves in central bank and deposits from or to other financial institutions		600,630,944.13	105,916,195.68
Cash received from interests, service fees, and commissions		309,711,899.36	267,255,848.94
Net increase in deposits from customers and from or to financial institutions		42,366,680.00	-
Net increase in financial assets sold for repurchase		294,000,000.00	-
Tax refunds received		156,672,452.35	334,164,946.54
Cash received relating to other operating activities		582,355,390.71	431,057,594.63
Sub-total of cash inflows		235,272,590,583.54	222,271,000,293.55
Cash paid for goods purchased and labor services received		180,859,601,400.26	173,037,430,982.72
Net increase in customer loans and cash advances		1,093,720,329.71	87,532,229.26
Net increase funds lent to other financial institutions		-	42,366,680.00
Net decrease in deposits from customers and from or to financial institutions		8,785,526,705.91	2,162,624,003.88
Cash paid for interests, service fees, and commissions		423,921,860.02	441,476,104.34
Cash paid to employees and for employees		7,093,318,238.25	6,542,014,647.13
Payments of all types of taxes		15,565,411,926.57	16,030,130,817.27
Cash payments relating to other operating activities	(52)	5,207,538,076.98	5,041,790,518.08
Sub-total of cash outflows		219,029,038,537.70	203,385,365,982.68
Net cash flows from operating activities	(53)	16,243,552,045.84	18,885,634,310.87
II. CASH FLOWS ARISING FROM INVESTING ACTIVITIES			
Cash received from returns of investments		121,880,721.67	9,492,416.51
Cash received from returns on investments		448,927,507.73	1,105,264,416.17
Net cash received from the disposal of fixed assets, intangible assets and other long term assets		133,985,615.50	160,480,098.94
Net cash received from the disposal of financial assets		1,287,909,899.41	503,157,590.99
Net cash and cash equivalents received from the disposal of subsidiaries	(55)	33,757,281.92	-
Other cash received relating to investing activities		157,140,673.12	80,932,430.68
Sub-total of cash inflows		2,183,601,699.35	1,859,326,953.29
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		26,486,944,620.35	28,718,152,911.68
Cash paid for investments		237,410,774.86	463,024,289.51
Cash paid to purchase Luojing assets	(54)	2,868,833,680.10	-
Net decrease in cash and cash equivalents from merging of subsidiaries		-	443,163,102.55
Net decrease in cash and cash equivalents from disposal of subsidiaries		-	39,823,372.97
Other cash payments relating to investing activities		192,103,653.09	168,679,540.89
Sub-total of cash outflows		29,785,292,728.40	29,832,843,217.60
Net cash flows from investing activities		(27,601,691,029.05)	(27,973,516,264.31)

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Consolidated Cash Flow Statement (Continued)

For the Year Ended 31 December 2008

RMB

	Note 6	2008	2007
III. CASH FLOWS ARISING FROM FINANCING ACTIVITIES			
Cash received by absorbing investments		1,110,839,301.06	6,488,840,953.91
Including: Cash received by subsidiaries by absorbing minority shareholders' investments		26,829,500.00	204,075,513.55
Cash received from debts		85,514,351,938.95	73,441,550,096.28
Cash received from convertible corporate bonds		9,940,000,000.00	-
Sub-total of cash inflows		96,565,191,240.01	79,930,391,050.19
Cash paid for repayments of debts		83,810,200,957.57	62,545,011,872.06
Cash paid for distribution of dividends or profits, or cash payments for interests		9,251,262,206.81	8,064,392,714.41
Including: Dividends subsidiaries paid to minority shareholders		187,046,913.16	146,466,115.47
Cash paid for assets of Phase-3 and acquisition of parts of assets under custody		800,000,000.00	1,400,000,000.00
Sub-total of cash outflows		93,861,463,164.38	72,009,404,586.47
Net cash flows from financing activities		2,703,728,075.63	7,920,986,463.72
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(182,513,361.33)	95,151,701.76
V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		(8,836,924,268.91)	(1,071,743,787.96)
Add: Cash and cash equivalents at beginning of period		15,109,489,268.58	16,181,233,056.54
VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	(56)	6,272,564,999.67	15,109,489,268.58

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Balance Sheet

31 December 2008

RMB

Assets	Note 16	31 December 2008	31 December 2007
CURRENT ASSETS			
Monetary funds		3,182,690,342.86	3,659,934,530.73
Trading financial assets		114,598,750.75	-
Notes receivable		8,592,061,194.53	10,993,001,720.67
Trade receivables	(1)	5,588,834,929.34	6,010,777,708.33
Payment in advance		2,323,393,029.61	2,810,923,087.16
Other receivables	(2)	124,791,695.83	122,023,519.66
Inventories		22,231,758,491.63	22,778,966,990.43
Other current assets		-	68,087,268.83
Total current assets		42,158,128,434.55	46,443,714,825.81
NON-CURRENT ASSETS			
Long-term equity investment	(3)	23,913,628,552.28	23,952,201,476.75
Fixed assets		91,932,235,412.15	65,798,759,689.08
Construction-in-progress		8,953,563,859.31	14,226,726,407.56
Project materials		46,397,429.90	381,692,709.04
Intangible assets		3,407,121,836.15	3,238,928,842.77
Long-term deferred expenses		30,761,683.25	8,433,400.00
Deferred income tax assets		1,112,726,834.63	364,046,936.55
Other non-current assets		117,905,780.14	117,905,780.14
Total non-current assets		129,514,341,387.81	108,088,695,241.89
TOTAL ASSETS		171,672,469,822.36	154,532,410,067.70

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Balance Sheet (Continued)

31 December 2008

RMB

Liabilities & Shareholders' Equity	Note 16	31 December 2008	31 December 2007
CURRENT LIABILITIES			
Short-term borrowings		21,137,467,584.30	19,098,467,610.40
Transaction liabilities		-	169,079,726.70
Notes-payable		2,369,885,042.55	2,443,880,799.76
Trade payables		15,272,996,018.72	14,787,610,367.43
Receipts in advance		7,259,374,935.06	6,002,323,261.29
Accrued payroll		1,170,529,785.21	1,189,785,632.15
Taxes payable		(1,348,286,755.40)	896,603,279.49
Interests payable		290,087,497.58	410,262,308.22
Other payables		344,156,293.59	309,391,877.88
Current portion of non-current liabilities		3,924,376,646.30	2,221,496,401.00
Current portion of long-term amount due to holding company		800,000,000.00	800,000,000.00
Other current liabilities		1,418,812,393.05	-
Total current liabilities		52,639,399,440.96	48,328,901,264.32
NON-CURRENT LIABILITIES			
Long-term borrowings		15,234,545,932.41	19,314,476,336.94
Bond payable		7,785,029,718.21	-
Long-term payables		7,544,731,994.48	-
Special payables		18,184,797.90	19,434,461.51
Deferred income tax liabilities		147,824,808.07	119,175,120.39
Long-term amount due to holding company		-	800,000,000.00
Other non-current liabilities		-	1,326,558.12
Total non-current liabilities		30,730,317,251.07	20,254,412,476.96
Total liabilities		83,369,716,692.03	68,583,313,741.28
SHAREHOLDERS' EQUITY			
Capital stock		17,512,000,000.00	17,512,000,000.00
Capital reserves		36,581,312,996.65	33,175,934,758.11
Surplus reserves		16,812,395,927.36	15,796,900,214.28
Undistributed profits		17,397,044,206.32	19,464,261,354.03
Total shareholders' equity		88,302,753,130.33	85,949,096,326.42
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY		171,672,469,822.36	154,532,410,067.70

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Profit Statement

For the Year Ended 31 December 2008

RMB

	Note 16	2008	2007
I. REVENUE	(4)	150,529,103,380.96	136,360,360,923.75
Less: Cost	(4)	134,056,075,105.92	115,964,413,053.15
Sales taxes and surcharges		915,798,702.07	998,066,159.46
Sales expenses		731,145,795.73	784,797,953.41
Administrative expenses		3,426,767,920.75	3,186,755,376.96
Financial expenses		1,771,139,601.90	828,233,181.69
Losses on the asset impairment		4,102,421,414.83	458,298,726.42
Add: Net income/loss from changes in fair value		283,678,477.45	(159,908,767.85)
Investment gains	(5)	397,964,577.38	410,926,628.20
Including: Gains from Investments in joint ventures and associated entities		312,986,784.42	485,771,396.72
II. TOTAL OPERATING PROFIT		6,207,397,894.59	14,390,814,333.01
Add: Non-operating income		212,570,117.88	139,801,246.40
Less: Non-operating expenses		353,580,675.15	229,665,698.78
Including: Net loss on disposal of non-current assets		149,075,976.34	156,781,412.83
III. PRE-TAX PROFIT		6,066,387,337.32	14,300,949,880.63
Less: income tax expenses		988,908,771.95	4,353,271,240.23
IV. NET PROFIT		5,077,478,565.37	9,947,678,640.40

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Statement of Changes in Shareholders' Equity

For the Year Ended 31 December 2008

RMB

	2008				
	Capital stock	Capital reserve	Earnings reserve	Undistributed profit	Total of shareholder's interests
I. Opening balance in the period	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
II. Amount of increase or decrease in the year					
(I) Net profit	-	-	-	5,077,478,565.37	5,077,478,565.37
(II) Profit and loss recorded into shareholders' interests					
1. Business combinations under same control	-	891,661,687.21	-	-	891,661,687.21
2. Issuing convertible corporate bonds	-	2,332,472,977.02	-	-	2,332,472,977.02
3. Others	-	181,243,574.31	-	-	181,243,574.31
Total of (I) and (II)	-	3,405,378,238.54	-	5,077,478,565.37	8,482,856,803.91
(III) Profit distribution					
1. Surplus reserve provision	-	-	1,015,495,713.08	(1,015,495,713.08)	-
2. Distribution to shareholders	-	-	-	(6,129,200,000.00)	(6,129,200,000.00)
III. Closing balance of the year	17,512,000,000.00	36,581,312,996.65	16,812,395,927.36	17,397,044,206.32	88,302,753,130.33

	2007				
	Capital stock	Capital reserve	Earnings reserve	Undistributed profit	Total of shareholder's interests
I. Opening balance in the period	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
II. Amount of increase or decrease in the year					
(I) Net profit	-	-	-	9,947,678,640.40	9,947,678,640.40
(II) Profit and loss recorded into shareholders' interests					
1. Business combinations under same control	-	69,667,880.63	-	-	69,667,880.63
2. Others	-	146,032,961.03	-	-	146,032,961.03
Total of (I) and (II)	-	215,700,841.66	-	9,947,678,640.40	10,163,379,482.06
(III) 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)
III. 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

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Cash Flow Statement

For the Year Ended 31 December 2008

RMB

	2008	2007
I. CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales of goods or rendering of services	179,086,590,131.63	158,471,889,223.64
Tax refunds received	94,956,000.00	80,897,000.00
Cash received relating to other operating activities	484,450,340.47	482,319,755.84
Sub-total of cash inflows	179,665,996,472.10	159,035,105,979.48
Cash paid for goods purchased and labor services received	140,684,728,139.77	116,946,840,733.37
Cash paid to employees and for employees	4,579,488,172.83	4,525,234,787.15
Payments of all types of taxes	11,117,714,223.50	13,275,388,931.87
Cash payments relating to other operating activities	1,668,365,621.85	2,609,861,506.47
Sub-total of cash outflows	158,050,296,157.95	137,357,325,958.86
Net cash flows from operating activities	21,615,700,314.15	21,677,780,020.62
II. CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Cash received from returns of investments	3,729,282.06	139,332,092.06
Cash received from returns on investments	527,217,514.05	418,428,329.28
Net cash received from the disposal of fixed assets, intangible assets and other long term assets	49,246,818.15	108,387,963.72
Other cash received relating to investing activities	190,275,041.32	21,554,333.20
Sub-total of cash inflows	770,468,655.58	687,702,718.26
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	19,461,460,538.46	18,696,037,325.21
Cash paid for investments	-	3,096,350,051.98
Cash paid to purchase Luojing assets	2,868,833,680.10	-
Other cash payments relating to investing activities	114,507,444.75	173,451,233.37
Sub-total of cash outflows	22,444,801,663.31	21,965,838,610.56
Net cash flows from investing activities	(21,674,333,007.73)	(21,278,135,892.30)
III. CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
Cash received by absorbing investments	87,964,536,678.60	86,127,658,335.27
Cash received from convertible corporate bonds	9,940,000,000.00	-
Cash received from other financing activities	1,720,803,034.63	356,935,050.44
Sub-total of cash inflows	99,625,339,713.23	86,484,593,385.71
Cash paid for repayments of debts	90,021,308,560.45	75,682,365,730.01
Cash paid for distribution of dividends or profits, or cash payments for interests	8,988,436,351.07	7,965,863,239.12
Cash paid for assets of Phase-3 and acquisition of parts of assets under custody	800,000,000.00	1,400,000,000.00
Sub-total of cash outflows	99,809,744,911.52	85,048,228,969.13
Net cash flows from financing activities	(184,405,198.29)	1,436,364,416.58
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(234,206,296.00)	(31,613,415.07)
V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(477,244,187.87)	1,804,395,129.83
Add: Cash and cash equivalents at beginning of period	3,659,934,530.73	1,855,539,400.90
VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	3,182,690,342.86	3,659,934,530.73

The accompanying notes on pages 73 to 145 constitute an integral part of the Financial Statements.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements

For the Year Ended 31 December 2008

RMB

1. Company Background

Baoshan Iron & Steel Company Limited (hereinafter "the Company") was incorporated and registered on 3 February 2000 in the city of Shanghai, the People's Republic of China (hereinafter "PRC"), as a 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 "SBGC" or "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 billion ordinary shares (A shares) to the general public with a par value of one RMB each and an offer price of RMB 4.18, by means of on-line stock exchange listing coupled with off-line rationed subscription, from 6th to 24th November 2000, in compliance with the approval document No. [2000] 140, issued by the China Securities Regulatory Commission (hereinafter the "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 5 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 2 billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and online and off-line bidding inquiry.

Approved by China Securities Regulatory Commission (No. 739 document in 2008), the Company issued RMB 10 billion of convertible bonds with attached warrants on 20, June, 2008. This time, the original circulating shareholders for unlimited sale (of shares) conditions were given the priority for placing and the rest of the bond were sold to institutional investors through price inquiry and to online applicants. The bond was issued at par value of RMB 100. The coupon was paid annually and the principal was returned at maturity. The coupon rate was 0.8%. The purchaser of the bond was able to obtain 16 call warrants issued by the issuer; the duration of the warrant was 24 months from the date of its being listed on the market, and the exercising period was the last 5 trading days of the duration. The execution ratio was 2:1 and the initial execution price was RMB 12.50 per share. The warrant and bond were listed and traded on Shanghai Stock Exchange on 4 July, 2008.

The principal activities of the Company consist of iron and steel production and its related processing, power generation, coal, industrial-gas generation, port terminals, warehouse storage and transport. It is also engaged in technology development and transfer, technology services and consulting, automobile maintenance, exports of steel products and technology, imports of related materials, machinery, equipment, parts and components, as well as technology (except for restricted items i.e. where imports and exports are prohibited by the Government). The Company also engages in import processing as well as a subsidized trading business.

The Company is based in the South Building, Baoshan Hotel, 1813 Mudanjiang Road, Baoshan District, Shanghai. The parent company is Baosteel Group Corporation and the actual controller of the Company is SASAC.

2. Basis for the Presentation of the Financial Statements

The financial statements were prepared in accordance with the newly revised Accounting Standards for Business Enterprises published in Feb. 2006 by the PRC Ministry of Finance, which includes the basic standard and 38 specific standards as well as the implementation guidance, explanations and other related documents, which are referred to as Accounting Standards for Business Enterprises.

The financial statements have been presented on the basis of on-going operations.

Declaration on compliance with Accounting Standards for Business Enterprises

The financial statements give a true and accurate view of the financial position of the Company and of the Group and of its financial performance and its cash flows for the year ended December 31, 2008 in accordance with the Accounting Standards for Business Enterprise.

3. Principal Accounting Policies and Accounting Estimates

The financial statements of the Company and the Group for the year of 2008 were 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 Statement is Renminbi (RMB), and the unit is RMB yuan, except as indicated.

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

(3) Accounting basis and pricing principles

The financial statements of the Company and the Group have been prepared on an accrual basis, with the historical cost method as the pricing principle except for certain financial instruments. Where assets impairments occur, preparations for the impairments are made according to relevant regulations.

(4) Business combination

The term "business combinations" refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are classified into the business combinations under the same control and the business combinations not under the same control.

Business combinations under the same control

A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under the same control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The term "combining date" refers to the date on which the combining party actually obtains control on the combined party.

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

The direct cost for the business combination of the combining party is recorded into the profits and losses at the current period.

Business Combination Not under the Same Control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer; and other combining enterprise(s) is (are) the acquiree. The term "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

For a business combination not under the same control, the combination 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 acquire. For a business combination realized by two or more transactions of exchange, the combination costs are the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer records the said amount into the combination costs.

For a business combination not under the same control, the acquirer shall, on the acquisition date, measure the identifiable assets, liabilities and contingent liabilities it obtains from the acquire in light of their fair values.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as good will. For the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree, It shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs; If, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current 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. 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 Company and its subsidiaries. Where differences exist between the policies of any of the subsidiaries and of the Company, those of the subsidiary has been adjusted under the Company's policies. Significant transactions among the entities of the Group are balanced when consolidated.

The portion of owner's 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 management performances and cash flows of subsidiaries from business combinations not under the same control are included into the scope of consolidated financial statements since the date of control before the Group terminates the right of control of the entity. When preparing consolidated financial statements, the Group adjusts the financial statements of the subsidiary company on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities determined on the acquisition date.

The operating performance and cash flows from the beginning of the current period of the combined subsidiaries under the same control are consolidated in financial statements. In comparative financial statements, relative items are adjusted as if they were available since the date when they are lately controlled by the combining party.

(6) Cash equivalents

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

(7) Foreign currency translation

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

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency are translated into the amount in the functional 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 the spot exchange rate 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 profits and losses at the current 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 amount of functional 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 profits and losses or capital reserves at the current period.

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

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

(8) Inventories

Inventories include raw materials, semi-finished products, finished products and spare parts and consumables. These are products or goods held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in production or in rendering services.

Inventories are initially measured at their cost, which comprise the purchasing cost, processing cost and other costs. The actual cost of inventories is determined by the weighted average cost method. The Group amortizes the carrying amount of low cost and short-lived consumable items and packaging materials and supplies through the one-off method.

The perpetual inventory system was adopted for inventories.

On the date of balance sheet, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. 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 included in the profits and losses of the current 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 loss on decline in value of inventories which has been made. The reversed amount is included in the profits and losses of the current period.

The net realizable value refers, in the ordinary course of business, to the amount after deducting the estimated cost of subsidiary companies, joint ventures and associated enterprises estimated sales expense and relevant taxes from the estimated sales price of inventories. The provision for loss 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 on subsidiary companies, joint ventures and associated enterprises as well as those on the invested enterprises that the Group is not 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, 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 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 method is also used for long-term equity investments on the invested enterprises that the Group does joint control in individual financial statements.

The price of a long-term equity investment measured by employing the 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.

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. The management of the Company believe 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 combination 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.

The investment income that was not retroactively modulated and recorded in long-term equity investment of subsidiaries was limited to accumulated net profit occurred after 1 January 2007. The positive balance the profit or cash dividend gained and the afore-mentioned amount was written back as cost at the initial implement of the new standard.

Long-term equity investments of the Group on invested entities over which the Group does joint control or has significant influences are measured by employing the equity method. The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with an assent on sharing the control power over the relevant important financial and operating decisions, while the term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies.

When the equity method is employed, if the initial cost of a long-term equity investment is more than the investing enterprise's 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 be adjusted; If the initial cost of a long-term equity investment is less than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference is included in the current profits and losses and the cost of the long-term equity investment is adjusted simultaneously.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

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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 profits or losses and adjusts 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, the assets impairments in internal transactions should be confirmed in full amount), the attributable share of the net profits 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 profits 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 obligation to undertake extra losses. Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment is adjusted and be included in the owner's equity.

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price is included in the current profits and losses. For long-term equity investments calculated on basis of the equity method, the part recorded in the shareholders' interests is transferred, according to a relative proportion, to the current profits and losses.

(10) Investment real estates

The term "investment real estates" 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 right to use any building which has already been rented.

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

The Group makes a follow-up measurement to an investment real estate through the cost method. Depreciation is calculated on a straight-line basis to write off the cost over its useful 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 use term 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 asset and the recognition of the book value of the replaced part is terminated; otherwise, they are included in the current profits 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 useful life, expected net salvage value and the depreciation method of each type of fixed assets is as follows:

	Useful life	Salvage value	Annual depreciation rate
Buildings and plants	15 - 35 years	4%	2.7% - 6.4%
Machinery and equipment	7 - 15 years	4%	6.4% - 13.7%
Transport vehicles	5 - 10 years	4%	9.6% - 19.2%
Office and other equipment	4 - 9 years	4%	10.7% - 24.0%

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

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(12) Construction-in-progress

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

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.

Intangible assets are amortized evenly over the following periods:

Category	Useful life
Land use rights	46 - 50 years
Software copyrights	5 years

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 checks, at least at the end of each year, the service life and the amortization method of intangible assets with limited service 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 expensed when incurred.

The development expenditures of the Group are capitalized when they meet 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 expensed when incurred.

(15) Long-term deferred expenses

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

Expenses arising from preparations in the Group and its consolidated subsidiaries are expensed when incurred.

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

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(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 enters into a financial instrument contract, it recognizes a financial asset or financial liability.

Where a financial asset (or part of it or of a set of similar assets) 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 enterprise maintains the right to receive the cash flow of the financial asset and undertakes the obligation, as agreed upon in a contract, to pay the cash flow it receives to a third party;
- (3) Where the said financial asset has been transferred and meets the following conditions for recognizing the termination of financial assets: (a) Where an enterprise has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, or (b) the enterprise gives up its control over the financial asset, while retaining all the risks and rewards related to the ownership of the financial asset.

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 profit and loss of the current period.

Classification and measurement of financial assets

Financial assets of the Group are classified into the following four 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 profits 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 profits and losses of the current period, the transaction expenses thereof shall be directly recorded into the profits and losses of the current period; for other categories of financial assets and financial liabilities, the transaction expenses thereof shall be included into the initially recognized amount.

Financial assets at their fair values through profit and loss

The financial assets which are measured at their fair values and the variation of which is recorded into the profits 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 profits 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, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments. Subsequent measurements on these financial assets are made according to their fair values, with represent and future gains and losses recorded into the profits and losses of the current 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 profits 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 profits and losses of the current period.

Loans and the account receivables

“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 profits 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 profits and losses of the current period.

Available-for-sale financial assets

The "Available-for-sale 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 current period. The profits and losses arising from the change in the fair value of an available-for-sale financial asset are included in capital reserve and recognized a separate item directly in the owner's 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 profit and loss of the current period, until the said assets are terminated or the accumulated profit or loss recognized in capital reserve have transferred, when the impairment incurred, into the profit and loss of the current period. The cash dividends or interest income of an available-for-sale financial asset are recorded into the profits and losses of the current 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 measure on basis of its cost.

Classification and measurement of financial liabilities

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

Financial liabilities at their fair values through profit and loss

Financial liabilities which are measured at their fair values and of which the variation is included in the current profits 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 profits 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 for undertaking 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, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments. Subsequent measurements on these financial assets are made according to their fair values, with represent and future gains and losses recorded into the profits and losses of the current 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 profits and losses of the current 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 are 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. However, for the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instrument, the cost method is employed.

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

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Convertible bonds

The Group confirmed whether the convertible bonds it is to issue includes components of liability and equity. When they do, these components are separated and processed in different manners upon initial recognition. The liability component is measured at its fair value and the equity component is assigned the residual amount after deducting fair value of the financial liability component from the fair value of the convertible bond as a whole. The liability component is recognized in the liability and is subsequently carried at amortized cost until the bond is cancelled, converted or redeemed. The equity component is recognized and is not subsequently measured.

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, among others.

Impairment 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, an impairment 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 impairment 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 impairment of the asset and is recorded into the profits and losses of the current 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.

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

Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment 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 impairment-related losses as originally recognized are reversed and recorded into the profits and losses of the current 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 impairment.

Available-for-sale financial assets

When objective evidences show the impairment of the financial asset, the accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included are transferred out and recorded into the profits and losses of the current 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 impairment-related losses as was recorded into the profits and losses of the current period.

As for the available-for-sale debt instruments whose impairment-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 impairment-related losses were recognized, the originally recognized impairment-related losses are reversed and recorded into the profits and losses of the current period. The impairment-related losses incurred to a sellable equity instrument investment are not reversed through profits and losses.

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Financial assets measured on the basis of costs

When objective evidences show the impairment 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 assets capitalized according to the returns ratio of the market at the same time is recognized as impairment-related losses and recorded into the profits and losses of the current period. The impairment-related losses incurred to these financial assets, once recognized, are not reversed through profits 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 impairment is dealt with using the above principles.

Transfer of financial assets

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 deals with it 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 assets 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, ancillary 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 profits and losses. The term "assets eligible for capitalization" refers to the fixed assets, investment real estate, 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 prepare the asset for its intended use or sale 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 profits and losses of the current 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 three 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 profits and losses of the current period, till the acquisition and construction or production of the asset restarts.

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(18) Impairment of assets

Impairments of assets other than inventories, deferred income tax assets, 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 balance sheet date, on whether there is any sign of possible assets impairment. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated and an impairment test is conducted. No matter whether there is any sign of possible assets impairment, the good will formed by the merger of enterprises and intangible assets with uncertain service lives is subject to impairment 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 asset, 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 group assets.

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 impairment and is recorded as the profit or loss for the current period. Simultaneously, a provision for the asset impairment is made accordingly.

When the Group makes an impairment test of assets, it apportions, as of the purchasing day, the carrying value of the good will 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 an impairment test on the relevant asset groups or combination of asset groups containing good will, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the Group first makes an impairment test on the asset groups or combinations of asset groups not containing good will, calculates the recoverable amount and recognizes the corresponding impairment loss. Then the Group makes an impairment test of the asset groups or combinations of asset groups containing good will, 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 impairment loss first charge against the carrying value of the headquarter's assets and good will which are apportioned to 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 good will excluded.

Once any of the above losses of asset impairment 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 uncanceled transfer contracts 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 exceed 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 impairment and is recorded into the profit and loss of the current period. The term "disposal set" refers to a set of assets to be sold or disposed in other manner as a whole.

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(20) Estimated debts

The obligation pertinent to a contingency is recognized as estimated debts when the following conditions are satisfied simultaneously:

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

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, when the relevant costs incurred or to be incurred can be measured in a reliable way, and when the following conditions are met:

Revenue from selling goods

No revenue from selling 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.

Where a contract or agreement signed between the Group and another enterprise concerns selling 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 selling 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 selling goods.

Interest income

The amount of interest income is measured and confirmed in accordance with the length of time for which the enterprise's monetary funds is used by others and the actual interest rate.

Royalty revenue

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

Lease revenue

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

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(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".

Leases in operating leases

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

Leasers in operating leases

The rents from operating leases are recorded in the profits and losses of the current 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 when an employee is providing services, the Group recognizes the compensation payable as liabilities. Liabilities that 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, pension insurance, unemployment insurance and other social insurances, as well as housing fund, are recorded as assets costs or profits or losses for the current 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 records them into the profit or loss for the current 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 profit or loss for the current period.

(24) Income taxes

Income taxes comprise income taxes of the current period and deferred income tax of the Group. The income taxes, except for adjusted goodwill due to business combination or income taxes related to the transactions or events directly recorded in the shareholders' equities are treated as income tax expenses or incomes and recorded into the current profits 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.

Deferred income tax 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:

- (1) Initial recognition of goodwill or initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: the 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.
- (2) 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.

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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:

- (1) 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.
- (2) 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 estimates

Uncertainties of accounting estimate

The following are uncertainties of future key hypotheses and estimates, which may 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.

Bad debt provision

The allowance method is adopted for bad debt losses. An impairment test is made on an account receivable with significant single amount. If any objective evidence shows that it has been impaired, the impairment-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 impairment has been recognized after a test.

Baoshan Iron & Steel Co., Ltd.

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4. Taxation

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

1.	Value-added tax (VAT)	The VAT is levied at the rate of 13% or 17% of the taxable sales revenue less the deductible input tax. Input tax rate is 13% or 17% of the taxable sales revenue. VAT payable is calculated in line with the balance between input tax and output tax
2.	Business tax	3% or 5% of sales 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.	River way 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	25% of taxable revenue as stipulated in the new Enterprise Income Tax Law, which came into effect January 1, 2008, 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.

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5. Scope of Consolidated Financial Statements

Major subsidiaries of the Group

Subsidiary	Place	Principal business		Registered capital amount (RMB'000)
Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes)	Yantai	Production & sales of steel tubes	RMB	100,000
Baosteel Huangshi Coating & Galvanizing Co., Ltd. (Huangshi Coating & Galvanizing)	Huangshi	Production & sales of galvanized steel plates	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 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 Corporation Ltd. (Howa Trading)	Tokyo, Japan	Steel trading	JPY	876,000
Baosteel 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 Enterprise)	Hong Kong, China	Steel trading	HKD	1,000
Baosteel Trading (Brazil) Co., Ltd. (Baosteel 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	Financial foreign exchange	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 Nantong Iron & 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 businesses combinations under than same control.

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Investment of the Group amount (RMB'000)	Percentage of equity held		Voting power	Organization code	Notes
	Direct	Indirect			
79,820	79.82%	-	79.82%	165014318 - 2	
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%	60728059 - 8	
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	
50,000	100%	-	100%	79452819 - 9	
127,718	94.5%	5.5%	100%	63083656 - 6	
310,500	62.1%	-	62.1%	13220090 - 1	
130,000	65%	-	65%	66325688 - 3	
800,000	80%	20%	100%	66350514 - 9	
320,050	92.5%	-	92.5%	60830768 - 4	

Notes:

1. According to the charter of Huangshi Coating and Galvanizing, the Company holds 39.37% of the equity capital of Huangshi Coating and Galvanizing but controls more than half of the voting power in the Board of Directors. Accordingly, Huangshi Coating and Galvanizing is consolidated.
2. The reported period witnessed the Company's acquisition of Luojing assets and businesses from Baosteel Group Pudong Steel, a brother company of the Company, at the cost of RMB 14,344,168,400.50, to establish the branch of medium and heavy plates. As the two parties were and are controlled by Baosteel Group and the relationship is not temporary, the combination is recognized as combination under the same control and the financial statement was prepared accordingly. The delivery date and the date of combination were both 1 April 2008.

The acquisition of Luojing assets and businesses on 1 April 2008 is considered to occur at the beginning of the current period (2008) and its assets, liabilities, business performance and cash flow from the beginning of the period are included in the consolidated financial statements. The opening balance has been adjusted in the consolidated balance sheet; the incomes, expenses, and profits of the combining party from the beginning of the current period to the combining date have been included in the consolidated profit statement and the comparative consolidated profit statement was adjusted as if the Luojing were consolidated before the date of combination. The consolidated statement of cash flow was prepared to include the cash outflow and inflow of Luojing as if the Luojing were consolidated before the date of combination.
3. In accordance with the contract signed by Baosteel International, a subsidiary of the Company, and Baosteel Metal Co. Ltd. (Baosteel Metal), the Group transferred 51% of the equity of Zhushang Auto Trading to Baosteel Metal, with the disposal date as 30 November 2008. Zhushang owned eleven subsidiaries. Since Zhushang held 36% and 25% of the equities of Guangzhou Huiren and Zhongyou Baoshun respectively, the shareholdings of the Group in Guangzhou Huiren and Zhongyou Baoshun fell to 15% from 51% and 35% from 60%. Zhushang and eleven subsidiaries, Guangzhou Huiren and Zhongyou Baoshun have no longer been consolidated in the Group's financial statements since the day of disposal. Refer to Note 6(55) for more information.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

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6. Explanatory Notes to Consolidated Financial Statements**(I) Monetary capital**

	31 December 2008	31 December 2007
Cash		
RMB	1,979,482.27	1,811,031.91
Deposit with banks		
Deposit in RMB	3,913,590,025.15	6,992,097,726.33
Deposit in USD	1,322,980,418.44	1,837,961,817.07
Deposit in JPY	26,338,001.38	104,387,514.42
Deposit in Euro	231,705,082.49	340,009,680.23
Deposit in HKD	-	644.63
Deposit in other foreign currencies	51,199,648.08	29,207,830.08
	5,545,813,175.54	9,303,665,212.76
Other monetary capital		
RMB	17,990,857.08	48,113,023.91
Deposit reserve in central bank by Finance Co.	1,285,820,859.65	1,886,451,803.78
Total	6,851,604,374.54	11,240,041,072.36
Less: Monetary capital other than cash and cash equivalent		
Deposit reserve in central bank by Finance Co.	1,285,820,859.65	1,886,451,803.78
Cash	5,565,783,514.89	9,353,589,268.58

The foreign currency translation rate adopted is: 1 USD for 6.8346RMB (Year 2007: 7.3046RMB); 1 JPY for 0.07565RMB (Year 2007: 0.0641RMB); 1 EURO for 9.659RMB (Year 2007: 10.6669RMB); 1 HKD for 0.8819RMB (Year 2007: 0.9364RMB).

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 2008, other foreign currencies of the Group consist of a letter of credit deposit of RMB 11,874,524.34, and a credit card deposit and a bank acceptance bill deposit of RMB 4,043,554.03.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(2) Funds lent to financial institutions

	31 December 2008	31 December 2007
Original value	30,251,900.00	73,323,580.00
Including: Funds lent to banks	-	42,366,680.00
Funds lent to institutions other than banks	30,251,900.00	30,956,900.00
Provision for loss	(30,251,900.00)	(30,956,900.00)
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 USD 1,500,000.00 (an equivalent of RMB 10,251,900.00 as at 31 December 2008 and RMB 10,956,900.00 as at 31 December 2007) to China Huacheng Finance Company. The 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 Joint Stock 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 2008	31 December 2007
Transactional bond investment	208,183,567.20	986,914,949.50
Transactional equity instrument investment	-	636,862,035.93
Derivative financial assets	114,598,750.75	-
Transactional fund investment	818,382,840.90	14,028,992.34
Total	1,141,165,158.85	1,637,805,977.77

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

(4) Notes-receivables

	31 December 2008	31 December 2007
Bank acceptances	3,708,962,283.61	4,921,362,585.79
Trade acceptances	792,149,860.77	735,622,572.00
Total	4,501,112,144.38	5,656,985,157.79

As at 31 December 2008, a total book value of RMB 692,587,730.76 of the bank acceptance was being mortgaged for a short-term borrowing of RMB 692,587,730.76;

As at 31 December 2008, 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 2007).

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(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 2008	31 December 2007
Within 1 year	5,375,221,904.77	6,458,439,172.10
1-2 years	95,035,387.03	63,431,955.62
2-3 years	24,330,705.88	45,741,224.31
Over 3 years	164,631,220.32	177,512,260.87
	5,659,219,218.00	6,745,124,612.90
Less: bad debt provision for trade-receivables	390,028,336.21	433,482,463.37
Total	5,269,190,881.79	6,311,642,149.53

	31 December 2008			31 December 2007		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	1,729,623,644.59	31%	158,440,967.17	1,215,538,335.51	18%	134,519,867.45
Receivable with insignificant single amounts but with considerable credit risk	3,929,595,573.41	69%	231,587,369.04	5,529,586,277.39	82%	298,962,595.92
	5,659,219,218.00	100%	390,028,336.21	6,745,124,612.90	100%	433,482,463.37

Changes in bad debt provision for trade-receivables:

	2008	2007
Opening balance	433,482,463.37	365,207,663.04
Transfer-in from combinations under same control	-	27,344,180.66
Provision in the year	97,401,995.61	123,840,805.61
Reversal in the year	(106,405,815.20)	(65,998,921.30)
Transfer-out due to disposal of subsidiaries	(779,560.50)	(530,193.42)
Writing-offs recovered	(33,301,855.67)	(16,683,371.54)
Foreign currency translation difference	(368,891.40)	302,300.32
Closing balance	390,028,336.21	433,482,463.37

	31 December 2008	31 December 2007
Total of top five debts	1,653,876,502.54	1,134,983,113.03
Ratio against total receivable	29%	17%
Debt duration	Within 1 year	Within 1 year

As at 31 December 2008, the balance in the account included a total debt of RMB 8,433,405.29 (31 December 2007: RMB 5,518,012.52) 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.

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Notes to the Financial Statements (Continued)

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(6) Payment in advance

	31 December 2008		31 December 2007	
	Book value	Percentage (%)	Book value	Percentage (%)
Within 1 year	4,549,909,224.79	99%	5,974,915,209.08	99%
1-2 years	38,400,211.31	1%	20,130,768.64	1%
2-3 years	9,676,059.93	-	7,609,495.72	-
Over 3 years	2,821,817.45	-	1,103,073.63	-
Total	4,600,807,313.48	100%	6,003,758,547.07	100%

As at 31 December 2008, there was no payment in advance made to any shareholder holding 5% or more of the Company's shares or voting power (same as by 31 December 2007).

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

(7) Interests receivable

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

(8) Other receivables

Ageing analysis of other receivables is as follows:

	31 December 2008	31 December 2007
Within 1 year	654,489,539.70	865,864,350.19
1-2 years	84,348,213.85	6,298,824.12
2-3 years	2,894,714.30	2,936,458.23
Over 3 years	137,146,015.45	139,485,021.51
	878,878,483.30	1,014,584,654.05
Less: bad debt provision for trade-receivables	142,663,855.66	148,244,470.22
Total	736,214,627.64	866,340,183.83

	31 December 2008			31 December 2007		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	581,281,448.12	66%	117,572,208.50	539,191,865.06	53%	122,611,046.35
Receivable with insignificant single amounts but with considerable credit risk features in combination	297,597,035.18	34%	25,091,647.16	475,392,788.99	47%	25,633,423.87
	878,878,483.30	100%	142,663,855.66	1,014,584,654.05	100%	148,244,470.22

	31 December 2008	31 December 2007
Total of top five debts	463,709,239.11	421,619,485.68
Ratio against total other receivables	53%	42%
Debt duration	Within 1 year	Within 1 year

As at 31 December 2008, the balance in the account did not include debts of shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power (same as by 31 December 2007).

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

	2008	2007
Opening balance	148,244,470.22	153,609,335.65
Provision in the year	5,668,493.47	11,455,201.95
Transfer from combinations under same control	-	1,342,704.32
Reversal of the year	(6,828,872.72)	(17,942,734.07)
Transfer-out due to disposal of subsidiaries	(348,990.70)	(143,453.81)
Writing-off	(4,071,244.61)	(76,583.82)
Closing balance	142,663,855.66	148,244,470.22

(9) Inventories

	31 December 2008	31 December 2007
Raw material	14,153,333,215.22	12,315,582,912.59
Work in progress	10,472,027,336.07	12,477,556,808.82
Finished products	12,802,185,768.54	12,729,613,525.72
Spare parts and others	4,121,522,254.55	3,397,402,723.21
	41,549,068,574.38	40,920,155,970.34
Less: provisions for reductions in the value of inventories	5,904,477,698.64	1,030,481,801.74
	35,644,590,875.74	39,889,674,168.60

The provisions for cost of inventories in the period are as follows:

	Raw material	Work in progress	Finished goods	Spare parts & others	Total
Opening balance	143,630,251.16	418,531,487.66	392,119,209.18	76,200,853.74	1,030,481,801.74
Provision in the year	2,918,998,353.66	1,470,158,094.82	1,755,827,095.73	27,054,093.02	6,172,037,637.23
Reversal in the year	-	(49,469,524.58)	(204,554,086.58)	(16,501,674.98)	(270,525,286.14)
Writing-off in the year	(472,805,813.22)	(539,443,798.10)	(7,203,789.91)	(4,580,508.71)	(1,024,033,909.94)
Reduction from disposal of subsidiaries	-	-	(2,470,967.76)	(846,280.89)	(3,317,248.65)
Foreign currency translation difference	-	-	(165,295.60)	-	(165,295.60)
Closing balance	2,589,822,791.60	1,299,776,259.80	1,933,552,165.06	81,326,482.18	5,904,477,698.64

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 profits and losses of the current period. The reversal of the provision for the cost of inventory is resulted from rise in value of the inventory.

(10) Loans granted and cash advances

	31 December 2008	31 December 2007
Medium- and long-term borrowings	1,886,746,000.00	768,100,000.00
Discount	28,127,092.68	53,052,762.97
Provision for loss of borrowings	(7,120,000.00)	(4,600,000.00)
Total	1,907,753,092.68	816,552,762.97

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

	2008	2007
Opening balance	4,600,000.00	60,700,000.00
Provision in the year	2,520,000.00	-
Reversal in the year	-	(56,100,000.00)
Closing balance	7,120,000.00	4,600,000.00

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(11) Financial assets available for sale

	31 December 2008	31 December 2007
Financial bonds available for sale	439,720,000.00	157,276,220.20
Equity instruments available for sale	400,462,984.66	1,384,262,705.81
Others	20,000,000.00	56,523,000.00
Total	860,182,984.66	1,598,061,926.01

(12) Long-term equity investments

	31 December 2007	Increase of year	Decrease of year	Including: Cash dividend received	31 December 2008
Cost method	960,980,048.64	1,834,673.23	(24,324,051.47)		938,490,670.40
Equity method	2,785,419,323.68	263,404,708.93	(145,759,570.92)	(61,036,283.49)	2,903,064,461.69
Equity transferred from old system trade right due to non-tradable share reform	7,949,489.18	-	-		7,949,489.18
	3,754,348,861.50	265,239,382.16	(170,083,622.39)		3,849,504,621.27
Less: impairment provisions for long-term equity investments	-				-
	3,754,348,861.50				3,849,504,621.27

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

Invested companies	Percentage of equity (%)	31 December 2008	31 December 2007	Current dividend
Baovale Mining Co., Ltd. Note	50	103,282,213.00	103,282,213.00	19,849,536.00
Taiyuan Baoyuan Mechical Industry Co., Ltd.	15	9,000,000.00	9,000,000.00	-
CISDI Engineering Co., Ltd.	8	9,508,999.34	9,508,999.34	9,000,000.00
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	545,261.42
Zhongjijing Investment Consultancy Stock Co., Ltd.	5	3,000,000.00	3,000,000.00	-
Ningbo Port Beilun Co., Ltd.	2.27	-	15,371,426.00	21,819,255.64
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	-
Shanghai No.5 Steel Logistics Co., Ltd.	10	-	5,862,500.00	-
Henan Longyu Energy Co., Ltd.	12.96	370,269,254.56	370,269,254.56	94,028,568.42
Shanghai Luojing Mining Port Co., Ltd.	12	88,734,096.00	88,734,096.00	-
Anhui Wanbei Mining Co., Ltd.	8	-	2,990,125.47	-
Yongmei Group Co., Ltd.	10	279,000,000.00	279,000,000.00	6,550,297.00
Henan Zhenglong Coal Co., Ltd.	4.91	45,569,714.27	45,569,714.27	-
Guangzhou Huiren Auto Service Co., Ltd.	15	215,923.23	-	-
China Resources Land Limited (Beijing)	0.09	1,618,750.00	-	93,095.76
Others	Insignificant	980,000.00	980,000.00	21,000.00
Total		938,490,670.40	960,980,048.64	151,907,014.24

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

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(ii) Long-term equity investments in 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 2008
BNA	20 years	50%	1,500,000,000.00	-	-	1,500,000,000.00
Bao-Island Enterprises	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	Note	123,721,439.29	-	-	109,080,147.98
Shipping-Baosteel	20 years	50%	99,965,000.00	-	-	99,965,000.00
			1,903,781,809.79	-	(37,011,238.50)	1,852,129,279.98

Note: The net loss of Niagara Machinery was recognized on basis of its book value of long-term equity and other factors that impact on its long-term equity and the limit was a balance of zero, because the Group does not bear responsibility for extra losses of Niagara Machinery in line with its charter. The Group's current and accumulated unrecognized investment losses totaled RMB 2,579,521.08.

(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 2008
STAL Precision	50 years	40.00%	122,004,541.93	129,452,880.00	-	251,457,421.93
Welding Co.	20 years	38.00%	46,170,000.00	34,200,000.00	34,200,000.00	80,370,000.00
Renwei Software	20 years	41.33%	5,131,591.00	-	-	5,131,591.00
Guangzhou Wanbao	50 years	25.00%	24,840,000.00	22,633,752.00	(47,473,752.00)	-
Henan Zhenglong	50 years	40.00%	120,000,000.00	80,000,000.00	-	200,000,000.00
Tianjin BCM	50 years	40.00%	56,000,000.00	-	-	56,000,000.00
Baojiang Shipping	20 years	40.00%	16,000,000.00	-	-	16,000,000.00
Wuxi Baomit	50 years	Note	32,522,976.15	-	-	32,522,976.15
Zhongyou Baoshun	30 years	35.00%	1,912,509.83	-	1,912,509.83	1,912,509.83
			424,581,618.91	266,286,632.00	(11,361,242.17)	643,394,498.91

Note: 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 articles 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 articles. As a result, Wuxi Baomit has been considered an associate of the Group and measured on basis of the equity method.

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Adjustment of equity							Investment in associates 31 December 2008
Increase/(decrease) in the year	Cash dividend received	Transfer-out due to disposal	Total increase/(de- crease) 31 December 2008	Investment preparation			
				Increase/(de- crease) in the year	Transfer- out due to disposal	Total increase/ (decrease)	
144,026,124.52	(43,522,673.84)	-	20,050,677.28	-	-	(3,027,142.34)	1,517,023,534.94
114,770,020.50	-	-	308,125,474.65	(20,099,315.00)	-	(44,161,334.45)	407,048,272.20
(5,341,057.49)	-	8,209,024.53	-	-	-	-	-
(85,127,310.65)	-	-	(109,080,147.98)	-	-	-	-
-	-	-	-	-	-	-	99,965,000.00
168,327,776.88	(43,522,673.84)	8,209,024.53	219,096,003.95	(20,099,315.00)	-	(47,188,476.79)	2,024,036,807.14

Adjustment of equity							Investment in as- sociates 31 December 2008
Increase/(decrease) in the year	Cash dividend received	Transfer-out due to disposal	Total increase/(de- crease) 31 December 2008	Investment preparation			
				Increase/(de- crease) in the year	Transfer- out due to disposal	Total increase/ (decrease)	
54,190,639.40	-	-	189,829,771.65	1,164.51	-	37,160.42	441,324,354.00
254,832.05	-	-	(4,367,916.54)	156,695.39	-	162,744.17	76,164,827.63
(574,948.71)	-	-	(1,754,852.54)	-	-	-	3,376,738.46
-	(13,785,721.00)	(8,447,321.46)	-	-	-	-	-
(122,920.68)	-	-	(122,920.68)	-	-	-	199,877,079.32
540,429.80	-	-	(9,980,463.60)	-	-	2,240,000.00	48,259,536.40
5,861,601.69	(3,727,888.65)	-	10,992,212.37	-	-	579,303.72	27,571,516.09
18,745,792.11	-	-	48,007,665.01	-	-	-	80,530,641.16
10,451.66	-	-	10,451.66	-	-	-	1,922,961.49
78,905,877.32	(17,513,609.65)	(8,447,321.46)	232,613,947.33	157,859.90	-	3,019,208.31	879,027,654.55

(iv) Financial information of joint ventures and associated entities

BNA Automotive Steel Sheets Co., Ltd. (BNA)
 Bao-Island Enterprises Co., Ltd. (Bao-Island Enterprises)
 Shanghai Kebao Automobile Gearing Co., Ltd. (Shanghai Kebao)
 Niagara Machinery Products Co., Ltd. (Niagara Machinery)
 Shanghai China Shipping-Baosteel Steel Processing Cp., Ltd. (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)
 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)
 Shanghai Zhongyou Baoshun Chemical Industry Co., Ltd. (Zhongyou Baoshun)

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.

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(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 & sales of cold rolled steel sheets and hot-dip galvanized sheets	RMB	3,000,000	50%	50%
Bao-Island Enterprises	Hong Kong	Ship chartering & shipping agency	HKD	3,300	50%	50%
Shanghai Kebao	Shanghai	Ship chartering & of automatic transmission & hydraulic speed change valve	CAD	10,890	Disposed	Disposed
Niagara Machinery	Ontario Canada	Production of valves, and sleeves, etc.	CAD	37,500	50%	50%
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	211,500	38%	38%
Renwei Software	Shanghai	Software & hardware development & production and technical support	USD	1,500	41.33%	41.33%
Guangzhou Wanbao	Guangdong	Processing and delivery of steel	RMB	189,895	Disposed	Disposed
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 (iii)
Zhongyou Baoshun	Shanghai	Oil, chemical and processing trading	RMB	5,000	35%	35%
	As at end of 2008 total assets RMB thousand	As at end of 2008 total liabilities RMB thousand		2008 business revenue RMB thousand		2008 net profit RMB thousand
Joint ventures	6,508,066	2,396,163		12,257,903		432,017
Associated enterprises	3,922,802	1,758,214		2,902,456		187,210

(13) Investment real estates

Subsequent measurement is made on basis of cost method.

	Houses and buildings
Original prices	
1 January 2008	190,841,253.64
Acquisition	13,140,768.74
31 December 2008	203,982,022.38
Accumulated depreciation and amortization	
1 January 2008	55,152,539.25
Provisions	6,255,090.96
Acquisition	5,819,600.16
31 December 2008	67,227,230.37
Book value	
31 December 2008	136,754,792.01
1 January 2008	135,688,714.39

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

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(14) Fixed assets

	Houses and buildings	Mechanical equipment	Transportation vehicles	Office and other equipment	Total
Original price:					
31 December 2007	38,479,527,831.36	122,275,864,995.93	13,979,086,224.72	13,313,229,885.12	188,047,708,937.13
Impact of business combinations under same control upon opening balance	2,355,041,100.00	6,313,462,534.50	9,451,582.88	10,851,356.60	8,688,806,573.98
1 January 2008	40,834,568,931.36	128,589,327,530.43	13,988,537,807.60	13,324,081,241.72	196,736,515,511.11
Purchases	112,520,846.05	256,270,772.23	62,142,886.64	220,676,124.02	651,610,628.94
Transfer from construction-in-progress	5,882,737,320.06	24,776,349,031.61	1,541,243,858.61	1,330,174,558.70	33,530,504,768.98
Re-classification	(82,362,556.81)	(2,037,534,642.86)	1,059,746,453.57	1,060,150,746.10	-
Sales to associated entities	-	(1,106,179.41)	(3,109,839.70)	(3,190,209.96)	(7,406,229.07)
Disposals	(401,960,317.00)	(2,145,423,312.57)	(293,736,060.96)	(823,664,111.18)	(3,664,783,801.71)
Reduction from disposal of subsidiaries	(13,774,955.87)	(12,945,033.68)	(122,650,635.33)	(18,284,630.58)	(167,655,255.46)
Transfer to construction-in-progress	(289,699,608.84)	(688,883,364.73)	(46,991,574.38)	(43,279,448.29)	(1,068,853,996.24)
Amount transferred to real estate	(13,140,768.74)	-	-	-	(13,140,768.74)
Other reductions	(19,898,885.47)	(57,263,557.97)	(900,172.00)	(684,941.07)	(78,747,556.51)
Difference in foreign currency translation	10,646,245.36	(322,635.89)	(35,118.42)	(727,609.04)	9,560,882.01
31 December 2008	46,019,636,250.10	148,678,468,607.16	16,184,247,605.63	15,045,251,720.42	225,927,604,183.31
Accumulated depreciation:					
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
Impact of business combinations under same control upon opening balance	9,420,100.00	51,016,803.54	3,260,616.11	3,059,142.73	66,756,662.38
1 January 2008	15,811,773,155.73	69,173,585,428.78	11,312,348,287.06	10,204,535,030.33	106,502,241,901.90
Provision in the year	2,104,874,693.61	9,757,729,199.29	1,239,649,629.91	1,366,970,820.92	14,469,224,343.73
Re-classification	(14,787,942.96)	(194,972,572.07)	110,246,083.66	99,514,431.37	-
Sales to associated entities	-	(575,020.38)	(2,770,320.17)	(2,715,419.37)	(6,060,759.92)
Writing-off	(259,955,309.65)	(1,914,843,475.85)	(267,489,763.97)	(757,442,868.37)	(3,199,731,417.84)
Reduction from disposal of subsidiaries	(2,917,783.42)	(3,473,542.17)	(38,387,493.00)	(9,821,979.59)	(54,600,798.18)
Transfer to construction-in-progress	(275,499,182.84)	(631,424,349.47)	(45,045,427.80)	(41,548,270.42)	(993,517,230.53)
Amount transferred to real estate	(5,819,600.16)	-	-	-	(5,819,600.16)
Other reductions	(22,016,947.23)	(5,421,779.91)	(749,318.38)	1,869,380.80	(26,318,664.72)
Difference in foreign currency translation	2,915,040.89	(190,110.48)	39,927.52	(412,934.10)	2,351,923.83
31 December 2008	17,338,566,123.97	76,180,413,777.74	12,307,841,604.83	10,860,948,191.57	116,687,769,698.11
Net fixed assets:					
31 December 2008	28,681,070,126.13	72,498,054,829.42	3,876,406,000.80	4,184,303,528.85	109,239,834,485.20
1 January 2008	25,022,795,775.63	59,415,742,101.65	2,676,189,520.54	3,119,546,211.39	90,234,273,609.21
Impairment provisions					
1 January 2008	18,309,907.86	39,099,059.22	728,251.28	2,332,128.26	60,469,346.62
Re-classification	-	(15,775.24)	-	15,775.24	-
Writing-off from disposals	(1,069,543.84)	(5,315,298.09)	(317,244.63)	(1,803,435.49)	(8,505,522.05)
31 December 2008	17,240,364.02	33,767,985.89	411,006.65	544,468.01	51,963,824.57
Net fixed assets:					
31 December 2008	28,663,829,762.11	72,464,286,843.53	3,875,994,994.15	4,183,759,060.84	109,187,870,660.63
1 January 2008	25,004,485,867.77	59,376,643,042.43	2,675,461,269.26	3,117,214,083.13	90,173,804,262.59

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As at 31 December 2008, a total value of RMB 11,605,405.44 (2007: RMB 5,048,945.25) of fixed assets were temporarily unused.

As at 31 December 2008, the property-user rights of the buildings and plants, which are worth RMB 5,433,118,836.35 (2007: RMB 7,703,545,225.68) 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 equipment	Total
Closing balance	-	11,560,092.42	1,381,241.34	234,937.21	13,176,270.97
Opening balance	-	5,313,321.05	-	152,153.00	5,465,474.05

(15) Construction-in-progress

Names of projects	Technical renovation and infrastructure construction
Opening balance	16,373,360,851.23
Impact of business combinations under same control upon opening balance	4,229,213,543.46
Opening balance in the year	20,602,574,394.69
Increase of year	29,243,830,068.15
Fixed assets transferred in the year	75,336,765.71
Fixed assets transferred in the year	(33,530,504,768.98)
Reduction from disposal of subsidiaries	(25,255,686.05)
Other reductions	(90,071,415.26)
Closing balance	16,275,909,358.26
Budget amount	57,826,284,026.14
Capital source	Self-possessed funds, bank loans and bonds
Investment-budget ratio	0.029%-99.45%

The increase in the construction-in-progress included RMB 74,292,681.69 of payment for capitalized interests. The capitalization rate used for the amount of capitalized borrowings ranged from 6.01%-6.81%.

As at 31 December 2008, the balance of the value of construction-in-progress included a total sum of RMB 59,971,966.85 of capitalized borrowing.

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

(16) Project materials

	31 December 2008	31 December 2007
Special materials	35,862,673.41	122,824,126.97
Special equipment	843,533,907.73	440,898,836.13
Prepayment for large equipment	235,104,486.11	190,906,549.35
Total	1,114,501,067.25	754,629,512.45

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Notes to the Financial Statements (Continued)

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(17) Intangible assets

	Land use right	Computer software	Others	Total
Original price:				
1 January 2008	5,970,555,331.41	36,364,016.06	83,510,115.62	6,090,429,463.09
Increase of year	484,588,410.61	5,544,046.98	16,051,827.03	506,184,284.62
Reduction from disposal of subsidiaries	(7,584,866.96)	-	(900,000.00)	(8,484,866.96)
Other reductions in the year	-	(2,597,160.00)	(367,609.68)	(2,964,769.68)
Foreign currency translation difference	-	1,637.42	-	1,637.42
31 December 2008	6,447,558,875.06	39,312,540.46	98,294,332.97	6,585,165,748.49
Accumulated amortization:				
1 January 2008	403,015,451.29	21,933,270.64	38,728,933.77	463,677,655.70
Provision in the year	139,305,907.04	6,813,557.15	14,384,837.80	160,504,301.99
Reduction from disposal of subsidiaries	(696,916.78)	-	(135,000.00)	(831,916.78)
Writing-off	-	(2,597,160.00)	(143,732.61)	(2,740,892.61)
Foreign currency translation difference	-	5,038.28	-	5,038.28
31 December 2008	541,624,441.55	26,154,706.07	52,835,038.96	620,614,186.58
Book value:				
31 December 2008	5,905,934,433.51	13,157,834.39	45,459,294.01	5,964,551,561.91
1 January 2008	5,567,539,880.12	14,430,745.42	44,781,181.85	5,626,751,807.39

As at 31 December 2008, the Group was going through the procedures for land-use right certificates of land with a book value of RMB 250,803,868.12. 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.

(18) Long-term deferred expenses

	31 December 2008	31 December 2007
Leasing expenses	4,448,728.07	48,375,171.90
Fees for decorations	45,752,249.92	42,599,916.87
Others	7,522,330.84	4,378,167.65
Total	57,723,308.83	95,353,256.42

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(19) Deferred income tax assets/liabilities

Recognized deferred income tax assets:

	1 January 2008	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	Others	31 December 2008
Provision for asset impairment	365,464,246.84	1,204,522,652.11	-	(411,346.47)	-	-	1,569,575,552.48
Unrealized profit compensation in internal transaction	255,126,794.85	(255,126,794.85)	-	-	-	-	-
Difference in residuals of fixed assets	54,123,785.22	(77,895.76)	-	(454,706.98)	(66,257.78)	-	53,524,924.70
Loss from change in fair value	48,401,304.50	(48,259,043.23)	13,583,038.11	-	-	-	13,725,299.38
Termination benefit	118,123,653.71	(54,124,895.46)	-	(274,288.55)	-	-	63,724,469.70
Others	36,886,790.50	159,712,285.04	-	(3,485,504.68)	836,506.62	(115,019,970.26)	78,930,107.22
Total	878,126,575.62	1,006,646,307.85	13,583,038.11	(4,625,846.68)	770,248.84	(115,019,970.26)	1,779,480,353.48

Recognized deferred income tax liabilities:

	1 January 2008	Recording into profit and loss	Recording into equity	Recording into foreign currency exchange difference	31 December 2008
Tax allowance for investment income	121,842,949.02	(2,667,828.63)	-	-	119,175,120.39
Gains from change in fair value	370,245,737.23	(45,998,756.81)	(233,920,799.88)	-	90,326,180.54
Unrealized profit compensation in internal transaction writing-off due to losses	-	219,703,847.13	-	-	219,703,847.13
Others	3,254,898.01	(520,974.74)	-	(281,459.27)	2,452,464.00
Total	495,343,584.26	170,516,286.95	(233,920,799.88)	(281,459.27)	431,657,612.06

(20) Other non-current assets

	31 December 2008	31 December 2007
Loans receivable from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Deposit	6,032,479.38	6,348,308.21
Others	3,522,013.08	3,062,204.09
Total	127,460,272.60	127,316,292.44

(21) Asset impairment provisions

	Provision for bad debts	Provision for deposit loss	Provision for loss from inventories	Provision for fixed asset impairment	Total
Opening balance	581,726,933.59	35,556,900.00	1,030,481,801.74	60,469,346.62	1,708,234,981.95
Provision in the year	103,070,489.08	2,520,000.00	6,172,037,637.23	-	6,277,628,126.31
Reversal in the year	(113,234,687.92)	-	(270,525,286.14)	-	(383,759,974.06)
Writing off in the period	(37,373,100.28)	-	(1,024,033,909.94)	(8,505,522.05)	(1,069,912,532.27)
Reduction from disposal of subsidiaries	(1,128,551.20)	-	(3,317,248.65)	-	(4,445,799.85)
Foreign currency translation difference	(368,891.40)	(705,000.00)	(165,295.60)	-	(1,239,187.00)
Closing balance	532,692,191.87	37,371,900.00	5,904,477,698.64	51,963,824.57	6,526,505,615.08

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(22) Short-term loans

	31 December 2008	31 December 2007
Bank loans		
Credit loans	23,361,569,310.71	19,839,730,015.58
Loans on mortgage	-	25,000,000.00
Guaranteed loans	49,969,880.00	8,613,300.00
Loans by pledge	692,587,730.76	607,785,228.59
Total	24,104,126,921.47	20,481,128,544.17

At the balance sheet date, among the Group's short-term loans, the annual interest rate ranges from 2.4% to 7.2% for short-term loans in RMB (from 5.43% to 6.93% in 2007), and from LIBOR+0.4% to LIBOR+1.8% for short-term loans in USD (LIBOR+0.2% to LIBOR+0.8% in 2007). The annual interest rate in Euro ranges from LIBOR+0.35% to LIBOR+0.65% (LIBOR+0.35% to LIBOR+0.45% in 2007).

The foreign currency translation rate is RMB 6.8346 (2007: 7.3046) vs. 1 USD; RMB 0.07565 vs. 1 JPY (2007: 0.0641); RMB 9.659 vs. 1 Euro (2007: 10.6669).

As on 31 December, 2008, the pledges for the short-term loans are unexpired discounted bank acceptance bills of exchange. As on 31 December, 2008, they are collateralized by guarantee letters issued by Mitsui & Co. Ltd.

(23) Transactional financial liabilities

	31 December 2008	31 December 2007
Derivative financial liabilities	11,500,444.73	174,951,938.47

(24) Financial assets sold for repurchase

Financial assets sold for repurchase refers to fund raised by sales of securities and other financial assets under re-purchase agreements. As at the date of balance sheet, the period of these assets is limited to within one month.

(25) Notes payable

	31 December 2008	31 December 2007
Bank acceptance bills of exchange	2,015,466,811.71	997,624,496.42
Commercial acceptance bills of exchange	2,235,775,913.97	2,343,433,751.47
	4,251,242,725.68	3,341,058,247.89

As at 31 December 2008, 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 (2007: None).

(26) Trade payable

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

As at 31 December 2008, the balance of the account included RMB 9,735,047.05 (2007: RMB 4,832,057.00) 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 2008, trade payable with an age over one year, totaling RMB 792,436,619.32, were uncleared constructions fees for technique updating and infrastructure projects, which last for a long period.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(27) Advance receipt

As at 31 December 2008, the balance of the account included RMB622,571.78 (31 December 2006: RMB3,490,970.85) 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 on 31 December 2008.

(28) Employee compensations payable

	1 January 2008	Increase in the year	Decrease in the year	31 December 2008
Wages, bonuses, allowances and subsidies	1,046,340,409.75	5,197,248,662.75	(5,212,353,190.32)	1,031,235,882.18
Welfare expenses	-	139,281,808.29	(139,281,808.29)	-
Social insurances				
Including: Medical insurance	32,145.15	350,423,884.48	(350,434,487.29)	21,542.34
Basic pension insurance	4,429,617.28	685,366,187.04	(687,785,768.99)	2,010,035.33
Complementary pension insurance	600,914.55	307,631.31	(908,545.86)	-
Unemployment insurance	216,155.62	62,511,931.57	(62,614,060.56)	114,026.63
Work injury insurance	230,602.43	18,477,861.74	(18,518,327.72)	190,136.45
Maternity insurance	67,580.64	16,676,707.66	(16,352,031.76)	392,256.54
Employment for the injured	755,161.79	23,566,397.02	(23,569,050.43)	752,508.38
Annuity fund	-	270,502,422.46	(17,231,493.61)	253,270,928.85
Others	6,809,934.45	26,453,793.36	(30,385,062.37)	2,878,665.44
Housing accumulation fund	226,197.10	224,337,921.67	(224,459,873.84)	104,244.93
Labor union expenditure and employee education expenses	111,426,746.64	184,141,236.51	(183,742,245.99)	111,825,737.16
Compensations for cancellation of labor relationship	479,587,153.66	6,541,060.96	(225,452,495.24)	260,675,719.38
Others	41,035,879.48	130,173,198.56	(118,353,404.21)	52,855,673.83
Total	1,691,758,498.54	7,336,010,705.38	(7,311,441,846.48)	1,716,327,357.44

As on 31 December 2008, 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)

For the Year Ended 31 December 2008

RMB

(29) Taxes and fees payable

	31 December 2008	31 December 2007
VAT	(225,711,586.29)	287,760,678.62
Business tax	21,064,064.26	20,691,142.39
Enterprise income tax	(1,768,022,983.79)	426,958,670.73
Individual income tax	83,426,763.77	93,654,912.84
Property tax	5,106,651.51	1,634,660.34
City construction and maintenance taxes	17,145,481.52	58,442,147.47
Others	67,550,371.71	175,496,687.26
Total	(1,799,441,237.31)	1,064,638,899.65

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

(30) Dividends payable

	31 December 2008	31 December 2007
Dividend payable to minority shareholders of subsidiaries	19,951,672.62	4,553,376.33

(31) Other payables

	31 December 2008	31 December 2007
Guarantee and deposit fees	487,973,836.57	420,870,885.05
Advanced fund	141,084,809.78	167,168,778.30
Transportation and port dues	148,330,978.52	96,656,240.58
Profit for sales promotion	90,372,917.05	59,562,131.32
Construction fee payable	62,899,768.60	1,671,426.10
Rent	-	5,904,481.13
Land compensation	15,600,000.00	15,600,000.00
Return payable	391,165.06	55,841,486.86
Relief fund	13,016,932.34	13,016,932.34
Commission expense	1,943,712.76	21,793,812.01
Others	179,234,393.46	193,812,647.71
Total	1,140,848,514.14	1,051,898,821.40

As at 31 December 2008, the balance of the account did not include any fund (31 December 2007: RMB52,891,647.44) which were attributable to shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power.

The age of the following trade receivable in significant amount in the Group is over one year as on 31 December 2008:

Nature	Amount payable	Reason for delay
Guarantee and pledge	58,577,429.40	Longer period of contract term

(32) Current liabilities

	Note 6	31 December 2008	31 December 2007
Long-term loan	(33)	1,181,586,686.20	2,209,045,617.00
Long-term payable	(35)	2,868,833,680.10	-
Total		4,050,420,366.30	2,209,045,617.00

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(33) Long-term borrowings

	31 December 2008		Type	Rate	Duration
	Original currency	Translated RMB			
ICBC		4,000,000,000.00	Credit loan	4.536%~6.8%	4~5 years
CCB		2,390,000,000.00	Credit loan	4.536%~5.67% or base rate * 90%	3~8 years
CCB	USD	43,600,000.00	Credit loan	6.43%~6.64%	10 years
CCB	EURO	17,251,154.22	Credit loan	FIBOR+0.305%	13 years
BOComm		1,740,000,000.00	Credit loan	4.374%	4 years
SDB		100,000,000.00	Credit loan	4.536%	3 years
CEB		200,000,000.00	Credit loan	5.427%	5 years
EIBC		2,300,000,000.00	Credit loan	4.374%~5.67%	3 years
EIBC	USD	100,000,000.00	Credit loan	4.536%	3 years
SMBC		5,394,000.00	Credit loan	5.10%	3 years
Baosteel Group (Via Finance Co.)		3,500,000,000.00	Credit loan	4%	3 years
Less: Current portion of long-term borrowing					
	RMB	1,070,000,000.00			
	USD	56,043,720.00			
	EURO	55,542,966.20			
Total		1,181,586,686.20			
		14,201,884,772.41			

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

	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	JPY	879,290,999.85	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	Credit loan	6.35%	12 years
CCB	USD	51,800,000.00	Credit loan	6.43~6.64%	10 years
CCB	EURO	23,001,538.96	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
CMB		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	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	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			
	JPY	56,362,553.09			
Total		2,209,045,617.00			
		16,431,946,896.94			

The long-term loans of the Group as on the balance sheet day were all credit loans. The applicable foreign exchange rates are RMB6.8346 (2007: RMB 7.3046) v. one USD; RMB 0.07565 (2007: RMB 0.0641) against one JPY; RMB 9.659 (2007: RMB 10.6669) against one EURO, and RMB 0.8819 (2007: 0.9364) against one HKD.

As on the balance sheet date, the outstanding balance of the long-term loan in the Group included commercial loans of RMB 464,617,458.61 from the China Construction Bank (CCB) and the Industrial & Commercial Bank of China (ICBC) as the overseas banks' back-to-back long-term loans.

Bank credit-granting quota

As at 31 December 2008, the remaining bank credit-granting quota of the Company was RMB 79.672 billion. The management of the Company believes that this quota and the cash flow from operating activities would be adequate for the current liabilities due in the coming year.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(34) Bond payable

	1 January 2008	Increase	Decrease	31 December 2008
08 Baosteel Bond (126016)	-	7,785,029,718.21	-	7,785,029,718.21

As at the end of the reported period, the balance of the bond payables is as follows:

	Duration	Issuing date	Total book value	Changes in value after separation	Adjustment to interest	Closing balance 2008
08 Baosteel Bond (126016)	6 years	20 June 2008	10,000,000,000.00	7,601,824,595.29	183,205,122.92	7,785,029,718.21
Less: Current portion of bond payable						-
						7,785,029,718.21

Approved by China Securities Regulatory Commission (CSRC) in the document of [2008]793, the Company issued, on 20 June 2008, RMB 10 billion convertible bonds with attached warrants with par value of RMB 100 per bond and a duration of six years. The coupon rate range was 0.8%. The coupon was paid once a year on June 20, and the principal was returned once and for all when the time expired. The purchaser of the bond was able to obtain 16 call warrants issued by the issuer; the duration of the warrant was 24 months from the date of its being listed on the market, and the exercising period was the last five trading days of the duration. The exercise proportion was 2 to 1, meaning two shares of the bond represent one share of the Company's stock, and the initial exercise price was RMB 12.50 per stock. The stock warrant and bond were listed and traded on Shanghai Stock Exchange on 4, July, 2008. In the lock-up period, the exercise price and proportion would be adjusted accordingly when the cut off of the dividend or right of the previous fiscal year is carried out. When the uses of the funds from the bond issuance are found to be greatly different from those the Company promised in the prospect, which is considered an alternation of the uses of the funds according to relative regulations of China Securities Regulatory Commission or is confirmed by the commission, warrant holders are entitled to buy the bonds at the price of its book value plus the current interest. The fair value of the liability component of the X/W (ex-warrant) on the day of issue is measured on basis of the prices of similar securities, while the rest is recognized as the value of equity and recorded in shareholders' interest.

(35) Long-term payables

Item	Note 6	31 December 2008	31 December 2007
Payable to Luoqing assets		10,413,565,674.58	-
Less: Current portion of long-term payables	(32)	2,868,833,680.10	-
		7,544,731,994.48	-

The delivery price of Luoqing assets and businesses, which the Group acquired from Baosteel Group Pudong Steel on 1 April 2008, was RMB 14,344,168,400.50. The payment will be made by interest-free mortgage within a period of five years, with 20% of the total, or RMB 2,868,833,680.10, paid each year. The first sum has been paid. The rest will be paid on 31 December every year since 2009, with the last sum on 31 December 2012.

The long-term payable in the Group are subject to the initial measurement according to its fair value and its subsequent value will be made at the amortized cost. As at 31 December 2008, the book value of the long-term payables in the Group totaled RMB 11,475,334,720.40 and the unrecognized financing charge to be amortized was RMB 1,061,769,045.82.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(36) Special payables

Type	Opening balance	Increase of year	Decrease of year	Closing balance
Government subsidies	25,434,461.51	184,789,224.80	(191,344,765.60)	18,878,920.71

(37) Long-term amount due to holding company

	31 December 2008	31 December 2007
Payment for acquisition of assets of Phase-3	800,000,000.00	1,600,000,000.00
Less: amount due within one year	800,000,000.00	800,000,000.00
	800,000,000.00	800,000,000.00
Long-term portion due to holding company		
Payment for acquisition of assets of Phase-3	-	800,000,000.00
	-	800,000,000.00

The payment for the acquisition of assets for Phase-3 is unsecured and will be paid by installments to Baosteel Group, 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 2,600,000,000.00 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 2008, the Company had paid a total interest of RMB 784,000,000.00, including RMB 48,000,000.00 paid in 2008, RMB 80,000,000.00 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.

(38) 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.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(39) 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 BGC)	11,900,917,441	-	-	(11,900,917,441)	(11,900,917,441)	-
Total shares with conditions right	11,900,917,441	-	-	(11,900,917,441)	(11,900,917,441)	-
2. Shares without conditional rights						
RMB ordinary share	5,611,082,559	-	-	11,900,917,441	11,900,917,441	17,512,000,000
Total shares without conditional right	5,611,082,559	-	-	11,900,917,441	11,900,917,441	17,512,000,000
3. Total share	17,512,000,000	-	-	-	-	17,512,000,000

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

As at the end of 31 December, 2008, the Group holds 12,953,517,441 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 12 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 10 August, 2006, and an excise price of RMB 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' rights and interests, and income-per-share remain what they are.

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 RMB 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, if the A shares of the Company fall at a level below RMB 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 21 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 RMB 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 RMB 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 16 October, 2006, the six-month duration as the time limit for share selling for the 491,780,281 shares of the Company owned by Baosteel Group with a second injection of 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 decreased the Company's non-conditional shares by 761,346,130.

Up to 19 August 2008, total conditional shares of 11,900,917,441 of the Company Baosteel Group held were allowed to circulate on market, making all the shares of the Company unconditional shares, of which Baosteel Group owns 73.97%. In the reported period, the Group neither bought nor sold any of the shares of the Company it held.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(40) Capital reserves

	31 December 2007	Impact of business combinations under same control upon opening balance	Increase in the year	Decrease in the year	31 December 2008
Reserve from conversion of state-owned share	5,726,556,609.73	-	-	-	5,726,556,609.73
Share premium	26,088,484,823.04	11,478,129,534.03	-	(10,196,276,961.49)	27,370,337,395.58
Impact of other owners' interests of investees in equity method	18,382,973.94	-	157,859.90	(20,099,315.00)	(1,558,481.16)
Change in fair value of available-for-sale financial assets	1,150,466,731.59	-	-	(877,129,907.87)	273,336,823.72
Impact of change in fair value of available-for-sale financial assets upon income tax	(295,196,620.38)	-	234,437,273.03	-	(60,759,347.35)
Convertible corporate bonds	-	-	2,332,472,977.02	-	2,332,472,977.02
Other capital reserves	957,111,086.85	-	209,195,531.59	-	1,166,306,618.44
Total	33,645,805,604.77	11,478,129,534.03	2,776,263,641.54	(11,093,506,184.36)	36,806,692,595.98

- (1) The change in premium on capital stock, RMB 11,478,129,534.03, in the reported period was a result of impact of the business combination under the same control (acquisition of Luoqing assets) upon the opening balance of the period. The reduction in the premium on capital stock was mainly a result of the impact of actual consideration of the business combination under the same control (acquisition of Luoqing assets) upon capital reserve—premium on capital stock.
- (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) The change in capital reserve due to issuance of convertible bonds was the confirmed value of equity component of the Company's convertible bonds after separation. Refer to Note 6(34) to the financial statements for more information.
- (5) 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.

(41) Earnings reserve

	Opening balance	Increase of year	Decrease of year	Closing balance
Statutory earnings reserve	6,262,723,937.25	507,747,856.54	-	6,770,471,793.79
Discretionary earnings reserve	9,534,176,277.03	507,747,856.54	-	10,041,924,133.57
Total	15,796,900,214.28	1,015,495,713.08	-	16,812,395,927.36

According to the Company Law of China and the articles of the Company, 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 y earnings reserves can be used to make up the loss from the previous year or converted into the Company's share capital.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(42) Undistributed profit

	2008	2007
Undistributed profit at beginning of year	21,620,790,256.82	17,021,191,463.86
Net profit	6,459,207,460.21	12,718,334,521.04
Decrease of the year	(7,144,695,713.08)	(8,118,735,728.08)
Less: Surplus reserve	(1,015,495,713.08)	(1,989,535,728.08)
Dividend distributed	(6,129,200,000.00)	(6,129,200,000.00)
Closing balance of retained earnings	20,935,302,003.95	21,620,790,256.82

(43) Minority interests

Minority interests of major subsidiaries of the Group:

	31 December 2008	31 December 2007
Yantai Lubao	159,469,347.00	146,558,889.35
Huangshi Coating & Galvanizing	59,192,655.64	76,985,432.27
Subsidiaries of Baosteel International	683,754,359.32	739,404,320.68
Meishan Steel and its subsidiaries	2,991,561,364.48	2,937,041,744.10
Ningbo Baoxin and its subsidiaries	760,618,994.54	956,721,997.96
Baosight Software and its subsidiaries	368,025,493.83	296,689,534.99
Finance Co.	552,535,773.62	613,300,168.76

(44) Business revenue and business cost

Business revenue

	2008	2007
Revenue from principal businesses	199,254,340,394.44	189,812,328,905.19
Revenue from other businesses	1,077,433,425.15	1,461,164,611.42
Total	200,331,773,819.59	191,273,493,516.61

Revenue and cost from principal businesses:

	2008		2007	
	Revenue	Cost	Revenue	Cost
Sales of goods	197,338,034,509.93	173,618,137,226.96	184,266,083,123.19	156,305,207,200.28
Others	1,916,305,884.51	1,768,761,960.97	5,546,245,782.00	5,248,875,742.24
	199,254,340,394.44	175,386,899,187.93	189,812,328,905.19	161,554,082,942.52
Total revenue from top five customers	19,900,077,791.47		15,644,055,094.20	
Ratio in total business revenue	10%		8%	

(45) Operating taxes and surcharges

	2008	2007
Sales tax	84,506,019.95	89,574,073.08
City construction tax & educational surcharge	743,094,813.75	842,367,161.66
Tariff	362,785,298.75	291,299,243.10
Others	28,749,634.19	29,120,095.09
	1,219,135,766.64	1,252,360,572.93

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

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(46) Financial expenses

	2008	2007
Interest expenses	3,296,931,394.55	1,878,363,285.21
Less: capitalization of interests	74,292,681.69	-
Less: income from interests	157,140,673.12	80,932,430.68
Exchange gain	(1,023,548,453.03)	(889,443,311.12)
Others	53,791,530.86	47,064,067.02
	2,095,741,117.57	955,051,610.43

The interest expense in the year included RMB 306,261,426.03 of unrecognized financing charge to be amortized.

(47) Asset impairment loss

	2008	2007
Loss from bad debts/(reversal)	(10,164,198.84)	51,354,352.19
Loss from borrowings/(reversal)	2,520,000.00	(56,100,000.00)
Loss from provision for inventories	5,901,512,351.09	815,197,367.16
Total	5,893,868,152.25	810,451,719.35

(48) Income from change in fair value

	2008	2007
Transactional financial assets	9,049,223.59	193,587,403.55
Transactional financial liabilities	(5,628,232.96)	(165,780,979.62)
Total	3,420,990.63	27,806,423.93

(49) Investment income

	2008	2007
Investment income of long-term equity investment in cost method	151,907,014.24	200,474,755.06
Stock investment income	273,723,168.29	504,529,024.73
Bond investment income	90,804,935.87	123,378,853.89
Fund investment income	13,534,166.78	2,601,269.21
Loss from derivative financial instruments to avoid risks	(114,947,003.22)	(168,679,540.89)
Recognized net profit and loss received from associates and joint ventures	247,233,654.20	722,759,370.10
Profit/(Loss) in equity transfer investment	11,613,685.27	109,461,240.66
Others	3,296,329.17	4,097,949.52
Total	677,165,950.60	1,498,622,922.28

As at 31 December 2008, no significant limits existed regarding investment income repatriation.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(50) Income tax expenses

	2008	2007
Current income tax expenses	2,389,402,538.42	5,965,690,506.58
Deferred income tax expenses	(836,130,020.90)	(80,632,854.39)
	1,553,272,517.52	5,885,057,652.19

Relationship between income tax and total profit:

	2008	2007
Total profit	8,154,365,637.43	19,307,687,400.38
Taxation by LTR ^(Note 1)	2,038,591,409.36	6,371,536,842.13
Adjustment to previous taxation	(234,173,415.00)	(68,996,552.97)
Tax-free revenue	(119,691,831.23)	(324,413,603.41)
Undetectable tax expense	26,091,731.17	119,727,328.34
Impact of change in tax rate	(8,335,754.20)	156,554,693.39
Previous tax loss used	(1,223,513.42)	(6,882,161.78)
Unrecognized tax loss	142,602,120.04	27,470,599.28
Surcharge preference	(290,705,021.87)	(295,405,408.41)
Others	116,792.67	(94,534,084.38)
Taxation by ETRs of the Group	1,553,272,517.52	5,885,057,652.19

Notes:

- 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.

(51) 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:

	2008	2007
Profit		
Current net profits belonging to the shareholders of ordinary shares	6,459,207,460.21	12,718,334,521.04
Shares		
Weighted average number of ordinary shares issued to the public	17,512,000,000.00	17,512,000,000.00

The Company issued RMB 10 billion worth of convertible bonds with attached warrants with a duration of six years from June 20, 2008. The inquiry coupon rate was 0.8% and subscribers received 16 call warrants for every bond taken up, with the option price set at RMB 12.5 per share and a n expiry period of 24 months. At the date of the balance sheet, the A-share of the Company was lower than the price of the warrant; its diluted potential was not considered.

As no diluted potentials were detected for its A-shares in 2007 and 2008, the diluted earnings per share was not disclosed.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(52) Cash paid relating to other operating activities

Including: Flow of large sums of cash:

	2008	2007
Sales expenses	1,627,249,548.13	1,795,205,680.20
Management expenses	3,283,839,582.34	2,896,840,680.86

(53) Cash flow from operating activities

	2008	2007
Reconciliation of net profit to cash flows from operations		
Net profit	6,601,093,119.91	13,422,629,748.19
Add: Provision for impairment losses of assets/(reverse)	5,893,868,152.25	810,451,719.35
Depreciation of fixed assets and investment properties	14,475,479,434.69	12,551,375,083.78
Amortization of intangible assets	160,504,301.99	144,720,159.78
Amortization of long-term deferred expenses	25,370,143.31	16,312,033.74
Losses on disposal of fixed assets, intangible assets and other long-term assets	323,906,661.47	275,771,644.00
Gains from change in fair value	(3,420,990.63)	(27,806,423.93)
Financial expenses	2,041,949,586.71	907,987,543.41
Income from investment	(677,165,950.60)	(1,498,622,922.28)
Increase in deferred income tax assets	(1,006,646,307.85)	(106,941,520.15)
Increase in deferred income tax liabilities	170,516,286.95	26,308,665.76
Decrease in inventories	(2,367,655,886.00)	(9,355,686,488.60)
Decrease in operating receivables (less: increase)	3,505,455,146.41	(4,350,467,715.82)
Increase in operating payables (less: decrease)	(12,899,701,652.77)	6,069,602,783.64
Net cash flow from operating activities	16,243,552,045.84	18,885,634,310.87

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(54) Business combination**I. Business combinations under the same control**

The reported period witnessed the Company's acquisition of Luojing assets and businesses from Baosteel Group Pudong Steel, a brother company of the Company, at the cost of RMB 14,344,168,400.50 (The payment will be made as long-term payable by interest-free mortgage within a period of five years. Refer to Note 6 (35), "Long-term payables" for more details.). As the two parties were and are controlled by Baosteel Group and the relationship is not temporary, the combination is recognized as combination under the same control and the financial statement was prepared accordingly. The delivery date and the date of combination were both 1 April 2008. The acquired assets were measured on the basis of the book value of the assets as presented in the Luojing side.

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

	1 April 2008	31 December 2007
Current assets	1,492,127,483.41	820,946,112.91
Non-current assets	13,997,863,244.31	12,851,263,455.06
Current liabilities	(3,385,113,339.24)	(2,194,080,033.94)
Non-current liabilities	-	-
	12,104,877,388.48	11,478,129,534.03
Less: Net book value of assets and liabilities beyond combination range	(1,762,922,227.38)	
Total	13,867,799,615.86	
Balance (recorded in equity)	(891,661,687.21)	
Combination cost	12,976,137,928.65	
Unrecognized financing charge	1,368,030,471.85	
Consideration	14,344,168,400.50	

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

	1 January to 1 April, 2008
Business revenue	1,012,538,250.76
Net Loss	(390,190,885.33)
Net cash flow	-

The acquisition of Luojing assets and businesses on 1 April 2008 is considered to occur at the beginning of the current period (2008) and its assets, liabilities, business performance and cash flow from the beginning of the period are included in the consolidated financial statements. The opening balance has been adjusted in the consolidated balance sheet; the incomes, expenses, and profits of the combining party from the beginning of the current period to the combining date have been included in the consolidated profit statement and the comparative consolidated profit statement was adjusted as if the Luojing were consolidated before the date of combination. The consolidated statement of cash flow was prepared to include the cash outflow and inflow of Luojing as if the Luojing were consolidated before the date of combination.

2. Net cash flow from combination of the aforementioned assets

	2008
Cash paid for Luojing assets	2,868,833,680.10
Less: Cash received from Luojing assets	-
Cash flow from combination of Luojing assets	2,868,833,680.10

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Notes to the Financial Statements (Continued)

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(55) Disposal of subsidiaries**I. 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	
Guangzhou Huiren Auto Service Co., Ltd. (Guangzhou Huiren)	Guangzhou	Auto sales	51%	15%	51%	15%	Note 1
Shanghai Zhongyou Baoshun Chemical Industry Co., Ltd. (Zhongyou Baoshun)	Shanghai	Oil and chemical product trading	60%	35%	60%	35%	Note 1
Shanghai Baosteel Zhushang Auto Trading Co., Ltd. (Zhushang Auto Trading)	Shanghai	Auto sales	51%	-	51%	-	Note 2
Shanghai Baosteel Second-hand Auto Service Co., Ltd. (Shanghai Second-hand Auto)	Shanghai	Auto sales	81%	-	81%	-	Note 2
Wuxi Folkwagan Service Center (Wuxi Auto Service)	Wuxi	Auto Service	51%	-	51%	-	Note 2
Jiangxi Second-hand Auto Market Co., Ltd. (Jiangxi Second-hand Auto)	Nanchang	Auto sales	60%	-	60%	-	Note 2
Jiaxing Baoda Toyota Service Co., Ltd. (Jiaxing Baoda)	Jiaxing	Auto sales	70%	-	70%	-	Note 2
Shanghai Baole Auto Service Co., Ltd. (Shanghai Baole)	Shanghai	Auto sales	100%	-	100%	-	Note 2
Shanghai Baoyou Auto Service Co., Ltd. (Shanghai Baoyou)	Shanghai	Auto sales	100%	-	100%	-	Note 2
Shanghai Baohe Toyota Service Co., Ltd. (Shanghai Baohe)	Shanghai	Auto sales	100%	-	100%	-	Note 2
Shanghai Baorun Auto Service Co., Ltd. (Shanghai Baorun)	Zhenjiang	Auto sales	85%	-	85%	-	Note 2
Shanghai Baorong Auto Service Co., Ltd. (Shanghai Baorong)	Shanghai	Auto sales	100%	-	100%	-	Note 2
Shanghai Baoyun Auto Service Co., Ltd. (Shanghai Baoyun)	Shanghai	Auto sales	100%	-	100%	-	Note 2
Shanghai Baoyun Auto Service Co., Ltd. (Shanghai Baoyue)	Shanghai	Auto sales	100%	-	100%	-	Note 2

Note 1: In accordance with the contract signed by Baosteel International, a subsidiary of the Company, and Baosteel Metal Co. Ltd. (Baosteel Metal), the Group transferred 51% of the equity of Zhushang Auto Trading to Baosteel Metal, with the disposal date as 30 November 2008. Since Zhushang held 36% and 25% of the equities of Guangzhou Huiren and Zhongyou Baoshun respectively, the shareholdings of the Group in Guangzhou Huiren and Zhongyou Baoshun fell to 15% from 51% and 35% from 60%. Guangzhou Huiren and Zhongyou Baoshun have no longer been consolidated in the Group's financial statements since the day of disposal.

Note 2: Accordingly, Zhushang Auto Trading and its subsidiaries—Shanghai Second-hand Auto, Wuxi Auto Service, Jiangxi Second-hand Auto, Jiaxing Baoda, Shanghai Baole, Shanghai Baoyou, Baohe Auto, Baorun Auto, Baorong Auto, Baoyun Auto and Baoyue—have no longer been consolidated in the Group's financial statements since the day of disposal.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

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Integrated financial information of afore-mentioned companies:

	Date of disposal	31 December 2007
Current assets	373,453,360.97	373,970,555.67
Non-current assets	227,751,196.02	203,183,029.70
Current liabilities	(408,436,349.81)	(359,665,124.96)
Non-current liabilities	(499,872.14)	(23,703.57)
	192,268,335.04	217,464,756.84
Minority interests	(108,659,086.86)	(115,870,948.87)
Balance of long-term equity investment after disposals	(2,128,433.06)	
Profit and loss from disposals	(1,260,866.93)	
	(112,048,386.85)	
Disposal consideration	80,219,948.19	
	1 January 2008 to date of disposal	
Business revenue	1,058,760,858.86	
Business cost	1,069,451,633.01	
Net profit	(15,478,010.87)	

2. Cash flow from disposal of subsidiaries

Net cash flow from disposals of the above subsidiaries:

	2008
Consideration of subsidiaries disposed	80,219,948.19
Cash received from disposals of subsidiaries	80,219,948.19
Less: Cash owned by subsidiaries	46,462,666.27
Net cash flow received from disposals subsidiaries	33,757,281.92

(56) Cash and cash equivalents

	2008	2007
Cash	5,565,783,514.89	9,353,589,268.58
Including: Cash reserve	1,979,482.27	1,811,031.91
Realizable bank deposit	5,545,813,175.54	9,303,665,212.76
Other realizable monetary funds	17,990,857.08	48,113,023.91
Cash equivalent	706,781,484.78	5,755,900,000.00
Including: Funds from monetary market	706,781,484.78	-
Purchases of resale financial assets	-	5,755,900,000.00
Closing balance of cash and cash equivalent	6,272,564,999.67	15,109,489,268.58

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Notes to the Financial Statements (Continued)

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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.

The 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 and iron 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 in the business segments
(1) Steel	the Company, Meishan Steel, Ningbo Baoxin, Yantia Lubao, Huangshi Coating & Galvanizing, Yantai Baosteel, Baoyin Special Steel, Nantong Steel and other steel and iron producing units;
(2) 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;
(3) Others	Finance Co., Chemical Branch of the Company, Baosight Software, No.5 Steel Gas, Oriental Electronics and others.

The revenue of a subsidiary is included in the district segment to which it belongs, and the its assets are presented in the district segment where the assets are situated.

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 (excluding current portion of the long-term payable), long-term borrowings and deferred income liabilities have not been included in the segment liabilities.

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(1) Business segment

2008	Steel RMB thousand	Trade RMB thousand	Others RMB thousand	Offset RMB thousand	Total RMB thousand
Business revenue	165,836,712	172,767,562	11,227,840	(148,827,182)	201,004,932
Including: External transaction income	32,760,440	163,642,835	4,601,657	-	201,004,932
Transaction income among segments	133,076,272	9,124,727	6,626,183	(148,827,182)	-
Business cost	154,106,727	171,316,781	10,077,001	(150,475,691)	185,024,818
Business profit	11,729,985	1,450,781	1,150,839	1,648,509	15,980,114
Total assets	189,307,380	33,638,295	18,825,258	(43,529,276)	198,241,657
Total liabilities	53,042,745	22,925,988	12,845,522	(26,550,062)	62,264,193
Complimentary information:					
Capital expenses	28,742,212	708,280	909,509	-	30,360,001
Depreciation or amortization expenses	13,977,883	293,739	389,732	-	14,661,354
Loss from asset impairment	4,595,329	420,536	88,472	789,531	5,893,868

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	181,230,900	35,559,317	28,488,021	(44,148,360)	201,129,878
Total liabilities	34,814,076	24,832,633	22,524,125	(25,859,420)	56,311,414
Complimentary information:					
Capital expenses	36,878,822	767,605	693,631	-	38,340,058
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

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Notes to the Financial Statements (Continued)

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(2) District segment

2008	Domestic market RMB thousand	International market RMB thousand	Offset RMB thousand	Total RMB thousand
External transaction income	176,462,509	24,542,423	-	201,004,932
Total assets	196,396,752	3,967,913	(2,123,008)	198,241,657

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	199,758,664	5,022,090	(3,650,876)	201,129,878

External transaction income includes:

	2008 RMB thousand	2007 RMB thousand
Investment income of Finance Co.	366,923	634,511

Items not contained in segment business income, segment assets, and segment liabilities:

Items not contained in segment business income:

	2008 RMB thousand	2007 RMB thousand
Financial expenses	2,095,741	955,052
Losses from assets impairment	5,893,868	810,452
Losses and profits from changes in fair value	(3,421)	(27,806)
Investment income (excluding Finance Co.)	(310,243)	(864,112)
Total	7,675,945	873,586

Items not contained in segment assets:

	2008 RMB thousand	2007 RMB thousand
Deferred income tax assets	1,779,480	878,127

Items not contained in segment liabilities:

	2008 RMB thousand	2007 RMB thousand
Short-term borrowings	24,104,127	20,481,129
Current portion of non-current liabilities (excluding long-term payables)	1,181,587	2,209,046
Long-term borrowings	14,201,885	16,431,947
Deferred income tax liabilities	431,658	495,344
Total	39,919,257	39,617,466

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Notes to the Financial Statements (Continued)

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8. Affiliated Party Relationships and Transactions**(1) Affiliated 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 associated 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 affiliated 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 51.083 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".

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Notes to the Financial Statements (Continued)

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(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 company
Baosteel Metal Co., Ltd. and its subsidiaries ("Baosteel Metal and its subsidiaries")	Brother company
Shanghai Baosteel Engineering & Technology Co., Ltd. and its subsidiaries ("Engineering & Technology Co. and its subsidiaries")	Brother company
Huabao Trust Co., Ltd. ("Huabao Trust")	Brother company
Baosteel Group Baoshan Hotel ("Baoshan Hotel")	Brother company
Baosteel Development Co., Ltd. and its subsidiaries ("Baosteel Development and its subsidiaries")	Brother company
Baosteel Group Shanghai No.2 Iron & Steel Co., Ltd. and its subsidiaries ("No. 2 Steel and its subsidiaries")	Brother company
Baosteel Group Shanghai No.1 Iron & Steel Co., Ltd. and its subsidiaries ("No. 1 Steel and its subsidiaries")	Brother company
Baosteel Group Shanghai Pipes Co., Ltd. ("Shanghai Pipes")	Brother company
Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries ("Meishan Steel and its subsidiaries")	Brother company
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries ("Pudong Steel and its subsidiaries")	Brother company
Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries ("No. 5 Steel and its subsidiaries")	Brother company
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries ("Xinjiang Bayi and its subsidiaries")	Brother company
Baosteel Group Resource Co. Ltd. and its subsidiaries ("Baosteel Resource and its subsidiaries")	Brother company
Beijing Huili Real Estate Development Co., Ltd. ("Huili Real Estate")	Brother company
Shanghai Baosteel Industrial Examination Co., Ltd. and its subsidiaries ("Examination Co. and its subsidiaries")	Brother company
Nanjing Baori Steel Wires Co., Ltd. ("Baori Wires")	Brother company
Shanghai Baosteel Technology & Economic Development Co., Ltd. and its subsidiaries ("Technology & Economic and its subsidiaries")	Brother company
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. ("Examination & Maintenance Co.")	Brother company
Shanghai Institute of Iron & Steel ("Institute of Iron & Steel")	Brother company
Bao-Island Enterprises Limited	Joint venture
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. ("BNA")	Joint venture
Welding Co., Ltd.	Associated company
Tianjin BCM	Associated company
Baojiang Shipping	Associated company

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Notes to the Financial Statements (Continued)

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(4) Affiliated transactions between the Group and Baosteel and its affiliated companies:

(1) Sales to affiliated parties

Affiliated party	Notes	2008 RMB thousand	2007 RMB thousand
Baosteel Group	(1)a	18,484	35,227
No. 1 Steel and its subsidiaries	(1)b	529,781	652,871
No. 2 Steel and its subsidiaries	(1)b	269,693	201,038
No. 5 Steel and its subsidiaries	(1)b	73,371	92,542
Pudong Steel and its subsidiaries	(1)b	1,282,151	1,367,082
Shanghai Pipes	(1)b	19,301	195,937
Baosteel Development and its subsidiaries	(1)b	4,604,545	3,095,932
Engineering & Technology Co. and its subsidiaries	(1)b	242,213	199,546
Baosteel Metal and its subsidiaries	(1)b	1,007,383	410,995
Baosteel-NSC/Arcelor Automotive Steel Sheets	(1)b	9,501,329	8,194,753
Meishan Steel and its subsidiaries	(1)b	1,634,856	1,380,808
Baori Wires	(1)b	180,261	123,031
Examination & Maintenance Co. and its subsidiaries	(1)b	150,966	62,431
Examination Co. and its subsidiaries	(1)b	199,989	113,603
Technology & Economic and its subsidiaries	(1)b	-	97,922
Baosteel Resources and its subsidiaries	(1)b	4,714,521	5,132,920
Welding Co.	(1)b	110,822	62,628
Tianjin BCM	(1)b	119	-
Others	(1)b	43,028	13,088
Total		24,582,813	21,432,354

(2) Sales from affiliated parties

Affiliated party	Note	2008 RMB thousand	2007 RMB thousand
No. 1 Steel and its subsidiaries	(2)a	253,508	213,916
No. 2 Steel and its subsidiaries	(2)a	4,591	15,529
No. 5 Steel and its subsidiaries	(2)a	151,521	99,079
Pudong Steel and its subsidiaries	(2)a	1,041,736	723,379
Engineering & Technology Co. and its subsidiaries	(2)a	1,072,476	863,461
Baosteel Development and its subsidiaries	(2)a	1,620,230	918,123
Baosteel Metal and its subsidiaries	(2)a	56,632	30,188
Baosteel-NSC/Arcelor Automotive Steel Sheets	(2)a	11,081,116	10,621,221
Examination Co. and its subsidiaries	(2)a	11,244	15,115
Examination & Maintenance Co.	(2)a	370,859	252,358
Shanghai Pipes	(2)a	583	4,753
Meishan Steel and its subsidiaries	(2)a	1,240,256	1,027,417
Technology & Economic and its subsidiaries	(2)a	-	105,793
Baosteel Resource and its subsidiaries	(2)a	12,648,682	5,003,974
Bao-Island Trading	(2)a	1,254,723	1,732,004
Bao-Island Enterprises	(2)a	335,046	15,940
Xinjiang Bayi and its subsidiaries	(2)a	1,698,466	-
Others	(2)a	109,588	95,158
Total		32,951,257	21,737,408

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(3) Other affiliated transactions between the Group and Baosteel and its affiliated companies:

Affiliated transactions	Notes	2008 RMB thousand	2007 RMB thousand
Transportation services provided	(3)a	81,317	273,068
Technical services provided	(3)b	82,630	32,000
Testing services provided	(3)c	4,953	37,205
Examination & maintenance fees paid	(3)d	1,655,112	1,647,420
Examination & checkout fees paid	(3)e	10,483	39,685
Research & technical support fees paid	(3)f	9,135	7,074
Processing fees paid	(3)g	286,559	393,156
Training fees paid	(3)h	33,360	23,354
Logistics services provided	(3)i	13,554	36,675
Logistics fees paid	(3)i	2,482,668	1,747,397
Transportation fees paid	(3)j	635,258	499,442
Leases paid	(3)k	131,893	152,417
Financial service income	(3)l	273,665	177,480
Financial service expense	(3)m	370,140	343,601
Interest expenses at acquisition of Phase-3 assets	(3)n	48,000	80,000
Baosteel Group (paid via Finance Co.) Interests for entrusted loans	(3)o	147,373	38,111
Engineering expenses	(3)p	819,615	678,927
Raw materials warehousing, shipping & labor services	(3)q	140,224	128,274
Equity acquisitions	(3)r	-	649,997
Equity transfers	(3)r	14,344,168	-
Equity transfers	(3)s	80,220	365,227
Equipment and subsidiary material agency income	(3)t	458	2,438

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Notes to the Financial Statements (Continued)

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Notes:

- (1) Sales of products to the related party
 - (a) In 2008, the Group mainly sold SBGC energy, raw materials and spare parts at market prices for a total amount of RMB 18,483,984 (2007: RMB 35,227,083)
 - (b) Since the Group purchased them on 1 May 2005, the Group has provided steel and iron products and byproducts for No.1 Steel, No.2 Steel, No.5 Steel, Pudong Steel, Meishan Steel, Technology and Economics, and Baosteel Development as well their subsidiaries at the market price. Since 12 July, 2006, when Baosteel Trading was founded, the Group has provided it ores at market price. In 2008, the Group sold to these subsidiaries a value of RMB 16,513,140,986 (2007: RMB13,765,885,503) of major products and byproducts and a value of RMB 6,246,751,483 (2007: RMB 6,425,299,073) 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 and associates at the market price totaled RMB677,149,696 in 2008, as compared to RMB 612,398,988 in the previous year.

The total value of spare parts the Group sold to some the SBGC subsidiaries reached RMB 1,127,286,831 in 2008, compared to RMB 593,543,085 in 2007.
- (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 their subsidiaries, as well as Examination & Maintenance; materials, such as steel and iron products and raw materials, from the BNA, Meishan Steel and its subsidiaries, Baosteel Development and its subsidiaries, Baosteel Trading and its subsidiaries, and Pudong Steel and its subsidiaries; and energies from No. 1 Steel. All purchases have been conducted at market prices.

The specific assets, spare parts, materials and energies the Group bought from the afore-mentioned companies in 2008 totaled RMB 1,345,167,325 (2007: RMB 650,752,892), RMB 1,997,801,467 (2007: RMB 594,700,635), RMB 29,358,111,972 (2007: RMB 20,310,037,379) and RMB 250,176,638 (2007: RMB 181,916,948), respectively, at market prices.
- (3) Other related party transactions
 - (a) The Group provided transportation services for Baosteel Group, BNA, Meishan Steel and its subsidiaries, Examination Co. and its subsidiaries, Baosteel Resources and its subsidiaries, and Pudong Steel and its subsidiaries based on contracted prices.
 - (b) The Group has provided the SBGC and Baosteel-NSC/Arcelor Auto Sheets 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 Co., Meishan Steel, No. 1 Steel, Meisteel, No. 5 Steel, Engineering & Technology, Baosteel Development as well as their subsidiaries 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 Co., along with their subsidiaries, has 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 Co., Meishan Steel, and Examination & Maintenance, along with their subsidiaries, provided, at negotiated prices, technical supports for the Group. Baosteel Baoshan Hotel has provided, technical research related logistics services for the Group.
 - (g) No. 5 Steel and its subsidiaries have served as a provider of spare parts processing for the Group at negotiated prices. Baosteel-NSC/Arcelor, Meishan Steel and its subsidiaries, and No.1 Steel and its subsidiaries have provided supplementary material processing for the Group at negotiated prices.

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Notes to the Financial Statements (Continued)

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- (h) Baosteel Group provided training to staff of the Group at negotiated prices.
- (i) The Group has 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 as well as their subsidiaries have 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 and its subsidiaries, No. 1 Steel and its subsidiaries, and No. 5 Steel and its subsidiaries are paid by the Group at contracted prices for transportation services.
- (k) When founded, the Company signed a twenty-year agreement with SBGC for the lease of the plant site land. In September 2001, the Company signed a further twenty-year lease agreement with SBGC 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 SBGC 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 SBGC.
The Group leased houses to such related parties as Baoshan Hotel and Baosteel Development and its subsidiaries 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 its 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 SBGC shall be paid in the last five working days of December each year from 2002 to 2009. The details are presented in (37) 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 and its subsidiaries have provided engineering design services, construction, installation and management for the Group, with service fees based on contracted rates. Baosteel Development and Meishan Steel as well as their subsidiaries 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 and its subsidiaries have provided services of pipe installation and cable laying at the contracted price.
- (q) Examination & Testing and Baosteel Development, along with their subsidiaries, provided material warehousing and transportation at negotiated prices.
- (r) The delivery price of Luoqing assets and businesses, which the Group acquired from Baosteel Group Pudong Steel on 1 April 2008, was RMB 14,344,168,401. the prices of the assets and businesses was decided in accordance with the prices represented in asset valuation reports documented in State-owned Assets Supervision and Administration Commission of the State Council (SASAC).
- (s) On 30 November 2008, the Group transferred to Baosteel Metal its share of the assets of twelve subsidiaries under the control of Baosteel International, 36% of Guangzhou Huiren's equity and 25% of Zhongyou Baoshun's equity. The total price reached RMB80,219,948 at the price which is represented in asset valuation reports documented in State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Refer to Note 6 (55) for more information.
- (t) The Group sold subsidiary materials and spare parts to Examination & Maintenance, Engineering & Technology and its subsidiaries, Baosteel Development and its subsidiaries and Examination Co. and its subsidiaries, with an agent fee of no more than 2.5%.

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Notes to the Financial Statements (Continued)

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(5) Balance of receivables and payables of related parties

Trade receivable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group	8,433	5,518
Baosteel Development and its subsidiaries	64,972	87,713
Meishan Steel and its subsidiaries	72,266	99,934
Pudong Steel and its subsidiaries	23,787	519,683
No. 5 Steel and its subsidiaries	3,989	18,487
Baosteel Resource and its subsidiaries	8,466	163,965
Engineering & Technology and its subsidiaries	105,869	42,793
Examination Co. and its subsidiaries	117,237	33,859
Examination & Maintenance Co.	30,859	18,065
BNA	728,165	490,616
Welding Co.	2,140	10,716
Tianjin BCM	16,270	15
Others	20,283	16,366
Total	1,202,736	1,507,730

Trade receivable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Development and its subsidiaries	105,452	204,375
No. 2 Steel and its subsidiary	97,674	108,850
Meishan Steel and its subsidiaries	386,790	-
No. 5 Steel and its subsidiaries	-	1,645
Baori Wires	200	28,620
Tianjin BCM	23,846	29,602
Others	2,174	-
Total	616,136	373,092

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Notes to the Financial Statements (Continued)

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Notes receivable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Development and its subsidiaries	14,831	84,433
Meishan Steel and its subsidiaries	57,435	17,873
Pudong Steel and its subsidiaries	-	36
Xinjiang Bayi Steel and its subsidiaries	148,237	56,904
Baosteel Resources and its subsidiaries	668	92,567
Engineering & Technology and its subsidiaries	511,891	287,508
Examination & Maintenance Co.	5,586	30,296
BNA	469,359	284,020
Others	4,660	40,414
Total	1,212,667	894,051

Dividend receivable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Wuxi Bigamist	-	22,046

Other receivables	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Meishan Steel and its subsidiaries	114,925	56,625
No. 5 Steel and its subsidiaries	137	1,554
Others	2,573	1,255
Total	117,635	59,434

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Notes to the Financial Statements (Continued)

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	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Loans granted and cash advances		
Baosteel Development and its subsidiaries	-	33,278
Pudong Steel and its subsidiaries	-	200,000
Xinjiang Bayi and its subsidiaries	1,000,000	-
Baosteel Resource and its subsidiaries	292,487	164,000
Baori Wires	20,000	22,000
Baosteel Metal and its subsidiaries	118,346	-
Engineering & Technology and its subsidiaries	273,185	248,000
Examination & Maintenance Co.	90,000	90,779
Welding Co.	30,000	30,000
Others	59,400	24,100
Total	1,883,418	812,157

	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Trade receivable		
Baosteel Group	9,735	4,832
Baosteel Development and its subsidiaries	423,698	244,267
No. 1 Steel and its subsidiaries	25,023	45,320
Meishan Steel and its subsidiaries	323,088	110,448
Pudong Steel and its subsidiaries	70,209	89,648
No. 5 Steel and its subsidiaries	37,830	25,726
Baosteel resources and its subsidiaries	352,316	338,554
Engineering & Technology Co. and its subsidiaries	281,347	185,465
Examination Co. and its subsidiaries	139,518	47,610
Examination & Maintenance Co.	115,160	109,012
Bao-Island Enterprises	92,236	-
BNA	146,030	273,949
Baojiang Shipping	27,581	-
Bao-Island Trading	367,387	5,506
Total	76,778	66,378
Total	2,487,936	1,546,715

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Notes to the Financial Statements (Continued)

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Advance receivables	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group	623	3,491
Baosteel Development and its subsidiaries	44,345	140,264
No. 2 Steel and its subsidiaries	12,929	32,155
No. 1 Steel and its subsidiaries	37,555	17,541
Meishan Steel and its subsidiaries	103,590	134,273
Pudong Steel and its subsidiaries	5,573	10,992
Baosteel Resources and its subsidiaries	1,124	20,098
Baosteel Metal and its subsidiaries	65,279	27,096
Tianjin BCM	12,115	13,587
Others	10,245	18,935
Total	293,378	418,432

Other payables	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group	-	52,892
Baosteel Development and its subsidiaries	2,327	15,393
No. 5 Steel and its subsidiaries	1,388	879
Baosteel resources and its subsidiaries	5,000	5,000
Engineering & Technology Co. and its subsidiaries	5,004	1,358
Institute of Steel and Iron	1,107	938
Meishan Steel and its subsidiaries	1,755	789
Others	145	137
Total	16,726	77,386

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Notes payable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Development and its subsidiaries	60,432	100,524
Xinjiang Bayi and its subsidiaries	225,598	56,000
Baosteel resources and its subsidiaries	992,747	506,486
Engineering & Technology Co. and its subsidiaries	100,795	-
BNA	158,539	444,088
Others	68,096	48,035
Total	1,606,207	1,155,133

Acceptance of current deposits and deposits from or to other financial institutions	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group	8,816,641	17,031,445
Xinjiang Bayi and its subsidiaries	4,057	311,948
Others	427,773	679,969
Total	9,248,471	18,023,362

Interests payable	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group	40,280	77,454
Xinjiang Bayi and its subsidiaries	-	3,216
Others	1,298	1,796
Total	41,578	82,466

Long-term borrowings	31 December 2008 RMB thousand	31 December 2007 RMB thousand
Baosteel Group (via Finance Co.)	3,500,000	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) and (37) for information about long-term payables to the controller.

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Notes to the Financial Statements (Continued)

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9. Contingencies

Up to the balance sheet date, the Group had 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 2008	31 December 2007
1 year and within 1 year	183,880,408.33	151,667,419.71
2 years and 1-2 years	140,307,759.42	149,158,259.87
3 years and 2-3 years	131,675,445.70	130,469,355.21
Over 3 years	1,131,675,742.00	1,257,446,474.75
Total	1,587,539,355.45	1,688,741,509.54

11. Commitments

	31 December 2008	31 December 2007
Capital commitments		
Contracted but not provided	17,368,880,532.53	17,960,912,192.96
Approved by the Board but not contracted	16,768,706,817.98	28,800,264,266.49
	34,137,587,350.51	46,761,176,459.45

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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.

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

"Foreign-exchange risk" refers to the risk of fluctuation of the fair value of the future cash flow of the financial instruments caused by the change of foreign exchange rate. 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.

The large demand of iron ores of the Group are primarily counted in dollars, which results a relatively great difference in USD balance. 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.

With the conception of controlling the target by interest rate, the comprehensive financing cost level in the repayment period was locked up at the beginning of the period. In other words, the interest expense, exchange gains/losses, and delivery gains/losses from the correspondent forward exchange trading are considered as a whole. In the lock-up period, the operation has no significant impact upon the fluctuation of the performance of the Company; however, it may have temporary influence in different periods due to re-estimations of exchange rate.

(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 assets and financial assets carried at fair value through profit or loss.

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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.

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 2008, 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(11)). 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 2008	Highest/Lowest 2008	31 December 2007	Highest/Lowest 2007
Shanghai—A share indexes of Shanghai Stock Exchange	1,912	5,771/1,793	5,521	6,395/2,744

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 the book 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
2008 Investments at following stock exchange:			
Shanghai—Investment available for sale	400,463	-	20,023
—Investment held for sale	-	-	-
2007 Investments at following stock exchange:			
Shanghai—Investment available for sale	1,384,263	-	69,213
—Investment held for sale	636,862	31,843	-

*The retained earnings was not included.

(3) Interest rate risk

"Interest rate risk" refers to the risk of fluctuation of the fair value or the future cash flow of financial instruments caused by the change of the interest rate. 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 liabilities 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 Chinese People's Bank. 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 of the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

Securities

	31 December 2008		31 December 2007	
	Transactional financial assets	Financial assets for sale	Transactional financial assets	Financial assets for sale
Within 1 year	208,183,567.20	-	986,914,949.50	-
Over 1 year	-	439,720,000.00	-	157,276,220.200

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Total	208,183,567.20	439,720,000.00	986,914,949.50	157,276,220.200
Actual rate (annual)	1%-6.28%	3.51%-5.6%	1%-4.86%	0.8%-5.65%

Other financial assets

	31 December 2008			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset
Within 1 year	-	-	-	-
Over 1 year	-	-	1,907,753,092.68	-
Total	-	-	1,907,753,092.68	-
Actual rate (annual)	-	-	4.62%-7.84%	-

	31 December 2007			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset
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%	-

Liabilities

	31 December 2008				
	Borrowings	Assets sold under agreements to repurchase	Acceptance of deposits	Bond payable	Long-term payable
Within 1 year	25,285,713,607.67	294,000,000.00	9,256,840,186.79	-	2,868,833,680.10
Over 1 year	14,201,884,772.41	-	-	7,785,029,718.21	7,544,731,994.48
Total	39,487,598,380.08	294,000,000.00	9,256,840,186.79	7,785,029,718.21	10,413,565,674.58
Actual rate (annual)	2.4%-7.2%	1.001%	0.36%-3.33%	5.62%	4%

	31 December 2007				
	Borrowings	Assets sold under agreements to repurchase	Acceptance of deposits	Bond payable	Long-term payable
Within 1 year	22,690,174,161.17	-	18,042,366,892.70	-	-
Over 1 year	16,431,946,896.94	-	-	-	-
Total	39,122,121,058.11	-	18,042,366,892.70	-	-
Actual rate (annual)	1.24%-7.38%	-	0.72%-3.87%	-	-

Financial risks**(I) 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 trades receivable, payments in advance, and loans granted and cash advances.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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The credit of each customer is reviewed and the receivables are monitored for possible risks of bad debt. 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 2008 only 29% 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, convertible bonds, 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 is determined reasonably by its cost.
- (c) The book values of all assets and liabilities approximate their fair values.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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13. Events Occurring after Balance Sheet Date

1. As approved at the seventh meeting of the Third Board of Directors held on 27 March 2009, the Board proposed a cash dividend payout of RMB1.8 per 10 shares (pre-tax) to the shareholders, with total of dividend payable of RMB 3,152,160,000.00. The proposal has been submitted to the 2008 General Shareholders' Meeting for approval.
2. The first interim meeting of the Board of Directors held on 2 March 2009 decided that the Company would register at the association for interbank transactions RMB 10 billion worth of medium-term note and RMB 10 billion worth of short-term note. The debts would be sold at the nation's interbank market once or more in full or partial amount within the period when they are valid.

The medium-term note would have a maturity of up to seven years and the short-term no more than one year. The interest rates of the debts would be dependent on the credit rate of the Company and the market supply for funds, but would not be higher than the prime rate as stipulated by the central bank. The debts would be for institutional investors in the country only. The funds raised from the medium-term note would be used for, but not limited to, replenishing its working capital, repaying bank loans and investment in fund fixed-assets, while the money from the short-term debt would go to its working capital and payment of bank loans.

14. Other Significant Matters

As on the day of balance sheet, no other significant matters need to be disclosed.

15. Comparative Data

Some comparative data are re-presented to meet the requirements of the year's presentation.

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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16. Notes to Financial Statements**(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 2008	31 December 2007
Within 1 year	5,866,218,889.01	6,324,347,473.11
1-2 years	9,516,578.82	1,513,911.63
2-3 years	-	3,969,676.83
more than 3 years	81,414,153.06	82,117,057.05
	5,957,149,620.89	6,411,948,118.62
Less: bad debt provision for notes receivable	368,314,691.55	401,170,410.29
Total	5,588,834,929.34	6,010,777,708.33

	31 December 2008			31 December 2007		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	3,543,956,827.81	59%	249,157,626.34	2,523,953,598.30	39%	202,725,141.27
Receivable with insignificant single amounts but with considerable credit risk features in combination	2,413,192,793.08	41%	119,157,065.21	3,887,994,520.32	61%	198,445,269.02
	5,957,149,620.89	100%	368,314,691.55	6,411,948,118.62	100%	401,170,410.29

Change in bad debt provision for receivables:

	31 December 2008	31 December 2007
Opening balance	401,170,410.29	313,745,009.85
Provision for the year	4,868,263.86	117,047,348.12
Reversal for the year	(37,668,875.96)	(27,214,525.90)
Bad debt writing-off for the year	(55,106.64)	(6,162,478.39)
Transfer-out for re-operation of Baosteel Chemical	-	(1,322,383.26)
Transfer-in due to acquisition of assets	-	5,077,439.87
Total	368,314,691.55	401,170,410.29

	31 December 2008	31 December 2007
Total of top five debts	3,468,209,685.76	2,443,398,375.82
Ratio against total receivable	58%	38%
Debt duration	Within 1 year	Within 1 year

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(2) Other receivables

Ages of other notes receivable:

	31 December 2008	31 December 2007
Within 1 year	49,491,210.46	125,990,978.50
1-2 years	78,770,978.69	13,230.53
2-3 years	-	-
More than 3 years	-	-
	128,262,189.15	126,004,209.03
Less: bad debt provision for notes receivable	3,470,493.32	3,980,689.37
Total	124,791,695.83	122,023,519.66

	31 December 2008			31 December 2007		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	103,025,652.55	80%	1,159,522.92	110,845,845.30	88%	3,283,542.27
Receivable with insignificant single amounts but with considerable credit risk features in combination	25,236,536.60	20%	2,310,970.40	15,158,363.73	12%	697,147.10
	128,262,189.15	100%	3,470,493.32	126,004,209.03	100%	3,980,689.37

Change in bad debt provision for other receivables:

	31 December 2008	31 December 2007
Opening balance	3,980,689.37	4,687,182.08
Provision for the year	2,081,902.51	101,701.68
Amount recovered of written-off bad debt	(2,591,312.77)	(727,831.57)
Bad debt writing-off for the year	(785.79)	-
Transfer-out for re-operation of Baosteel Chemical	-	(80,362.82)
Total	3,470,493.32	3,980,689.37

	31 December 2008	31 December 2007
Total of top five debts	103,025,652.55	110,845,845.30
Ratio against total receivable	80%	88%
Debt duration	Within 2 years	Within 1 year

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(3) Long-term equity investment

	31 December 2007	Increase of year	Decrease of year	Including: cash dividend received	31 December 2008
Cost method	21,836,171,275.70	-	(287,938,884.56)	(285,113,194.07)	21,548,232,391.14
Equity method	2,116,030,201.05	292,888,633.93	(43,522,673.84)	(43,522,673.84)	2,365,396,161.14
	23,952,201,476.75	292,888,633.93	(331,461,558.40)		23,913,628,552.28
Less: Impairment provisions for long-term equity invest- ment	-				-
	23,952,201,476.75				23,913,628,552.28

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

Invested entity	Percentage of equity (%)	31 December 2008	31 December 2007	Dividend received
Yantao Lubao	79.82	361,404,905.16	430,503,007.28	69,098,102.12
Huangshi Coating & Galvanizing	39.37	40,658,477.39	41,980,867.66	1,968,500.00
Baosteel International Trading	100	6,013,886,552.67	6,013,886,552.67	-
Meishan Steel	74.01	7,438,982,988.14	7,502,257,988.14	63,275,000.00
Ningbo Baoxin	54	1,199,965,377.57	1,199,965,377.57	-
Baosight Software	55.5	275,664,363.08	297,497,773.58	21,833,410.50
Baosteel America	100	187,562,180.98	187,562,180.98	-
Howa Trading	100	221,975,780.12	221,975,780.12	-
Baosteel Europe	100	328,631,981.58	328,631,981.58	-
Baosteel Singapore	100	154,883,364.09	154,883,364.09	-
Bao-Island Enterprise	100	97,117,732.14	97,117,732.14	-
Bao Brazil Trading	100	728,647.73	728,647.73	-
No.5 Steel Gas	94.5	120,755,597.59	120,755,597.59	-
Special Metal	100	50,000,000.00	50,000,000.00	5,002,028.64
Baosteel Chemical	100	3,006,227,819.74	3,006,227,819.74	173,062,971.77
Finance Co.	62.1	568,270,003.65	697,854,294.83	129,584,291.18
Baoyin Tubes	65	130,000,000.00	130,000,000.00	-
Yantai Tubes	80	640,000,000.00	640,000,000.00	-
Nantong Steel	92.5	518,520,310.51	518,520,310.51	-
Total		21,355,236,082.14	21,640,349,276.21	463,824,304.21

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

RMB

(ii) Other long-term equity investments in subsidiaries measured on basis of cost method

Invested entity		Percentage of equity (%)	31 December 2008	31 December 2007	Dividend received
Baovale Mining Co., Ltd.	Note 1	50	103,282,213.00	103,282,213.00	19,849,536.00
Shanghai Luojing Mining Port Co., Ltd.		12	88,734,096.00	88,734,096.00	-
Anhui Wanbao		8	-	2,825,690.49	-
Others			980,000.00	980,000.00	21,000.00
Total			192,996,309.00	195,821,999.49	19,870,536.00

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

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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(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)/ Transfer-out due to disposal	Investment cost 31 December 2008
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 2008
STAL Precision	50 years	40%	122,004,541.93	129,452,880.00	-	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 hot-dipgalvanized sheets	RMB	3,000,000	50%	50%
Bao-Island Enterprises	Hong Kong	Ship chartering shipping agency	HKD	3,300	50%	50%
Associates						
STAL Precision	Shanghai	Production, processing & sales of precision stainless steel strips	USD	96,560	40%	40%
		As at end of 2008 Total assets RMB thousand	As at end of 2008 Total liabilities RMB thousand	2008 Annual business revenue RMB thousand	2008 Annual net profit RMB thousand	
Joint ventures		6,033,926	1,974,468	12,232,598	449,802	
Associates		1,218,498	115,187	1,002,515	135,477	

(4) Business revenue and business cost

Business revenue

	2008	2007
Revenue from principal businesses	149,895,884,030.27	135,834,025,384.28
Revenue from other businesses	633,219,350.69	526,335,539.47
Total	150,529,103,380.96	136,360,360,923.75

Revenue and cost from principal businesses:

	2008		2007	
	Revenue	Cost	Revenue	Cost
Sales of goods	149,895,884,030.27	133,491,131,075.71	135,834,025,384.28	115,526,426,143.81
Total revenue from top five customers	75,747,694,228.67		80,086,278,662.80	
Ratio in total business revenue	50.32%		58.73%	

Baoshan Iron & Steel Co., Ltd.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2008

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Adjustment of equity					Investment in joint ventures 31 December 2008
Increase/ (decrease) in the year	Cash dividend received	Total increase/(decrease) 31 December 2008	Investment preparation		
			Increase/(decrease) in the year/Transfer-out due to disposal	Total increase/(decrease)	
144,026,124.52	(43,522,673.84)	20,050,677.28	-	(3,027,142.34)	1,517,023,534.94
114,770,020.50	-	308,125,474.65	(20,099,315.00)	(44,161,334.45)	407,048,272.20
258,796,145.02	(43,522,673.84)	328,176,151.93	(20,099,315.00)	(47,188,476.79)	1,924,071,807.14

Adjustment of equity						Investment in associates 31 December 2008
Increase/ (decrease) in the year	Cash dividend received	Total increase/(decrease) 31 December 2008	Investment preparation			
			Increase/(decrease) in the year/Transfer-out due to disposal	Total increase/(decrease)		
54,190,639.40	-	189,829,771.65	1,164.51	37,160.42	441,324,354.00	

(5) Investment gains

	2008	2007
Loss from derivative instruments in risk prevention	(114,507,444.75)	(173,451,233.37)
Recognized net profit and loss from joint ventures and associates	312,986,784.42	485,771,396.72
Profit and loss from transfer of equities	903,591.57	76,771,256.35
Income from equity investments	198,581,646.14	21,835,208.50
Total	397,964,577.38	410,926,628.20

(6) Bank credit-granting quota

As at 31 December 2008, the remaining bank credit-granting quota of the Company was RMB 73.535 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 27 March 2009. In accordance with the charter of the Company, they will be submitted to shareholders' meeting for approval.

Baoshan Iron & Steel Co., Ltd.

Complementary Data for Financial Statements

For the Year Ended 31 December 2008

RMB

1. ROE and EPS

2008	ROE		EPS (RMB)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	7.02%	6.99%	0.37	Note
Net profit attributable to ordinary shareholders of the Company excluding non-recurring	7.57%	7.53%	0.40	Note

Note: The Company issued RMB 10 billion worth of convertible bonds with attached warrants with a duration of six years from June 20, 2008. The inquiry coupon rate was 0.8% and subscribers received 16 call warrants for every bond taken up, with the option price set at RMB 12.5 per share and a n expiry period of 24 months. At the date of the balance sheet, the A-share of the Company was lower than the price of the warrant; its diluted potential was not considered.

As the Company owned no potential ordinary shares that likely possess dilution in the subsequent periods in 2008 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

	2008 RMB thousand	2007 RMB thousand
Net profit attributable to ordinary shareholders of the Company	6,459,207	12,718,334
Add/(Less) non-recurring profit and loss		
Loss from disposal of non-current assets	312,293	166,310
Profit and loss from balance between combination cost and fair value of identifiable net assets obtained from acquires	-	(660)
Net profit and loss of subsidiaries from combinations under same control from beginning of year to date of combination	390,191	(16,652)
Government subsidies	(221,671)	(145,092)
Net income from other non-operating activities	47,568	39,362
Reversal of welfare fees payable	-	(323,661)
Income tax impact of non-recurring items	(29,280)	106,858
Net profit attributable to ordinary shareholders of the Company excluding non-recurring profit and loss	6,958,308	12,544,799

As day-to-day activities of the Finance Co. are financial in nature, the company's transactional financial assets, profit and loss from changes in fair value transactional financial liabilities, and investment income from disposals of transactional financial assets, transactional financial liabilities and available-for-sale financial assets were not included in the non-recurring gains and losses.

Non-recurring items were recognized by the Group in accordance with "Explanatory Notice on Information Disclosure of Companies Issuing Public Securities No. 1—Non-recurring Gains and Losses" by CSRC ([2008] No.43).

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements

For the Year Ended 31 December 2008

RMB

1. Notes to Pro-forma Financial Statements

The Company acquired Luojing assets and its relative businesses from Baosteel Group Pudong Steel on 1 April 2008 to establish the branch of medium and heavy plates. The acquisition is recognized as business operation under the same control, which should be dealt with using the standards of business combinations under the same control in accordance with the new Accounting Standards for Business Enterprises (2006). The assets and businesses are considered to be what they are when the combining party obtains them, and the previous comparative financial statements are adjusted accordingly.

The attached pro-forma financial statements of the branch of medium and heavy plates from the combining date, 1 April 2008, were prepared for the user's reference.

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

2. Pro-forma Consolidated Balance Sheet

Assets	31 December 2008	31 December 2007
CURRENT ASSETS		
Monetary funds	6,851,604,374.54	11,240,041,072.36
Funds lent to other financial institutions	-	42,366,680.00
Trading financial assets	1,141,165,158.85	1,637,805,977.77
Notes receivable	4,501,112,144.38	5,656,985,157.79
Trade receivables	5,269,190,881.79	6,311,642,149.53
Payment in advance	4,600,807,313.48	6,003,758,547.07
Interests receivable	14,759,478.14	18,236,632.06
Dividends receivable	-	22,045,889.41
Other receivables	736,214,627.64	866,340,183.83
Buying financial securities and return sale	-	5,755,900,000.00
Inventories	35,644,590,875.74	39,068,728,055.69
Total current assets	58,759,444,854.56	76,623,850,345.51
NON-CURRENT ASSETS		
Loans granted and cash advances	1,907,753,092.68	816,552,762.97
Available-for-sale financial assets	860,182,984.66	1,598,061,926.01
Long-term equity investment	3,849,504,621.27	3,754,348,861.50
Investment real estates	136,754,792.01	135,688,714.39
Fixed assets	109,187,870,660.63	81,551,754,350.99
Construction-in-progress	16,275,909,358.26	16,373,360,851.23
Project materials	1,114,501,067.25	754,629,512.45
Intangible assets	5,964,551,561.91	5,626,751,807.39
Long-term deferred expenses	57,723,308.83	95,353,256.42
Deferred income tax assets	1,779,480,353.48	878,126,575.62
Other non-current assets	127,460,272.60	127,316,292.44
Total non-current assets	141,261,692,073.58	111,711,944,911.41
TOTAL ASSETS	200,021,136,928.14	188,335,795,256.92

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

Liabilities & Shareholders' Equity	31 December 2008	31 December 2007
CURRENT LIABILITIES		
Short-term borrowings	24,104,126,921.47	20,481,128,544.17
Financial institution deposits and deposits from or to other financial institutions	9,256,840,186.79	18,042,366,892.70
Transaction liabilities	11,500,444.73	174,951,938.47
Assets sold under agreements to repurchase	294,000,000.00	-
Notes-payable	4,251,242,725.68	3,341,058,247.89
Trade payables	18,621,675,643.72	17,175,498,091.38
Receipts in advance	9,219,197,161.95	9,337,924,203.53
Accrued payroll	1,716,327,357.44	1,691,758,498.54
Taxes payable	(1,799,441,237.31)	1,064,638,899.65
Interests payable	355,730,320.99	510,345,030.65
Dividends payable	19,951,672.62	4,553,376.33
Other payables	1,140,848,514.14	1,051,898,821.40
Current portion of non-current liabilities	4,050,420,366.30	2,209,045,617.00
Current portion of long-term amount due to holding company	800,000,000.00	800,000,000.00
Total current liabilities	72,042,420,078.52	75,885,168,161.71
NON-CURRENT LIABILITIES		
Long-term borrowings	14,201,884,772.41	16,431,946,896.94
Bond payable	7,785,029,718.21	-
Long-term payables	7,544,731,994.48	-
Special payables	18,878,920.71	25,434,461.51
Deferred income tax liabilities	431,657,612.06	495,343,584.26
Long-term amount due to holding company	-	800,000,000.00
Other non-current liabilities	158,846,453.73	96,907,084.32
Total non-current liabilities	30,141,029,471.60	17,849,632,027.03
Total liabilities	102,183,449,550.12	93,734,800,188.74
SHAREHOLDERS' EQUITY		
Capital stock	17,512,000,000.00	17,512,000,000.00
Capital reserves	36,416,501,710.65	33,645,805,604.77
Surplus reserves	16,812,395,927.36	15,796,900,214.28
Undistributed profits	21,325,492,889.28	21,620,790,256.82
Foreign currency translation difference	(109,520,780.55)	(71,485,650.92)
Equity attributable to the parent company	91,956,869,746.74	88,504,010,424.95
Minority interest	5,880,817,631.28	6,096,984,643.23
Total shareholders' equity	97,837,687,378.02	94,600,995,068.18
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY	200,021,136,928.14	188,335,795,256.92

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

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Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

3. Pro-forma Consolidated Profit Statement

	2008	2007
I. TOTAL OPERATING REVENUE	200,851,172,575.39	191,558,985,997.61
Including: Business income	200,544,937,829.95	191,273,493,516.61
Interest income	296,748,673.20	272,216,481.14
Income from service fees and commissions	9,486,072.24	13,275,999.86
II. TOTAL OPERATING EXPENSES	192,707,335,948.17	173,607,686,315.52
Including: Business costs	175,643,255,163.58	162,925,588,046.09
Interest expenses	382,883,449.36	426,164,477.85
Expenses on service fees and commissions	105,218.50	143,141.78
Sales taxes and surcharges	1,219,135,766.64	1,252,360,572.93
Sales expenses	1,842,402,833.90	2,018,370,031.33
Administrative expenses	5,629,944,246.37	5,219,556,715.76
Financial expenses	2,095,741,117.57	955,051,610.43
Losses on the asset impairment	5,893,868,152.25	810,451,719.35
Add: Net income from changes in fair value	3,420,990.63	27,806,423.93
Investment gains	677,165,950.60	1,498,622,922.28
Including: Gains from Investments in joint ventures and associated entities	247,174,823.63	722,759,370.10
III. TOTAL OPERATING PROFIT	8,824,423,568.45	19,477,729,028.30
Add: Non-operating income	472,477,453.45	256,576,766.74
Less: Non-operating expenses	622,280,870.69	426,618,394.66
Including: Losses on disposal of non-current assets	323,906,661.47	275,771,644.00
IV. PRE-TAX PROFIT	8,674,620,151.21	19,307,687,400.38
Less: income tax expenses	1,683,336,145.97	5,885,057,652.19
V. NET PROFIT	6,991,284,005.24	13,422,629,748.19
Net profit attributable to the parent company	6,849,398,345.54	12,718,334,521.04
Including: Net profit of merged parties before combination under the same control	-	16,652,325.54
Profits and losses attributable to the minority shareholders	141,885,659.70	704,295,227.15
Including: Net profit of merged parties before combination under the same control	-	1,350,188.56
	6,991,284,005.24	13,422,629,748.19
Basic EPS	0.39	0.73

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

4. Pro-forma Consolidated Statement of Changes in Shareholders' Equity

	Capital stock	Capital reserve
I. Closing balance of last year	17,512,000,000.00	33,645,805,604.77
II. Amount of increase or decrease in the year		
(1) Net profit	-	-
(2) Profit and loss recorded into shareholders' interests		
1. Net change in fair value of financial asset available for sale	-	(877,129,907.87)
2. Impact of changes in other owner's interests in invested entities on basis of equity method	-	(19,941,455.10)
3. Income tax impact of items related those recorded in owner's equity	-	234,437,273.03
4. Foreign currency translation difference	-	-
5. Business combination under same control	-	891,661,687.21
6. Issuing convertible corporate bonds	-	2,332,472,977.02
7. Others	-	209,195,531.59
Total of (1) and (2)	-	2,770,696,105.88
(3) Capital investment and reduction from shareholders		
1. Capital investment from minority shareholders in subsidiaries	-	-
2. Acquisition of equity from minority shareholders in subsidiaries	-	-
3. Decrease due to disposal of subsidiaries	-	-
(4) Profit distribution		
1. Surplus reserve provision	-	-
2. Distribution to shareholders	-	-
3. Minority shareholders' equity	-	-
III. Closing balance of the year	17,512,000,000.00	36,416,501,710.65

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

2008					
Shareholder's interests attributable to parent company		Difference in foreign currency exchange translation	Sub-total	Minority shareholder's interests	Total of Shareholder's equity
Earnings reserve	Undistributed profit				
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
-	6,849,398,345.54	-	6,849,398,345.54	141,885,659.70	6,991,284,005.24
-	-	-	(877,129,907.87)	(52,266,259.86)	(929,396,167.73)
-	-	-	(19,941,455.10)	-	(19,941,455.10)
-	-	-	234,437,273.03	13,066,564.96	247,503,837.99
-	-	(38,035,129.63)	(38,035,129.63)	(14,576,764.50)	(52,611,894.13)
-	-	-	891,661,687.21	-	891,661,687.21
-	-	-	2,332,472,977.02	-	2,332,472,977.02
-	-	-	209,195,531.59	2,938,120.58	212,133,652.17
-	6,849,398,345.54	(38,035,129.63)	9,582,059,321.79	91,047,320.88	9,673,106,642.67
-	-	-	-	26,829,500.00	26,829,500.00
-	-	-	-	(21,684,391.12)	(21,684,391.12)
-	-	-	-	(108,659,086.86)	(108,659,086.86)
1,015,495,713.08	(1,015,495,713.08)	-	-	-	-
-	(6,129,200,000.00)	-	(6,129,200,000.00)	-	(6,129,200,000.00)
-	-	-	-	(203,700,354.85)	(203,700,354.85)
16,812,395,927.36	21,325,492,889.28	(109,520,780.55)	91,956,869,746.74	5,880,817,631.28	97,837,687,378.02

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

5. Pro-forma Consolidated Cash Flow Statement

	2008	2007
I. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	233,507,634,099.49	221,132,605,707.76
Net decrease in deposit reserves in central bank and deposits from or to other financial institutions	600,630,944.13	105,916,195.68
Cash received from interests, service fees, and commissions	309,711,899.36	267,255,848.94
Net increase in deposits from customers and from or to financial institutions	42,366,680.00	-
Net increase in assets sold under agreements to repurchase	294,000,000.00	-
Tax refunds received	156,672,452.35	334,164,946.54
Cash received relating to other operating activities	582,355,390.71	431,057,594.63
Sub-total of cash inflows	235,493,371,466.04	222,271,000,293.55
Cash paid for goods purchased and labor services received	180,827,672,652.00	172,416,812,552.23
Net increase in customer loans and cash advances	1,093,720,329.71	87,532,229.26
Net increase funds lent to other financial institutions	-	42,366,680.00
Net decrease in deposits from customers and from or to financial institutions	8,785,526,705.91	2,162,624,003.88
Cash paid for interests, service fees, and commissions	423,921,860.02	441,476,104.34
Cash paid to employees and for employees	7,077,344,584.49	6,542,014,647.13
Payments of all types of taxes	15,565,411,926.57	16,030,130,817.27
Cash payments relating to other operating activities	5,166,993,380.24	5,041,790,518.08
Sub-total of cash outflows	218,940,591,438.94	202,764,747,552.19
Net cash flows from operating activities	16,552,780,027.10	19,506,252,741.36
II. CASH FLOWS ARISING FROM INVESTING ACTIVITIES		
Cash received from returns of investments	121,880,721.67	9,492,416.51
Cash received from returns on investments	448,927,507.73	1,105,264,416.17
Net cash received from the disposal of fixed assets, intangible assets and other long term assets	133,985,615.50	160,480,098.94
Net cash received from the disposal of financial assets	1,287,909,899.41	503,157,590.99
Net cash and cash equivalents received from the disposal of subsidiaries	33,757,281.92	-
Other cash received relating to investing activities	157,140,673.12	80,932,430.68
Sub-total of cash inflows	2,183,601,699.35	1,859,326,953.29
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	25,712,162,800.55	23,054,005,901.81
Cash paid for investments	237,410,774.86	463,024,289.51
Cash paid to purchase Luojing assets	2,868,833,680.10	-
Net decrease in cash and cash equivalents from merging of subsidiaries	-	443,163,102.55
Net decrease in cash and cash equivalents from disposal of subsidiaries	-	39,823,372.97
Other cash payments relating to investing activities	192,103,653.09	168,679,540.89
Sub-total of cash outflows	29,010,510,908.60	24,168,696,207.73
Net cash flows from investing activities	(26,826,909,209.25)	(22,309,369,254.44)

Baoshan Iron & Steel Co., Ltd.

Pro-forma Financial Statements (continued)

For the Year Ended 31 December 2008

RMB

	2008	2007
III. CASH FLOWS ARISING FROM FINANCING ACTIVITIES		
Cash received by absorbing investments	26,829,500.00	204,075,513.55
Including: Cash received by subsidiaries by absorbing minority shareholders' investments	26,829,500.00	204,075,513.55
Cash received from debts	85,514,351,938.95	73,441,550,096.28
Cash received from convertible corporate bonds	9,940,000,000.00	-
Sub-total of cash inflows	95,481,181,438.95	73,645,625,609.83
Cash paid for repayments of debts	83,810,200,957.57	62,545,011,872.06
Cash paid for distribution of dividends or profits, or cash payments for interests	9,251,262,206.81	8,064,392,714.41
Including: Dividends subsidiaries paid to minority shareholders	187,046,913.16	146,466,115.47
Cash paid for assets of Phase-3 and acquisition of parts of assets under custody	800,000,000.00	1,400,000,000.00
Sub-total of cash outflows	93,861,463,164.38	72,009,404,586.47
Net cash flows from financing activities	1,619,718,274.57	1,636,221,023.36
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(182,513,361.33)	95,151,701.76
V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(8,836,924,268.91)	(1,071,743,787.96)
Add: Cash and cash equivalents at beginning of period	15,109,489,268.58	16,181,233,056.54
VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	6,272,564,999.67	15,109,489,268.58

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.

27 March 2009

Appendix I

Procedures for Work of Auditing Committee of Board of Directors of Baosteel with Regard to Annual Reports

Provision I. These rules of procedures with regard to annual reports is worked out in accordance with the provisions stipulated in Circular on Properly Handling the 2007 Annual Reports of Listed Companies and the Related Work, the No. 235 document issued by China Securities Regulatory Commission in 2007, Corporate Charter, and Rules of Procedure for the Auditing Committee of the Board of Directors.

Provision II. The auditing committee shall be responsible for negotiation with the accounting firm responsible for auditing the Company's annual reports for the arrangement of time of this year's financial report auditing.

Provision III. The director of the auditing commission should, on behalf of the auditing committee, supervise and urge the accounting firm to submit the audit report within the agreed time limit and record in written form the mode, times, and result of the supervision and urge and the signature(s) of the person(s) in charge.

Provision IV. The auditing committee should examine the financial accounting statement compiled by the Company and form written advice before the registered account starts the annual auditing, negotiate effectively with the account after the auditing is started, and reexamine the Company's financial accounting statement after the account produces a preliminary advice of auditing and form written advice.

Provision V. The auditing committee should audit the annual financial accounting statement and produce minutes of meeting, which will be submitted to the board of directors. Meanwhile, it should submit to the board of directors the summary report produced by the accounting firm responsible for this year's auditing and the proposal about re-employing or changing the accounting firm for the next year.

Provision VI. For what is not covered in the rules, they shall be dealt with according to the relevant laws and regulations and Corporate Charter. In case the rules contradict with the laws and regulations issued later by China or with the future legally revised Corporate Charter, the relevant laws and regulations and the revised Corporate Charter shall prevail.

The rules of procedures shall be implemented from the day they are examined and passed by the board of directors. The Company reserves the right of their interpretation.

Appendix II

Self-Evaluation Report on the Internal Control by the Board of Directors of Baosteel

The Board of Directors and the Board of Supervisors of the Company, along with their directors, supervisors and senior management, hereby guarantee that the self-evaluation report is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of its contents.

The Company's board of directors and management are duty-bound to establish and improve internal control and effectively carry it out. By implementing internal control, the Company aims to ensure the legality of its operation and management, the safety of its assets, and the authenticity and completeness of its financial reports and other relevant information, increase the efficiency and result of management, and help itself to achieve its development strategy.

As internal control has its innate limitation, it can only ensure the realization of the above-mentioned goals. Moreover, the effectiveness of internal control may also change with the change of the internal and external environments of the Company and the Company's management. Instituted with a check and monitoring mechanism, the Company shall adopt measures of improvement the moment a drawback occurs in internal control.

In establishing and implementing the system of internal control, the Company has taken into account the following basic factors: internal environment, risk evaluation, control activities, information and communication, and internal monitoring.

The board of directors of the Company has conducted self-evaluation on the internal control of all the factors mentioned above and, from January 1 to the date of this report, it has not found any serious drawbacks in the design and implementation of internal control.

The board of directors of the Company considers that from January 1 to the date of this report, the Company has established an appropriate internal control system for all the major aspects and the system has been effectively implemented.

The present report was approved at the 17th session of the 3rd board meeting on March 27, 2009. The board of directors and all its directors assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of its contents.

The Company employs Anyong Huaming Accounting Firm for the examination and evaluation of its internal control, which considers that the account on internal control made in the self-evaluation report by the Company on December 31, 2008, and the internal control related to the financial statements effectively maintain the internal control standard stipulated in Inner Accountancy Controlling Norms – Basic Norms (for Trial Implementation) issued by the Ministry of Finance in all important aspects.

Board of Directors

Baoshan Iron & Steel Co., Ltd.

March 27, 2009

Appendix

Auditors' Review Report to Internal Control

Ernst & Young Hua Ming (2009) 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 of prepared by the Board of Directors of the Company. In accordance with the regulations as specified in Internal Accounting Control Criteria - Guaranty (for Trial Implementation) by the Ministry of Finance of China, the Company evaluated the efficiency of the establishment and practice of its own internal control related to its financial statements as at 31 December 2008. 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 its effectiveness in the future.

In our opinion, as at 31 December 2008 the internal control related to its financial statements as stated in the aforementioned 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 - Guaranty (for Trial Implementation) by the Ministry of Finance.

Ernst & Young Hua Ming

Beijing, P. R. China

Certified Public Accountants

Registered in P.R.China

Yang Jun
Gu Xiaogang

27 March 2009

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