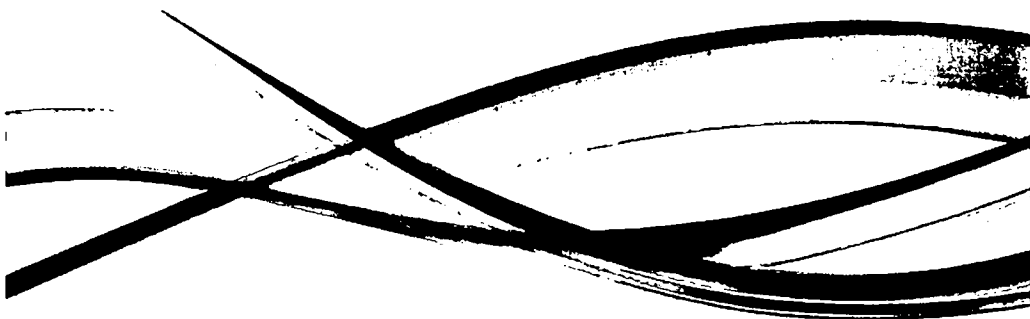




中国2010年上海世博会全球合作伙伴  
Global Partner of Expo 2010 Shanghai China

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## 2009 Annual Report

BAOSHAN IRON & STEEL CO., LTD.



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## To Our Investors

2009 is an extremely uncommon year.

In face of the "once-in-a-century" financial crisis, the drastically changing circumstances and the volatile market, Baosteel people are united as one to turn pressure into driving power and challenges into opportunities by emphasizing product management, launching all-around cost improvement activities and implementing managerial reforms. As a result, the operating tasks for year 2009 were fully accomplished: the sales of steel products totaled 22.429 million tons, the business income reached RMB 148.53 billion and the pre-tax profit reached RMB 7.29 billion, achieving the best performance among domestic peers.

The crisis in 2009 testifies that our team is a valiant team capable of addressing various difficulties and challenges; the crisis also sharpens our competitive edge and enhances our confidence to do better.

Due to the government stimulative policies, China's economy rallied strongly in 2009 and the annual GDP grew by 8.7%. In 2010, China will continue to implement a proactive fiscal policy and moderately easy monetary policy. FAI and consumption will still maintain a relatively high level of growth, and therefore the steel demand and the steel industry are expected to maintain a lower but steady growth.

Bolstered by the warming up of global economy and the favorable domestic consumption momentum, the main downstream industries of the Company such as automobile, home appliance, machinery and infrastructure, etc. will still maintain certain demand growth in 2010.

But in terms of cost, the costs of raw material and fuel including iron ore, coke and coal will also tend to rise and constitute remarkable pressure to the Company's profitability. Now the three major international iron ore suppliers have reached the quarterly ore prices of enormous hike with the Japanese and Korean steelmakers, therefore the steel mills are confronted with more uncertainty in raw material cost control. To construct a benign and sustainable steel supply chain has become a formidable challenge for global steelmakers including the Company.

2010 will still be a challenging year with the complicated macro-economic situations and the intensively competitive steel market. Baoshan Iron & Steel Co., Ltd. will maintain and sharpen the existing competitive edges, respond rapidly to the changes in customer's demands, strengthen the interaction of supply, production and sales, optimize the internal process, improve the organizational operating efficiency and strive to continue the best performance among domestic peers.



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 *2009 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*.

Nine of the ten directors attended the board meeting. While Wu Yaowen was absent from the board meeting due to occupation of other work, Chairman Xu Lejiang was entrusted, by Mr. Wu himself, to vote on his behalf.

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

No capital was found in the Company to be occupied by the controlling shareholder and its related parties.

No guarantee was found in the Company to be provided in manner that is against the stipulated decision-making procedures.

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## I. Company Profile

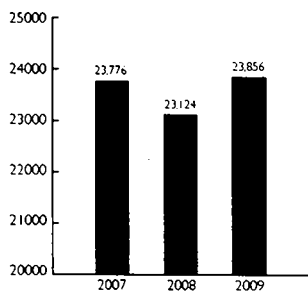
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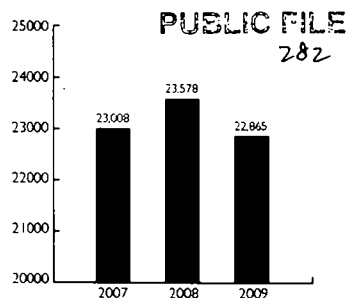
- 1 Chinese Name: 宝山钢铁股份有限公司  
Chinese Abbreviation: 宝钢股份  
English Name: Baoshan Iron & Steel Co., Ltd.  
English Abbreviation: Baosteel
- 2 Legal Representative: Xu Lejiang
- 3 Secretary to Board of Directors: Chen Ying  
Representative of Securities Affairs: Yu Hong  
Address: Board of Directors' Office, Baosteel Administrative Center, 885 Fujin Rd. Baoshan District, Shanghai  
Zip Code: 201900  
Telephone: 86-21-26647000  
Fax: 86-21-26646999  
Email: ir@baosteel.com
- 4 Registered Address: South Building, 1813 Mudanjiang Road, Baoshan District, Shanghai  
Zip Code: 201900  
Office Address: Baosteel Command Center, 885 Fujin Rd. Baoshan District, Shanghai  
Zip Code: 201900  
Official Website: <http://www.baosteel.com>  
Email Address: ir@baosteel.com
- 5 Company Announcements or Disclosures published in *China Securities News*, *Shanghai Securities News*, and *Securities Times*  
Annual Report Website: <http://www.sse.com.cn>  
Copies of the Report can be obtained by mail from Board of Directors' Office, Baosteel Administrative Center 885 Fujin Rd. Baoshan District, Shanghai
- 6 Stock Listed at: Shanghai Stock Exchange  
Stock Name: 宝钢股份  
Stock Code: 600019
- 7 Date of incorporation: 3 February 2000  
Place of Incorporation: Guoyuan, Fujin Road, Baoshan District, Shanghai  
Change of Registration: 22 June 2009  
Previous address: South Building, 1813 Mudanjiang Road, Baoshan District, Shanghai  
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  
Other changes in registration were made on 30 November 2000, 11 May 2005, 1 September 2005, 1 June 2006, 23 April 2007, 18 January 2008, and 22 June 2009.



## II. Accounting and Financial Highlights



Crude Steel Production (thousand tons)



Steel Products Production (thousand tons)

	(thousand tons)		
	2007	2008	2009
<b>Production</b>			
Crude steel	23,776	23,124	23,856
Steel products	23,008	23,578	22,865
<b>Sales</b>			
Steel products	22,600	22,813	22,429

### (I) Major Financial Data

	(RMB million)
<b>Item</b>	<b>Amount</b>
Operating profits	7,254
Pre-tax profit	7,295
Net profit attributable to shareholders of listed company	5,816
Net profit attributable to shareholders of listed company less non-recurring gains and losses	5,465
Net cash flow from operating activities	23,993

#### Non-recurring gains and losses

	(RMB million)
<b>Item</b>	<b>Amount</b>
Loss from disposal of non-current assets	-342
Investment income from disposal of financial assets available for sale	428
Net increase from other non-operating activities	383
Impact from income taxes	-117
Total of non-recurring gains and losses	351



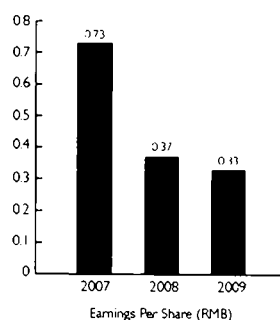
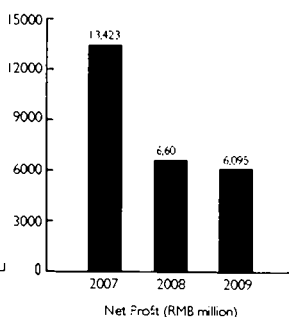
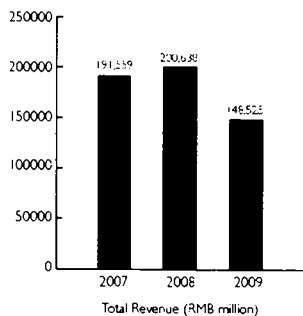
## II. Accounting and Financial Highlights

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

(RMB million)				
Item	2009	2008	Increase (%)	2007
Total revenue	148,525	200,638	-25.97	191,559
Business revenue	148,326	200,332	-25.96	191,273
Pre-tax profit	7,295	8,154	-10.54	19,308
Net profit attributable to shareholders of listed company	5,816	6,459	-9.95	12,718
Net profit attributable to shareholders of listed company less non-recurring gains and losses	5,465	6,958	-21.46	12,545
Net cash flow from operating activities	23,993	16,244	47.71	18,886
Basic earnings per share (RMB)	0.33	0.37	-9.95	0.73
Diluted earnings per share (RMB)	0.33	0.37	-9.95	0.73
Basic earnings per share less non-recurring gains and losses (RMB)	0.31	0.40	-21.46	0.72
Fully-diluted average Return-on-equity (%)	6.27	6.99	Down by 0.72 percentage point	13.74
Fully-diluted average Return-on-equity less non-recurring gains and losses (%)	5.89	7.53	Down by 1.64 percentage point	13.55
Net increase from other non-operating activities per share (RMB)	1.37	0.93	47.71	1.08

(RMB million)				
Item	As at end of 2009	As at end of 2008	Increase (%)	As at end of 2007
Total asset	201,143	200,021	0.56	202,008
Shareholders' equity (interest) attributable to listed company	95,137	91,957	3.46	99,982
Book value per share attributable to listed company (RMB)	5.43	5.25	3.46	5.71





### III. Capital and Shareholders

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#### (I) Changes in Share Capital

##### 1. Changes in share capital

	Beginning of year		Changes in the period (+, -)					End of year	
	Shares	%	Share issued	Bonus share	Share transferred from reserve	Others	Sub-total	Shares	%
<b>I Shares subject to conditional sales</b>									
1. Government shares									
2. Domestic legal persons									
3. Other domestic investors									
Including									
Domestic legal persons									
Domestic natural persons									
4. International investors									
Including									
International legal persons									
International natural persons									
<b>II Shares not subject to conditional sales</b>									
1. RMB ordinary shares	1,751,200	100%	0	0	0	0	0	1,751,200	100%
2. Domestic listed international investment shares									
3. Overseas listed international investment shares									
4. Others									
<b>II Total</b>	<b>1,751,200</b>	<b>100%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,751,200</b>	<b>100%</b>

##### 2. Shares subject to conditional sales

Shareholder	(Share)						Date of expiry
	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		
None							

#### (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 inquiry coupon rate range was 0.8%. On 30 June 2008, 100,000,000 corporate bonds (a worth 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 "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 bond 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

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#### (III) Shareholders

##### 1. Shareholders and their shares

	(Share)
Number of shareholders	558,388

##### 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—Yinhua Core Value Selected Stock Fund	Others	0.77%	135,649,789	0	None
UBS AG	Others	0.39%	68,961,565	0	None
Industrial Bank Co., Ltd.—Industrial Trend Investment Mixed Type Fund	Others	0.39%	67,875,590	0	None
International Finance Corporation—Standard Chartered Bank-Citicgroup Global Markets Limited	Others	0.35%	61,087,110	0	None
Industrial And Commercial Bank Of China—Shanghai Stock Exchange 50 ETF Fund	Others	0.32%	55,635,580	0	None
Shenyin & Wanguo-ABC-BNP Paribas	Others	0.31%	54,598,199	0	None
China Construction Bank—Schroder Blue Chip Stock Securities Investment Fund	Others	0.31%	53,760,559	0	None
China Construction Bank—Schroder Stable Mixed Stock Fund	Others	0.25%	43,999,798	0	None
Morgan Stanley & Co. International Plc	Others	0.24%	42,247,476	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—Yinhua Core Value Selected Stock Fund	135,649,789	RMB common share
UBS AG	68,961,565	RMB common share
Industrial Bank Co., Ltd.—Industrial Trend Investment Mixed Type Fund	67,875,590	RMB common share
International Finance Corporation—Standard Chartered Bank-Citicgroup Global Markets Limited	61,087,110	RMB common share
Industrial And Commercial Bank Of China—Shanghai Stock Exchange 50 ETF Fund	55,635,580	RMB common share
Shenyin & Wanguo-ABC-BNP Paribas	54,598,199	RMB common share
China Construction Bank—Schroder Blue Chip Stock Securities Investment Fund	53,760,559	RMB common share
China Construction Bank—Schroder Stable Mixed Stock Fund	43,999,798	RMB common share
Morgan Stanley & Co. International Plc	42,247,476	RMB common share

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

China Construction Bank—Schroder Blue Chip Stock Securities Investment Fund and China Construction Bank—Schroder Stable Mixed Stock Fund are both managed by Bank of Communications Schroder Fund Management Co., Ltd.

Note: The shares of the Company held by Baosteel Group, who holds more than 5% of the shares of the Company, remained unchanged in the reported period.



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## 2. Holding company and controlling shareholder

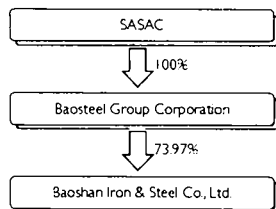
## (1) Holding company

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 under the State Council (SASAC).

## (3) Relationship between the Company and its controller





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

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##### (I) Current Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Term of office
Xu Lejiang	Chairman of Board of Directors	M	50	2009.04-2012.04
He Wenbo	Vice Chairman of Board of Directors	M	54	2009.04-2012.04
Ma Guoqiang	Director, President	M	46	2009.04-2012.04
Fu Zhongzhe	Director	M	49	2009.04-2012.04
Dai Zhihao	Director	M	46	2009.04-2012.04
Wu Yaowen	Director	M	66	2009.04-2012.04
Buck Pei	Independent Director	M	52	2009.04-2012.04
Katherine Tsang	Independent Director	F	52	2009.04-2012.04
Sun Haiming	Independent Director	M	53	2009.04-2012.04
Edward C. Tse	Independent Director	M	53	2009.04-2012.04
Li Li	Chairwoman of Board of Supervisors	F	56	2009.04-2012.04
Zhou Guizhan	Supervisor	M	54	2009.04-2012.04
Han Guojun	Supervisor	M	54	2009.04-2012.04
Zhang Pijun	Supervisor	M	51	2009.04-2012.04
Zhu Kebing	Supervisor	M	35	2009.04-2012.04
Zhao Zhouli	Vice President	M	53	2009.04-2012.04
Li Yongguang	Vice President	M	49	2009.04-2012.04
Zhu Junsheng	Vice President	M	49	2009.04-2012.04
Jiang Licheng	Vice President	M	51	2009.04-2012.04
Chen Ying	Vice President, Secretary to Board	F	38	2009.04-2012.04
Lou Dingbo	Vice President	M	47	2009.04-2012.04
Pang Yuanlin	Vice President	M	46	2009.04-2012.04
Zhou Jianfeng	Vice President	M	46	2009.04-2012.04

##### Notes:

- (1) The term of office will end at the date when the 2012 Annual Shareholders' Meeting is held.
- (2) As at the end of the reported period, Ms. Li Li owned 30,000 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.
- (3) Mr. Ma Guoqiang and Ms. Chen Ying purchased 30,000 shares of the Company at the secondary market on 26 January 2010 and 29 January 2010, respectively.

##### Supervisor and senior executives left office in 2009

Name	Position	Gender	Age	Term of office
Ouyang Yingpeng	Vice Chairman of Board of Directors	M	59	2006.05-2009.04
Li Haiping	Director	M	59	2006.05-2009.04
Laura Cha	Independent Director	F	60	2006.05-2009.04
Liu An	Supervisor	M	48	2006.05-2009.04
Peng Junxiang	Supervisor	M	44	2008.04-2009.04
Cui Jian	Vice President	M	49	2006.05-2009.04

##### Notes:

- (1) Mr. Ouyang Yingpeng, Mr. Li Haiping, and Ms. Laura Cha are no longer directors of the Company, Mr. Liu An and Mr. Peng Junxiang are no longer supervisors of the Company, and Mr. Cui Jian is no longer Vice President of the Company due to expiration of their terms in office.
- (2) The assistants to the President of the Company are no longer among senior executives of the Company, as the Article 133 (3) in the Chart of Baoshan Iron & Steel Co., Ltd., "The President, Vice Presidents, Financial Controller, Secretary to Board of Directors and assistants to the President are senior executives" was revised as "The President, Vice Presidents, Financial Controller and Secretary to Board of Directors are senior executives". The revision was approved by the 2008 General Shareholders' Meeting held on 28 April 2009.



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

Xu Lejiang (born in February 1959), senior engineer at professor level, is currently Chairman of the Board of Directors of Baosteel Group Corporation as well as Chairman of the Board of Directors of the Company.

Mr. Xu is highly experienced in industrial management in the field of steel industry. Since he started to work for Baosteel in 1982, Mr. Xu held various positions with the company including assistant to manager of the blooming plant, vice manager and later, manager of the cold rolling plant, assistant to the manager of Shanghai Baoshan Iron & Steel General Plant, Vice President and later, acting Vice President of Baoshan Iron & Steel (Group) Corporation, Director, Vice President and President of Shanghai Baosteel Group Corporation (hereafter referred to as SBGC), Director and President of Baosteel Group Corporation (hereafter referred to as BGC), Director of the first and second boards of Directors and Chairman of the third Boards of Directors of the Company, Chairman of the Board of Directors of BGC since January, 2007 and Chairman of the Board of Directors of the Company since April, 2009.

Mr. Xu graduated from Jiangxi Institute of Metallurgy in 1982 and furthered his study from 1995 to 1996 in West Virginia University. He obtained his MBA from a programme jointly managed by Fudan University and the University of Hong Kong in 2000.

He Wenbo (born in June 1955), senior engineer, Director and President of BGC, Vice Chairman of the Board of Directors of the Company.

Mr. He is highly experienced in manufacturing technologies, marketing, management and human resources in the field of steel industry. Since he started to work for Baosteel in 1982, Mr. He held various positions with the company, including vice manager and later, manager of the blooming plant, manager of the hot rolling plant and director of the department of the technology of Shanghai Baoshan Iron & Steel General Plant, assistant to the President and later, Vice President of Baoshan Iron & Steel (Group) Corporation, Vice President of Baosteel International Trading and Chairman of the Board of Directors and President of Baosteel International, Director of the Board of Directors and Vice President of SBGC, Vice President of BGC, Director of the first, second and third Boards of Directors of the Company, Director and President of BGC since April, 2008, Chairman of the Board of the Directors of Guangdong Iron and Steel (Group) Corporation since June, 2008, Vice Chairman of the fourth Board of Directors of the Company since April, 2009.

Mr. He graduated from Northeastern University in 1982 and obtained his EMBA from China Europe International Business School in 2001.

Ma Guoqiang (born in November 1963), senior accountant, is currently Director of the Board of Directors and President of the Company.

Mr. Ma is highly experienced in industrial accounting, finance, investment and management in the field of steel industry. Since he started to work for Baosteel in July 1995, Mr. Ma held various positions with the company, including vice director of department of finance of Baoshan Iron & Steel (Group) Corporation, vice director and later, director of the department of planning and accounting of SBGC, Vice President of SBGC, Vice President and chief accountant of SBGC, Director of the Board of the Directors of Guangdong Iron and Steel (Group) Corporation since June, 2008, Director of the fourth Board of Directors and President of the Company since April 2009. Mr. Ma now also serves as Chairman of the Board of Supervisors of China Pacific Insurance (Group) Co., Ltd., Independent Director of the Board of Directors of Everbright Securities Co., Ltd. and Independent Director of the Board of Directors of Societe Generale (China) Limited.

Mr. Ma graduated from University of Science & Technology Beijing in 1986 and obtained his EMBA from a programme jointly managed by Arizona State University and Shanghai National Accounting Institute in August, 2005.

Fu Zhongzhe (born in June 1960), senior engineer at professor level, is currently Vice President of BGC, Director of the Board of Directors of the Company.

Mr. Fu is highly experienced in production and technique management in the field of steel industry. Since he started to work for Baosteel in July 1982, Mr. Fu held various positions with the company, including vice manager of Baosteel Steel Trading Co., Ltd., vice director and later, director of the department of production of Baoshan Iron & Steel (Group) Corporation, manager of the steel-making plant of SBGC, assistant to President of SBGC, BOD Chairman and President of Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd., Vice President of the Company and President of Baosteel Branch, Director of the third Board of Directors and President of the Company, Vice President of BGC and Director of the fourth Board of Directors of the Company since April 2009.

Mr. Fu graduated from Xi'an Metallurgy & Architecture College in July 1982 and obtained his MBA from Maastricht School of Management (MSM) in December 1995.

Dai Zhihao (born in June 1963), senior engineer, is currently Vice President of BGC and Director of the Board of Directors of the Company.

Mr. Dai is highly experienced in production and marketing management in the field of steel industry. Since he started to work for Baosteel in August 1983, Mr. Dai held various positions with the company, including section head of Baosteel International Trading, manager of Steel Trading Company, Vice President of Baosteel International Trading, assistant to President of SBGC and director of the marketing department of the Group, assistant to President and later, Vice President of the Company, President of Baosteel International Trading, President of the Trading Branch of the Company. He served as Vice President of BGC since November 2007 and Director of the fourth Board of the Company since April 2009.



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

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Mr Dai graduated from Shanghai Jiao Tong University in August 1983 and obtained his master's degree from West Virginia University in August 1996.

Wu Yaowen (born in September 1943), is currently Outsider Director of BGC and Director of the Board of the Company.

Mr. Wu is highly experienced in industrial business management. He held various positions with the large companies in China, including the chief representative of Mixed Commission for Cooperation with Other Countries in Offshore Petroleum, Shengli Oilfield, Vice President of CNOOC South Yellow Sea Oil Company, Director of Qinghai Petroleum Administration Bureau, chief engineer for petroleum of Ministry of Energy of China, director of the energy industry department of National Planning Committee of China, director of the international cooperation department and later, assistant to President and Vice President of China National Petroleum Corporation, Director and Vice Chairman of the Board of PetroChina Company Limited and Director of the third Board of Directors of the Company. Mr. Wu is currently Chairman (Outside Director) of China National Coal Group Corp. and Outside Director of BGC. He has been on the fourth Board of the Directors of the Company since April 2009.

Mr. Wu graduated from China University of Petroleum, Beijing in 1967.

Buck Pei (born in March 1957) is currently Independent Director of the Company.

Mr. Pei is an influential member of American Accounting Association. Among the various posts he held were assistant professor, associate professor and full professor of Arizona State University, chairman of the Chinese Accounting Professors' Association of North America, Chairman of Global Committee of American Accounting Association and Independent Director of the third Board of the Company. He is currently professor of accountancy at Arizona State University and associate dean of W.P. Carey School of Business and supervisor of the doctoral program at the university. He has been Independent Director of the fourth Board of Directors of the Company since April 2009.

Mr. Pei graduated from National Taipei University and he obtained his MBA from Southern Illinois University and his PhD from the University of North Texas.

Katherine Tsang (born in May 1957) is currently Independent Director of the Company.

Ms Tsang is highly experienced in decision-making and employee administration. She took various managerial posts at Kowloon-Canton Railway and Hong Kong Government, among others. In 1992, Ms Tsang started to work for Standard Chartered Bank, first as HR director of Equitor Group (the later Standard Chartered Bond Trusteeship Business Department), HR director in Asia-Pacific area and group head of organization learning. She served later on as President, Chief Executive Officer and acting Vice Chairwoman of the Board of Directors of Standard Chartered Bank (China) Ltd and Independent Director of the third Board of the Company. Ms Tsang is currently chairperson of Greater China, Standard Chartered Bank (China) Ltd and chairperson of the Board of Standard Chartered Bank (China) Ltd. She has been an Independent Director of the fourth Board of the Company since April 2009.

Ms Tsang received her Bachelor degree in business from University of Alberta, Canada.

Sun Haiming (born in June 1956), professor in economics, is currently Independent Director of the Company.

Mr. Sun has made extensive research in the field of economics and finance. Among his posts and positions were vice dean of the department of industrial economy, Shanghai University of Finance and Economics (SUF), visiting researcher of Sussex University, Director of research center of finance and economics, SUFE, dean of school of international business administration, SUFE, Chairman of professor's committee of SUFE, Supervisor of the first and second Boards of Supervisors of the Company and Independent Director of the third Board of Directors of the Company. He is currently President of Shanghai Institute of Foreign Trade and member of the consultation board of Shanghai municipal government. He has been an Independent Director of the fourth Board of Directors of the Company since April 2009.

Mr. Sun graduated from People's University of China and obtained his master's degree from Shanghai University of Finance and Economics.

Edward C. Tse (born in June 1956) is currently Independent Director of the Company.

Mr. Tse has worked as senior management consultant and senior administrator for more than twenty years. The posts he held included Global Vice President of Boston Consulting Group and managing partner of the Chinese branch of the company; executive Vice President of the planning and development department of Hong Kong Telecom and President and acting Director of the Greater China, Hong Kong Telecom. He served as Independent Director of the third Board of the Company. Currently President of Booz & Company (Greater China), Mr. Tse has been an Independent Director of the fourth Board of Directors of the Company since April 2009.

Mr. Tse obtained his MSc in Civil Engineering from Massachusetts Institute of Technology and his MBA and PhD in Civil Engineering from the University of California at Berkeley.

Li Li (born in December 1953) is currently Chairperson of Board of Supervisors of the Company.

Ms Li is now Partner of Debevoise & Plimpton LLP and Chief Representative of Debevoise & Plimpton LLP (Shanghai) since 2002, before which she was partner and lawyer of a well-known international law firm in New York and Hong Kong. Ms Li is highly experienced in management in areas of investment, financing and M&A. In New York, Ms Li specializes in asset-based lending, a plane financing, mortgage-backed security and project financing in China; she is involved in cooperation with international companies, Chinese companies and fund management companies in



areas of securities issuing, M&A, private equity fund management and international investment in China. Ms. Li was Chairperson of the third Board of Supervisors and has been Chairperson of the fourth Board of Supervisors of the Company since April 2009.

Ms. Li obtained her MSc in Economics from Duke University and her PhD in law from Columbia University.

Zhou Guiquan (born in August 1955) is currently Vice Secretary of CPC committee for Disciplinary Inspection and director of department of supervision of BGC as well as Vice Secretary of CPC committee for disciplinary inspection and member of Board of Supervisors of the Company.

Mr. Zhou is experienced in human resource management and disciplinary inspection. Since he started to work for Baosteel in August 1983, Mr. Zhou held various positions with the company, including director of enterprise management division, director of supervision division, and secretary of CPC committee at hot rolling plant. He was on the third Board of Supervisors of the Company. Currently he serves as Vice Secretary of CPC Committee for Disciplinary Inspection and director of supervision department of BGC, and Vice Secretary of CPC committee for Disciplinary Inspection of the Company. He has been Supervisor of the fourth Board of Supervisor of the Company since April 2009.

Mr. Zhou Guiquan holds a bachelor degree.

Han Guojun (born in January 1955), economist, is currently on the Board of Supervisors of the Company and Vice Chairman of the Labor Union of BGC as well as of the Company.

Mr. Han is experienced in administrative management, investment, labor union work, and disciplinary inspection. Since he transferred from Shanghai No.1 Steel Plant, for which he started to work in 1974, to the Company in 1983, Mr. Han held various positions with the company, including vice director of administrative office of Baosteel, assistant to President of Fortune Trust & Investment Co., Ltd., Vice Chairman of the Board of Directors of Fucheng Securities Brokerage Co., Ltd. and director of corporate culture division of the Company. He was on the third Board of Supervisors of the Company. Currently he is the Vice Chairman of the Labor Union of BGC as well as of the Company. He has been on the fourth Board of Supervisors of the Company since April 2009.

Mr. Han holds a master's degree in economics.

Zhang Pijun (born in March 1958), senior engineer at professor level, is currently on the Board of Supervisors of the Company and President (Director) of Baosteel Research Institute (Technical Center) of the Company.

Mr. Zhang is experienced in technical research and production management in the field of steel industry. Since he started to work for Baosteel in January 1982, he held various positions with the company, including vice director and later, director of research center for steel products at Baosteel Research Institute, assistant to President (Director) and later, Vice President of Baosteel Research Institute (Technical Center). He was also vice director of the department of silicon steel at Baosteel branch. Mr. Zhang is currently President (Director) of Baosteel Research Institute (Technical Center). He has been on the fourth Board of Supervisors of the Company since April 2009.

Mr. Zhang graduated from University of Science & Technology Beijing in 1982 and he obtained his MSc from University of Science & Technology Beijing in January 1989 and his PhD from Northeastern University in March 2006.

Zhu Kebin (born in October 1974), senior accountant, is currently on the Board of Supervisors of the Company and general manager of department of operating finance of BGC.

Mr. Zhu is experienced in enterprise finance and investment management. Since he started to work for Baosteel in July 1997, he held various positions with the company, including vice director of the department of finance and accounting of the Company as well as BGC. He has been general manager of department of operating finance of BGC since May 2009 and on the fourth Board of Supervisors of the Company since April 2009.

Mr. Zhu graduated from Northeastern University in 1997.

Zhao Zhouti (born in April 1956), senior engineer at professor level, is currently Vice President of the Company.

Mr. Zhao is highly experienced in production, equipment and management in the field of steel industry. Since he started to work for Baosteel in 1982, he held various positions with the company, including assistant to manager of the blooming mill, vice director and later, director of the department of the equipment, assistant to President of BGC and assistant to President of the Company. He has been Vice President of the Company since May 2000 (at the same time, President and Party Secretary of Baosteel branch of the Company from May 2007 to March 2008).

Mr. Zhao graduated from Northeastern University in 1982 and obtained his PhD in Engineering from the same university in 2002.

Li Yongqiang (born in October 1960), senior engineer, is currently Vice President of the Company.

Mr. Li is highly experienced in steel production, marketing and management. Since he started to work for Meishan Company of Metallurgy in 1982, Mr. Li held various positions, including vice manager and later, manager of iron-making plant of Meishan Company of Metallurgy, member of Board of Directors and Vice President of Shanghai Meishan (Group) Co., Ltd.; member of Board of Directors, Vice President, Chairman of the Board of Directors and President of Shanghai Meishan Iron & Steel Co., Ltd.; member of Board of Directors, Vice President, and later President of Baosteel Group Shanghai Meishan Co., Ltd.; assistant to President of the Company, etc. He has been Vice President of the Company since March 2008.



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

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Mr. Li graduated from Northeastern University in 1982, obtained his EMBA from China Europe International Business School in 2001, and his master's degree of engineering in metallurgy from Northeastern University in 2003.

Zhu Junsheng (born in November 1960), senior engineer, is currently Vice President of the Company.

Mr. Zhu is highly experienced in management of production planning, cost, and human resource. Since he started to work for Baosteel in 1983, Mr. Zhu held various positions with the company, including director of the department of production planning, vice director and later, director of the department of cost management, vice director of the personnel department of SBGC, director of the personnel department of the Company and assistant to the President of the Company. He has been Vice President of the Company since June 2003.

Mr. Zhu graduated from Maanshan Institute of Iron and Steel in July 1983 and he obtained his EMBA from China Europe International Business School in 2007.

Jiang Licheng (born in July 1958), engineer, is currently Vice President of the Company and general manager of the Steel Tube, Pipe and Bar Business Unit of the Company.

Mr. Jiang is highly experienced in equipment management, engineering construction, and business management in the field of steel industry. Since he started to work for Baosteel in 1980, Mr. Jiang held various positions with the company, including manager of Baosteel Shanghai Industrial Inspection Company, vice director and later, director of the energy department of the Company, director of the equipment department of the company, assistant to President of the Company, Vice President of Baosteel Group Meshan Iron & Steel Co. Ltd., President of Baosteel Group Pudong Iron & Steel Co. Ltd. He has been Vice President of the Company as well as general manager of the Company's Baosteel Branch since March 2008 to April 2009. He has been Vice President of the Company since April 2009 and general manager of the Steel Tube, Pipe and Bar Business Unit of the Company since July 2009.

Mr. Jiang obtained his EMBA from China Europe International Business School in 2004.

Chen Ying (born in March 1971), senior accountant, is currently Vice President and Secretary to the Board of Directors of the Company.

Ms. Chen is highly experienced in finance and accounting, cost and budget management, corporate governance, information disclosure and investor relations in the steel industry. Since she started her career in Baosteel in 1993, she held various positions with the company, including vice director and later, director of the finance department of the Company and director of the cost management department of the Company. She became Secretary to the Board of Directors and Financial Controller of the Company since October 2003, Vice President and Secretary to the Board of Directors of the Company since March 2008.

Ms. Chen graduated from People's University of China in 1993, obtained her MBA from Maastricht School of Management, Holland, in 2003, and Fudan University, China, in 2005.

Lou Dingbo (born in July 1962), senior economist, is currently Vice President of the Company as well as general manager of Stainless Steel Business Unit of the Company.

Mr. Lou is highly experienced in manufacturing and marketing of iron and steel products. Since he started to work for Baosteel in 1983, Mr. Lou once worked in the marketing division of cold rolling plant and production department, he held various positions with the company, including deputy head of cold-rolled products marketing section in the department of marketing, general manager of Baosteel Southern Company, director of the sales department and general manager of sales center of the Company, assistant to President as well as general manager of sales center of the Company, Vice President of the Company and general manager of the Stainless Steel Product Management Department of the Company from March 2008 to April 2009. He has been Vice President of the Company as well as general manager of Stainless Steel Business Unit of the Company since April 2009.

Mr. Lou graduated from Northeastern University of Technology in 1983 and obtained his EMBA from China Europe International Business School in 2003.

Pang Yuanlin (born in September 1963), senior engineer, is currently Vice President of the Company and general manager of Special Steel Business Unit of the Company.

Mr. Pang is highly experienced in production management and scientific research management in steel industry. Since he started to work for Baosteel in July 1985, Mr. Pang held various positions with the company, including vice manager of Baosteel hot-rolling plant, vice director of planning section of Baosteel Planning & Finance Department, vice director of department of construction and finance of the company, acting vice director and later, director of hot-rolling department of the company as well as manager of the hot-rolling plant, assistant to President of Baosteel Branch of the company and President (director) of Baosteel Research Institute (Technology Center). He has been Vice President of the Company since March 2008 and general manager of Special Steel Business Unit since January 2010.

Mr. Pang graduated from Wuhan University of Science and Technology in 1985 and obtained his MBA from Shanghai University of Finance and Economics in 1997.



Zhou Jianfeng (born in September 1963), senior engineer, is currently Vice President of the Company

Mr. Zhou is highly experienced in production and business management in the field of steel industry. Since he started to work for Baosteel in August 1984, Mr. Zhou held various positions with the company, including vice manager and later, manager of Baosteel hot rolling plant, assistant to President of BGC, assistant to the President of the Company, Vice President of Baosteel Branch, business supervisor of BGC and Vice President of Hanbao Iron & Steel Company. He has been Vice President of the Company since April 2009.

Mr. Zhou graduated from University of Science & Technology Beijing in July 1984 and obtained his EMBA from China Europe International Business School in April 2002.

Posts in shareholding company

Name	Shareholding company	Position	Start of term	End of term	Remuneration from the company
Xu Lejiang	Baosteel Group Corp.	Chairman of Board of Directors	January 2007		Yes
He Wenbo	Baosteel Group Corp.	Vice Chairman of Board of Directors, President	April 2008		Yes
Fu Zhongzhe	Baosteel Group Corp.	Vice President	April 2009		Yes
Dai Zhihao	Baosteel Group Corp.	Vice President	November 2007		Yes
Wu Yaowen	Baosteel Group Corp.	External Director	October 2005		Yes
Zhou Guiquan	Baosteel Group Corp.	Vice Secretary of Committee for Disciplinary Inspection & Director of Supervision	May 2006		Yes
Han Guojun	Baosteel Group Corp.	Vice Chairman of the Labor Union	May 2009		Yes
Zhu Kebin	Baosteel Group Corp.	General manager of Department of Operation and Finance	May 2009		Yes

Posts in others companies

Name	Name of company	Position	Start of term	End of term	Remuneration from the company
Ma Guoqiang	China Pacific Insurance (Group) Co. Ltd.	Chairperson of Board of Supervisors	June 2007		No
Ma Guoqiang	Everbright Securities Company Limited	Independent Director	February 2008		Yes
Ma Guoqiang	Societe General (China) Limited	Independent Director	August 2008		Yes
Wu Yaowen	China National Coal Group Corp.	Chairperson of Board of Directors	October 2008		Yes
Buck Pei	W.P. Carey School of Business, Arizona State University	Associate Dean, Professor of Accountancy and Supervisor of Doctoral program	May 2003		Yes
Katherine Tsang	Greater China, Standard Chartered Bank (China) Ltd.	Chairperson	September 2009		Yes
Katherine Tsang	Standard Chartered Bank (China) Ltd.	Chairperson of Board of Directors	September 2009		No
Sun Haiming	Shanghai Institute of Foreign Trade	President	September 2009		Yes
Edward C. Tse	Greater China Booz & Company Edward	Chairperson of Board of Directors	November 2009		Yes
Li Li	Debevoise & Plimpton LLP	Partner	September 2002		Yes
Li Li	Shanghai Office, Debevoise & Plimpton LLP	Head	September 2002		No



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

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##### (III) Annual Remunerations

The compensation of the Directors, Supervisors and Senior Executives for the year 2009 totaled RMB 12,241,000 (pre-tax).

(RMB 10 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	-	-
He Wenbo	Vice Chairman of Board of Directors	Yes	-	-
Ma Guoqiang	Director, President	No (Note 1)	96.84	2009-05-2009-12
Fu Zhongzhe	Director	Yes (Note 1)	21.09	2009-01-2009-04
Dai Zhihao	Director	Yes	-	-
Wu Yaowen	Director	Yes	25.00	-
Buck Pei	Independent Director	No	25.00	-
Katherine Tsang	Independent Director	No	25.00	-
Sun Haiming	Independent Director	No	25.00	-
Edward Tse	Independent Director	No	25.00	-
Li Li	Chairwoman of Board of Supervisors	No	25.00	-
Zhou Guiquan	Supervisor	Yes	-	-
Han Guojun	Supervisor	Yes (Note 1)	16.14	2009-01-2009-04
Zhang Pijun	Supervisor	No	72.6	-
Zhu Kobing	Supervisor	Yes	-	-
Zhao Zhouli	Vice President	No	103.9	-
Li Yongguang	Vice President	No	103.9	-
Zhu Junsheng	Vice President	No	103.9	-
Jiang Licheng	Vice President	No	103.9	-
Chen Ying	Vice President, Secretary of the Board of Directors	No	103.9	-
Lou Dingbo	Vice President	No	129.8 (Note 2)	-
Pang Yuanlin	Vice President	No	103.9	-
Zhou Jianfeng	Vice President	No (Note 1)	88.73	2009-05-2009-12
Ouyang Yingpeng	Resigned Vice Chairman of Board of Directors	Yes	-	-
Li Haiping	Resigned Director	Yes	-	-
Laura Cha	Resigned Independent Director	No	8.33	2009-01-2009-04
Liu An	Resigned Supervisor	Yes	-	-
Peng Junxiang	Resigned Supervisor	Yes	-	-
Cui Jian	Resigned Vice President	No (Note 1)	17.17	2009-01-2009-04
Total			1224.1	

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.

Notes: (1) President Ma Guoqiang and Vice President Zhou Jianfeng received their remunerations from BGC from January 2009 to April 2009. Director Fu Zhongzhe received his remuneration from BGC since May 2009, when he was no longer President of the Company. Supervisor Han Guojun received his remuneration from BGC since May 2009. Mr. Cui Jian received his remuneration from BGC since May 2009, when he was no longer Vice President of the Company.

(2) The remuneration that Vice President Lou Dingbo received from the Company included a sum of RMB200,000 of BOD Special Contribution Prize.



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

As approved by the 2008 General Shareholders' Meeting held on 28 April 2009, Mr Xu Lejiang, Mr. He Wenbo, Mr. Ma Guoqiang, Mr. Fu Zhongzhe, Mr. Dai Zhihao, Mr. Wu Yaowen, Mr. Buck Pei, Ms. Katherine Tsang, Mr. Sun Haiming, and Mr. Edward C. Tse consist of the new board of directors. Mr. Ouyang Yingpeng, Mr. Li Haiping and Ms. Laura Cha were no longer on the new Board of Directors.

Ms. Li Li, Mr. Zhou Guiquan and Mr. Zhu Kebin are members of the fourth Board of Supervisors, while Mr. Han Guojun and Mr. Zhang Pijun serve as the Employee Supervisors. Mr. Liu An and Mr. Peng Junxiang were no longer on the new Board of Supervisors.

As approved by the first meeting of the fourth Board of Directors held on 28 April 2009, Mr. Ma Guoqing was appointed the President of the Company to replace Mr. Fu Zhongzhe. At the same time, Mr. Zhao Zhouli, Mr. Lu Yongxiang, Mr. Zhu Junsheng, Mr. Jiang Licheng, Ms. Chen Ying, Mr. Lou Dingbo, Mr. Pang Yuanlin and Mr. Zhou Jianfeng were appointed, while Mr. Cui Jian was no longer among the Vice Presidents.

The assistant to the President of the Company is no longer among senior executives of the Company, as the Article 133 (3) in the Chart of Baoshan Iron & Steel Co., Ltd., "The President, Vice Presidents, Financial Controller, Secretary to Board of Directors and assistants to the President are senior executives" was edited as "The President, Vice Presidents, Financial Controller and Secretary to Board of Directors are senior executives". The revision was approved by the 2008 General Shareholders' Meeting held on 28 April 2009.

#### (V) Employees

As at the end of the period covered by the Report, the total number of the employees of the Company and its controlled companies was 42,318, including 25,468 who were involved in production, 12,877 in technical functions, and 3,973 in administration and management departments. Among them, 26,848 held three-year college or higher degrees. The staff members of the Company totaled 27,321, including 17,691 that were involved in production, 7,162 in technical functions, and 2,468 in administration and management departments. Among them, those held three-year college degrees or higher ones numbered 16,889. The company did not incur any expense for the retired employees in the past year.



## (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.

## 1. Prudent corporate governance

The Company established its basic management framework and 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.

## 2. Independent and efficient board of directors

The Company always attaches great importance to the Board of Directors and efforts have been made to improve the operating efficiency of the Board. In the reported period the Company was awarded the "Board of Directors of the Year" at the 8th Forum of Corporate Governance in China (2009), which was hosted by Shanghai Stock exchange and sponsored by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Organization for Economic Co-operation and Development (OECD).

The fourth Board of Directors was elected, following the practice of the previous three boards, at the 2008 annual General Shareholders' Meeting held on 28 April 2009. The new Board includes 10 directors, including four independent ones, who take up 40 per cent of the total. In addition, Mr. Wu Yaowen has been trusted by the State-owned Assets Supervision and Administration Commission of the State Council as the Outside Director of BGC as well as one of the Directors of the Company, which makes him fairly independent from the Company.

Three special committees have been formed to be responsible for the Board of Directors' Committee for Strategic Development, Auditing Committee and Remuneration and Appraisal Committee. Effort has been made to expand the functions of the committees. The Committee for Strategic Development has been in charge of risk management in the Company and the Auditing Committee is entitled the right to receive and review complaints about or reports to malpractices in preparation of financial reports and action beyond one's authority.

## 3. Mature system of independent directors

As one of the first few companies in China which introduced the practice of independent directors, the Company attaches great importance to the role of independent directors and enjoys a mature system of independent directors both in institution and practice. The four 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. Their devotion, independent stands, professional perspectives and experiences have contributed greatly to the management, significant decision-making, and corporate governance system of the Company.

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 accounting professor, acts as the director of the Auditing Committee, whose four independent directors take up three fourth of its members. Ms. Katherine Tsang is the director of the Remuneration and Appraisal Committee, whose members are all outside directors, with three fourth of its members are independent directors. Mr. Buck Pei and Ms. Katherine Tsang as independent directors serve to make fair and independent decisions in the auditing and evaluation work of which they are in charge, respectively.

## 4. Innovative measures of the board of directors

The Company has been constantly learning the theory of corporate governance and governance by the board of directors. It has established such innovative communication mechanisms as the communication meeting of outside directors, the exchanging meeting of directors and senior executives, and the dynamic communication meeting among the auditing committee, the internal auditing department and external auditing department. It also founded the executive director system in an effort to form an independent and efficient board of directors.

The Company ensured the efficient implementation of the resolutions of the board of directors through closed loop management of the board of directors. The resolution and advice of the board of directors were submitted to the leaders of the Company, copied to different departments in the shortest possible time through the board of directors and the report of the relevant items after the convening of the board meeting. In addition, the limit of the feedback time of the competent departments and responsibility departments was also confirmed to ensure that the decision



and advice of the board of directors could be delivered to the management at different levels and the relevant departments and be implemented in time. The closed loop management ensured the efficient implementation of the board of directors.

The Company focused on the link between theory and practice. It highly emphasized and constantly improved corporate governance and the construction of the board of directors, and applied the notion of its corporate governance to the practice of its operation. During the period of the report, the Company had conducted the management research program of "the Corporate Governance and the Operation of the Board of Directors of Listed Companies", exploring into the theory and the best practice of corporate governance and governance by the board of directors, and put forward suggestions of optimization that combined theory and performance.

#### 5. Full and transparent information disclosure

During the period of the report, the Company had combined as usual the compulsory and voluntary disclosures of information, treated all the shareholders on the principle of openness, impartiality, and justice, and increased its transparency through the timely disclosure of sensitive information about its stock price following the relevant rules strictly. Since early this year, the Company had conducted timely and appropriate discussion in its regular reports of the severe external environment, the management situation, and the efficient dealing of the crisis. In addition, it had also foretold the dramatic changes of its performance in the next term over the corresponding period in the previous year in its first quarter report and semi-yearly report respectively. Besides, it had discussed the unfavorable factors in the fourth quarter when the performance was obviously going up in the third quarter and guided the market to a rational expectation of the performance in the fourth quarter.

#### 6. Fine and interactive relation with investors

During the period of the report, the Company had taken the initiative to improve its work on investor relation (hereinafter referred to as IR), making pointed communication with the investors. During this period, the IR team of the Company had received a total of 645 domestic fund managers and securities analysts in 147 batches who came to the Company for investigation and research, which was a 15.7% rise than the previous year; the Company had also arranged for 51 batches of investors to visit the factory areas, hosted teleconferences for 50 times, which were respectively a 15.9% and 51.5% rise than the previous year. Meanwhile, the Company had attended 13 large-scale investor exchanging meetings upon invitation hosted by such international investment banks as UBS AG, MORGAN STANLEY, and MERRILL LYNCH, made 10 conference speeches, and participated in 13 team activities and 31 one-to-one meetings. All these had shown to the greatest extent its corporate image to domestic and overseas investors and conducting in-depth information exchanges.

The IR activities participated by the senior management of the Company regularly had reaped fine market responses. The IR team had satisfactorily completed its regular IR activity plan, hosting 4 online news conferences on performances during the year and two on-the-spot exchanging meetings of analysts after the publication of the annual and mid-term reports. The meetings were attended by the board chairman, president and secretary to the board, who made frank and sincere communications with the investors on such issues of concern as the industrial development and corporate management. These activities had received favorable comments from the investors and drawn their constant attention.

#### 7. Programs to improve corporate governance

As early as in August 2007, the Company had completed the relevant work on the three stages of corporate governance, namely, self-check, public assessment, rectification and improvement, as required in "Notice on the Matters Concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies", winning the acknowledgement of Shanghai Securities Regulatory Bureau and Shanghai Stock Exchange. In addition, the Company had published "Rectification and Reform Report of Baoshan Iron and Steel Co., Ltd. Concerning Campaign to Strengthen the Corporate Governance", and would continue to improve its independent director system and internal control system in the period of the report. It would also further establish and improve its medium- and long-term incentive and disciplining scheme.

#### 8. Awards

In 2009, the Company continued to enjoy praises in the capital market, winning the following awards (including but not limited to): "Board of Directors of the Year" at the 8th Forum of Corporate Governance in China (2009) hosted by Shanghai Stock exchange and sponsored by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Organization for Economic Co-operation and Development (OECD); "Top 20 of China's Listed Companies in Corporate Governance in 2009" evaluated by the corporate governance research center of the Institute of World Economics & Politics of Chinese Academy of Social Sciences, the Leader Examination and Assessment Center of the National School of Administration, and Provitvi; "Top 100 of China's Listed Companies in Corporate Market Value Management in 2009" at the "3rd Summit Forum of China's Listed Companies on Market Value Management" sponsored by China Center for Market Value Management and The Economic Observer; "2008 China's Top 10 Most Responsible Listed Companies" jointly issued by Securities Times and Times Online. In addition, the Company's website was rated as the "China's First Most Welcomed Listed Company's Website by Investors"; "China's First Best Information Disclosure Website of Listed Companies"; and "China's First Best Communication Website of Listed Companies".



## V. Corporate Governance

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### (II) Performance of Directors

#### 1. Attendance at board meetings

During the period of the report, the Company convened a total of 6 board meetings, of which 5 were regular board meetings convened on the spot (3 meetings of the 4th board and 2 meetings of the 3rd board) and 1 was an interim board meeting by correspondence.

Directors	Is independent director or not?	Attendance of board meetings convened in the period	Attendance in person	Attendance by correspondence	Attendance by representative	Absence	Two consecutive absences in person or not
Xu Lejiang	No	6	6	1	0	0	No
He Wenbo	No	6	6	1	0	0	No
Ma Guoqiang	No	3	3	0	0	0	No
Fu Zhongzhe	No	6	6	1	0	0	No
Dai Zhihao	No	3	3	0	0	0	No
Wu Yaowen	No	6	4	1	2	0	Yes
Buck Pei	Yes	6	5	2	0	0	No
Katherine Tsang	Yes	6	5	1	1	0	No
Sun Haiming	Yes	6	5	1	1	0	No
Edward C. Tse	Yes	6	5	1	1	0	No

Notes:

(1) Directors Ma Guoqiang and Dai Zhihao are new directors appointed for the fourth Board of Directors and their attendances were only based on the number of the fourth Board meetings.

(2) Explanation of two consecutive absences in person

Since the 18th meeting of the 3rd board and the 1st meeting of the 4th board were both convened on April 28, 2009, Director Wu Yaowen failed to attend the meetings in person for work reasons. However, he had carefully read all the proposals before the meetings and explained to the fullest his opinions to director Fu Zhongzhe and signed a letter of authority with him, on which his opinions on each and every of the proposals were clearly stated.

#### 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.

#### 3. Establishment and improvement of the relevant work systems and main content of the independent directors and the performance of independent directors

In *Charter of the Company* and its appendix *Rules and Procedures for the Meeting of Board of Directors* the Company specified its independent director system. The Company had signed *Agreement on the Employment of Independent Directors* with the independent directors to clarify their rights and duties.

On March 26, 2008, the Company passed Proposal on the Work System of the Annual Report of Independent Directors of the Company at the 11th meeting of the 3rd Board, specifying that the independent director should perform his rights and obligations and work diligently in the compilation and disclosure of the annual report.

The independent director in performing his duties, is free of the influence of the Company's main stockholders, actual controllers, or units or individuals that have a stake with the main stockholders and actual controllers.

Related transactions requiring the deliberation of the Company's Board of Directors or its general meeting of shareholders should acquire the written documents of the independent director recognizing the transactions and the independent opinions held by the independent director.

The independent director should fulfill his trust, attending the board meetings actively, performing his special powers in accordance with the law and the administrative rules and regulations, voicing his opinion on key issues like the Company's related transactions, external guarantee, and incentive by stock right, providing professional and constructive suggestions for the Company's major decisions, carefully supervising the work of the management, and safeguarding the legitimate rights and interests of the Company and all the shareholders.

In accordance with *Work System on the Annual Report of Independent Directors*, the Company organized the independent directors to pay an on-site investigation of Baosteel International during the period of making the annual report. This enabled the independent directors to have a deeper understanding of the Company, provided them with information support in their decision making, and helped them increase the Board's efficiency of decision-making.



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### (III) Independence of the Controlling Shareholder in Respect of Business, Personnel, Assets, Institutions and Finance

- (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.

### (IV) 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.

On the construction of the internal control system, in order to adapt to the reform in the corporate organizations and reduce the operational risks caused by the lack of the relevant systems, the Company, based on the requirements of *Basic Standard for Enterprise Internal Control*, had revised its management documents and standards including *Internal Control Management Regulations*, and issued them to the subordinate units for implementation, so as to specify business procedures, interfaces and division of responsibility, helping to the internal control in the Company to develop in a more scientific, reasonable and normative manner.

To enhance the consciousness to and techniques of internal control, the Company offered training courses, which took the *Basic Standard for Enterprise Internal Control* as their leading principle, the internal control manual of the Company and case studies as their main contents, and strengthened the instructions to the subsidiaries' work of international control, which helped to promote the international control standard.

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

1. In order to increase the operability of the internal control manual and integrate it into the Company's comprehensive management system, the Company while upgrading the core content of its *Internal Control Manual* on a regular basis launched at a proper time the transition of the internal control manual to the comprehensive management brochure and management standard.
2. To follow up and evaluate the problems found in internal control audit more effectively, the Company, in summarizing the follow-up mechanism of the rectification of internal control in 2008, incorporated the "accomplishment ratio of internal control auditing and rectification" into its performance appraisal system, as an index to evaluate internal control improvement in the different departments subordinate units and subsidiaries of the headquarters. This had strengthened the continuous improvement mechanism of internal control in the Company.
3. In order to promote the effective implementation of internal control and establish a healthy continuous improvement mechanism, the Company, following the requirements of *Internal Control Management Regulations*, completed the disclosure of its internal control self-evaluation report in 2008, and on this basis worked out *Methods of Managing Internal Control Evaluation*, which had institutionalized internal control evaluation. In addition, it had established an internal control evaluation system under the mode of project-based management, realizing the transfer from internal control targets to internal control projects.



## V. Corporate Governance

### (V) 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 Remuneration and Appraisal 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) Disclosures of Board's Self-evaluation Report on the Internal Control and Sustainability Report

#### 1. Self-evaluation report of the Board of Directors on the Company's internal control and the auditor's review report

The 4th meeting of the 4th Board of the Company examined and passed the *Self-Evaluation Report of the Board of Directors of Baosteel on the Company's Internal Control*. Ernst & Young Hua Ming issued its review report, which was disclosed at <http://www.sse.com.cn>.

#### 2. The Company's 2009 Sustainability Report

The 4th meeting of the 4th Board of the Company examined and passed the *2009 Sustainability Report*, which was disclosed at <http://www.sse.com.cn>.

### (VII) The Company's Accountability System for Major Errors in Information Disclosure in Annual Reports

The 4th meeting of the 4th Board of the Company examined and passed the revision of *Methods of Information Disclosure Management* pursuant to the requirements set out in CSRC Document [2009] No 34 *Circular on Properly Handling the 2009 Annual Reports of Listed Companies and the Related Work*, in which the accountability system for major errors in information disclosure in annual reports was added.

According to the accountability system for major errors in information disclosure in annual reports, if the person liable violates the stipulations of such state laws and regulations as *Company Law*, *Securities Law*, *Administrative Measures on Information Disclosure by Listed Companies*, *the Rules of Shanghai Stock Exchange for Stock Listing*, *Accounting Standards for Business Enterprises*, and *China Accounting System for Business Enterprises* intentionally or due to gross negligence, which has resulted in the false record, misleading statement, or major omission in the annual report, the Board of Directors shall punish the person(s) directly liable and other persons liable dependent upon the seriousness of the case and shall disclose the reasons for the correction, supplement and revision as well as the influences thus caused truthfully following the relevant stipulations by China Securities Regulatory Commission and Shanghai Stock Exchange. It shall also disclose information about the accountability measures and punishment of the relevant persons liable by the Board of Directors.



## VI. Shareholders' Meetings

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- (I) The 2008 Shareholders' General Meeting of the Company was held on 28 April 2009, in Shanghai, and the public notice of the resolution was posted in the next day's *China Securities News*, *Shanghai Securities News*, and *Securities Time*.
- (II) The first Temporary Shareholders' General Meeting of the Company was held on 2 March 2009, in Shanghai, 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

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### (I) Review of the Company's Operation

In 2009, guided by *Plans for Adjusting and Accelerating the Steel Industry*, China had furthered its efforts in implementing the relevant policies pertaining to the adjustment of the structure of its steel industry with a view to boosting the industrial competitiveness. As a result, regional restructuring of domestic capacity had been accelerated and merger and restructuring had entered a stage of development.

Driven by a package of stimulating policies by the state, the domestic production of crude steel had set a historic high, reaching 568 million tons, a 12.9% increase than the previous year. The rising demand, the recovery of the demand by the automobile and home appliance industries in the second half of 2009 in particular, had made the domestic steel price bottom out and rebound. In general, the price had shown a trend of small fluctuations at a low level in the first half of 2009 and leaping high in the second half of the year. The price fluctuation cycle of steel products shortened, but the fluctuation range widened. The overall steel selling price of the steel industry in the year was lower than the average level of the first three quarters in 2008. Driven by the rising demand for steel and the recovering steel price, the import of such raw materials and fuels as iron ore and coking coal had jumped dramatically and the purchasing prices of major raw materials and fuels like coke, coal, scrap steel, and ferroalloy entered a up-moving cycle from the third quarter of 2009. However, affected by the dramatic demand shrinkage in the international market, trade protection, and changes of exchange rate, the export of domestic steel dropped sharply than the previous year and the import rose to a certain extent. Major large and medium-sized iron and steel enterprises achieved a total profit of RMB55.39 billion in 2009, a 31.4% drop from the previous year.

Confronted with the global economic crisis and the severe market situation, all the employees in Baosteel had steadfastly carried out various work and the measures to address the crisis, underlining product management, sparing no efforts in lowering costs, and making great effort to reform the management, so as to ensure the overall stability of production and management. In 2009, the Company sold 22,429 million tons of steel and realized a total revenue of RMB 148.53 billion and a pre-tax profit of RMB7.29 billion, registering a 10.5% drop from the previous year.

#### 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 sheets and coils, heavy plates, cold-rolled sheets, galvanized sheets, tin plates, color-coated sheets, electric steel, seamless tubes and pipes, UOE & HFW welded pipes, hot-rolled pickled sheets, high-speed wires and rods, stainless steel, and special steel, which are widely applied and used in industries such as automobile, 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 automotive sheet, steel for household appliance, electrical 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.

#### 2. Company priorities

##### (1) Improving the Company's management performance by intensifying efforts for market development

Making continuous efforts to optimize the product mix and boost product competitiveness. Optimizing the product mix based on profit-earning ability, the Company realized a sale of 9.683 million tons of its exclusive and leading products in 2009. It also expanded its market shares in the medium and high-end markets, selling 2.736 million tons of carbon steel products by import substitution in 2009. The sales ratios of deep punching automotive sheets and high strength steel products had increased steadily; the electro-galvanized products had entered the high-end OA market (steel for office equipment use); the high-grade electric steel had broken the monopoly of foreign enterprises on steel used for DC inverter compressors; the proportion of high-end oriented silicon steel had reached over 50%, providing steadily for over 300 users at home and abroad.

Energetically promoting new product development and expansion supported by the production-marketing-research team. Making a close follow-up of its customers' demands, the Company promoted its production, marketing and research from a broader and in-depth perspective, centering mainly around its exclusive and leading products. As a result, the sales rate of its new products reached 19.8% in 2009. The Meisteel cold-rolled series products gained users' recognition very soon, which ensured the normal trial production of the Meisteel cold-rolled series lines. By means of technology transfer and on-the-spot guidance, the productive capacities for high-grade steel at Meisteel and Stainless Steel Business Unit were raised notably, greatly improving their ability to resist market risks.

Popularizing the economic operation mode of balanced production and sales to ensure the optimization of the Company's profit. Following the mode of economic operation, the Company had balanced its production and sales and established a dynamic iron and steel capacity adjustment mechanism based on market demands. In the first half of 2009, it operated under low loads, looking for markets and accumulating stocks; in the remaining half of 2009, it strived for stable and high output in an effort to satisfy the demands of the customers, in particular those of automotive plants. Its marketing system underwent severe tests. In 2009, the Company sold 3.315 million tons of cold-rolled automotive sheets, occupying 50.1% of the domestic market. In addition, it gave full play to the synergistic effect, established a management mode of mutual-supply of materials that gave priority to economic efficiency, and continued to promote the inventory management of finished products based on lean operation levels.



Enhancing the comprehensive competitiveness of the Company by intensifying efforts in material supply for major projects. In 2009, the Company participated in 168 major projects and other projects or programs and the total contracted amount of materials being supplied reached 1.072 million tons. It had made striking achievements in supplying steel materials to such construction projects as the second pipeline of West-to-East Gas Transmission project, the World Expo project, the Asian Games project, the Yangshan Deep-Water Port project, the Zhoushan Island-Land Link project, Oil Tank project of CNPC and SINOPEC, the Nuclear Power project, and Hongqiao Integrated Transportation Hub. This had enhanced the image of the Company in the construction of major projects and promoted at the same time the Company's research and development in hi-tech products.

(2) Making all-round efforts to lower costs

The Company had made all-round efforts to lower costs, adopting a series of measures, such as improving product quality, optimizing the mode of production organization, lowering the costs of hot metal and resource utilization, increasing the resource recycling, and reducing the expenses on maintenance and labor subcontracting. As a result, the cost competitiveness of the Company was effectively improved.

The Company strengthened the management of purchase and supply, optimized the plans for coal blending and ore blending, increased control on the target cost of hot metal, and emphasized the product quality and productivity at the procedures of coking and sintering, as a result of which, the per unit cost of the hot metal was lowered by 19.2% on the year-on-year basis.

The Company optimized the mode of production organization, established an inventory management system, and set up a model of inventory index, thus forming a alert mechanism for inventory risks. The Company's net bal of inventory at the end of 2009 was RMB 618 million lower than at the beginning of 2009. And its annual days of stock rotation in 2009 was 82 days, 15 days faster than the previous year, effectively ensuring the turnover of the operating capital and the control of management risks.

The Company worked hard to promote equipment maintenance, optimizing the maintenance modes based on the loads of productivity of different production lines. It strengthened routine equipment maintenance and the examination and approval of maintenance programs in an effort to reduce the maintenance load, raise maintenance efficiency, and lower material consumption, and as a result, the maintenance expenses in 2009 declined by 27.6% compared with the previous year. In addition, it compressed the subcontracted services, optimized the manufacturing techniques, and promoted the regional adjustment of labor subcontracting, and consequently, its expense on subcontracted services in 2009 was 24% lower than the previous year.

The Company spared no efforts to raise its manufacturing capacity, optimize the division of work at different production lines and lower the quality cost. In 2009, its comprehensive ratio of merchandise on hand was 1.94% lower than the previous year.

The Company tried hard to lower cost in energy use and its cost per ton of steel in 2009 was 22.8% lower than the previous year. In addition, it optimized the management mode of meticulous use of solid and waste resources and expanded the channels for recycling. In 2009, its rate of recycling the solid and waste resources reached 25.4%, 1.91% higher than the previous year.

The Company made active efforts to control costs, and the marketing and administrative expenses in 2009 were RMB 1.48 billion lower than the previous year, a drop of 19.6%. Moreover, through the dynamic tracing of the financing interest rate of home and foreign currencies and exchange variance, it had taken such measures as the selection of low-cost financing and the issuing of medium term notes, as a result of which its financial cost dropped by RMB 420 million (20.1%) than the previous year.

(3) Raising management efficiency through the implementation of management reform

In 2009, the Company promoted management reform from three aspects in an effort to raise its management efficiency. The three aspects were: reducing hierarchies of management, specifying the main body of management, and streamlining management agencies and administrative staff.

Based on the principle of "simplification for efficiency", the Company, in order to raise management efficiency, compressed the hierarchies of management, reducing 10 department-level agencies and 30 office-level agencies. It established the business units for stainless steel, special steel and steel pipes, tubes and bars and clarified the responsibility system of product management. Currently, the three business units were functioning smoothly. In addition, the Company also promoted the flattening of the marketing system, which increased its ability to respond quickly to market changes.

(4) Investment programs in key fixed assets under proper control

The Company set strict limit on the number of new construction projects and the scale of investment. Its fixed assets investment was RMB 17.76 billion in 2009, a 38.1% drop from the previous year.

A batch of key projects was completed one after another. For example, the new continuous annealing line added to Baosteel 2030 Cold Rolling Plant started hot load test on December 15 ahead of schedule, setting the shortest record in the construction of cold rolling continuous annealing line at home and abroad; the product mix adjustment project of Mesteele's 1422 Hot Rolling Plant was officially and completely put into hot load test and production on October 1, ushering in a new era for Baosteel's open type independent integration and innovation; COREX furnace coal briquetting project, the first one in China developed independently by the Company was successfully completed.



## VII. Board of Directors' Report

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The construction schedule of such projects as the cold-rolled stainless steel strip project of Stainless Steel Business Unit, the steel mill project and the technical revamping project of titanium-nickel special metal sheet of Special Steel Business Unit, and Luojing Step 2 project of Medium & Heavy Plate Branch was under control generally.

### (5) Focusing on key technology to accelerate product innovation

The Company made major breakthroughs in the research and development and production of silicon steel, completing the small-scale, trial making of top high-grade products and successfully developing the grain-oriented silicon steel with laser scribing, the top product among the top-grade silicon products, breaking the monopoly of foreign products in the high-performance transformer industry.

Through the implementation of the major project of ferritic stainless steel with medium chromium, the Company formed a large-scale stable supply ability of white coil, one of the BN series products. In addition, it also developed fine stainless steel used for railway freight cars, which was better than the same type of materials produced in other parts of China, Germany and Japan.

The Company succeeded in the trial batch manufacture of ultra-high alloyed high steel grade oil tubing for the first time in China, which were used successfully at Puguang Gas Field, setting the records of the largest specification of oil tubing and the highest production of gas wells, the highest steel strength, the worst erosive environment in running. In addition, it rendered support to the construction of the second pipeline of West-to-East Gas Transmission project, trial-made and mass-produced the steel plates and UOE welded pipe for X80 grade. It developed the steel plates used in TMCP hull plate with the max. thickness of 80mm, the technical indicators of which satisfied the requirements of each classification society and passed their certification testing.

### (6) Contriving environment management to greet the new challenges in the "low-carbon" era

Focusing on the promotion of environment management, the Company established a dynamic management and control system for energy and environment protection, worked hard to launch projects that could improve costs in energy, worked out the organizational system, responsibility system and target system of environment management, in an effort to raise to a new height in energy and environment protection management and the technology of energy-saving and emission-reduction.

The Company made rational use of energy replacement to reduce the amount of high-priced energy used. It conducted special auditing of energy-saving and emission-reduction, conducted self-diagnosis of energy management, and established a network of energy efficiency management characterized by "key energy-efficiency factor" and the management ladder of "energy consumption sources". In 2009, the Company's comprehensive energy consumption per ton of steel was reduced by 25.8 kilograms of standard coal compared with that of the previous year.

The Company optimized the operational mode of environmental protection equipment, promoted the economical operation of the environmental protection equipment, made donation to build the environment monitoring center of Baoshan District in response to the city's and Baoshan District's three-year action plan for environmental protection, compiled the *Environmental Protection Action Plan to Greet the World Expo*, and strengthened and improved the environmental protection level at the factory area. The Company's total amount of SO<sub>2</sub> emission and COD discharge in wastewater in 2009 were 19.5% and 28.7% lower than the previous year respectively.

### (7) Effectively optimizing the debt structure and lowering the fund cost

In 2009, the Company registered the quota of issuing RMB 10 billion worth of medium term notes and RMB 10 billion worth of short term financing bills. Seizing the favorable opportunities in the market, the Company issued RMB 10 billion yuan medium term notes at a coupon rate of 2.66% and a maturity of 3 years, creating the two records of lowest issuing interests and largest issuing amount among the domestic peers in the same period.



## (II) Overall Performance in the Reported Period

## 1. Operating results

In the reported period, with its management focus on promoting the programs of product management, lowering costs from all aspects and enhancing system capability, the Company worked, with the common effort of the management and the whole staff, for its planned objectives. The sales of steel products in the year reached 22.429 million tons, a 1.6% decrease as against the previous year; the total business revenue amounted to RMB 148.53 billion, a 26% drop as against the previous year; the pre-tax profit was RMB 7.29 billion, a fall of 105% as against that in the previous year; the net profit totaled RMB 6.1 billion, among which RMB 5.82 billion were attributable to the shareholders of the listed Company.

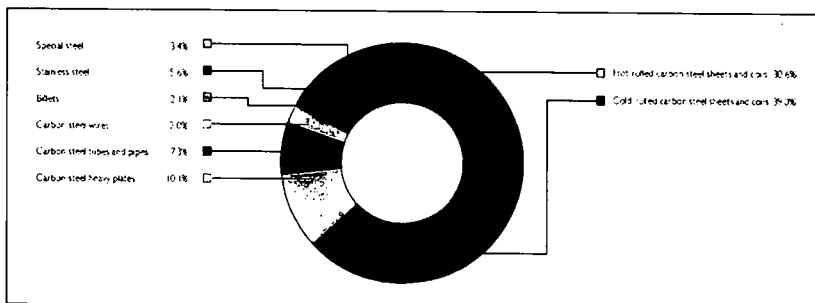
## 2. Distribution of business income and cost of principal business segments:

(RMB Million)						
Segments	Revenue	Cost of goods sold	Gross Margin (%)	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin (%)
Iron & steel manufacturing	126,525	115,421	8.78%	-23.63%	-21.85%	2.08% lower
Iron & steel sales	129,824	126,619	2.47%	-24.86%	-25.20%	0.45% higher
Others	9,724	8,355	14.08%	-13.39%	-11.10%	2.22% lower
Deduction between segments	-117,490	-115,938	1.32%	-21.06%	-22.88%	2.34% higher
Total	148,583	134,457	9.51%	-26.02%	-23.62%	2.85% lower

Note: Based on the internal organizational structure, the Company is divided into the segments of iron and steel manufacturing, iron and steel sales, and the sector of other affairs. The iron and steel manufacturing segment consists of such iron and steel manufacturing units as carbon steel, stainless steel, and special steel; the iron and steel sale segment consists of such trading units as Baosteel International and overseas companies; the segment of other affairs consists of such units as finance, chemical industry and IT, etc.

## 3. Distribution as per products:

## (1) Distribution of sales of steel products





## VII. Board of Directors' Report

### (a) Carbon steel

The Company's carbon steel products mainly include hot-rolled products like hot-rolled sheets and heavy plates, cold-rolled products like plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color coated sheets, electrolytic tinning sheets and electric steel, as well as other products like steel pipes and tubes, wires and rods, and billets.

#### Hot-rolled products

Hot-rolled products include pipeline steel, steel for cold forming, automotive steel, mechanical structural steel, anti-corrosion structural steel, hull structural steel, boiler and pressure vessel steel, and tool steel, etc, which are widely used in such industries as petroleum and natural gas transmission, automobile, engineering machinery, bridge, building, ship, pressure vessel, and hardware and tools. In 2009, the Company made use of its advantages in thinning with high strength to tap the needs of the customers and develop the market of special cars, and as a result, the shipments of 700MPa high-strength steel increased by over 100% compared with that of the previous year. In addition, the Company developed the BDER550 hot-rolled magnetic yoke steel, which had gained the recognition of the customers. The Company developed such exclusive and leading products for automobiles as QSTE420S00TM, B420S10L, and MDB350, and N80 pipeline steel for oil casing. It also succeeded for the first time in the development of 20Cr alloyed structural steel used in mechanical parts.

In 2009, the shipments of hot-rolled products (including pickled products, but excluding heavy plates) was 6.952 million tons, making up 33.7% of the Company's shipments of carbon steel products. The shipments of pipeline steel was 1.044 million tons, taking up a 33.4% share in the domestic market. The shipments of high strength steel for engineering machinery was 141,000 tons, accounting for 38.4% of the domestic market.

#### Heavy plates

Heavy plates include plates for ships, energy pipelines, and construction, among others, which are used in industries of shipping building, offshore oil platforms, pressure vessels, oil and natural gas transmission, power, machinery bridge and building, etc. The year of 2009 witnessed the most new products of heavy plate with the highest grades launched by the Company into the marketplace. A batch of high-end products, such as the newly developed A517Q rack steel used in oceanic platforms, the extra-thick B610CF quenched and tempered steel, and 12Cr2Mo1R steel for reactor internals, were successively applied in such key projects in China as the first Generation IV nuclear power station in the world and hydropower projects, winning favorable comments from the high-end customers of heavy plates. In addition, the Company actively cooperated with the implementation of the state's nuclear power development planning to promote the localized production of steel for nuclear power succeeding in producing steel plates used for the manufacturing of nuclear power steam generators, and the first batch of the products will be used in the extension program of nuclear power stations.

In 2009, the shipments of heavy plates was 2.280 million tons, making up 11.0% of the total shipments of the Company's carbon steel products. Among it, the shipments of ship plates was 1.357 million tons, taking up a 7.8% share of the domestic market.

#### Cold-rolled products

Cold-rolled products include plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color-coated sheets, tin plates, chrome plated sheets, electric steel, and full hard coils for use in the industries of automobile, home appliance, construction, packaging and transformer manufacturing mainly.

The automotive sheets manufactured by the Company have been widely used in joint ventures and domestic auto makers in the country, among which, the product quality of automotive exposed panels, high strength steel and IF steel enjoys remarkable competitive edge in the domestic market. In 2009, the Company further optimized the product mix of automotive sheets and increased the sales proportion of deep punching steel and high strength steel products. Batch supply has been realized for automotive steel with a tensile strength of 60Kg and the production of 80Kg grade products was organized as per forward contracts.

The Company's home appliance steel has been widely used in the industries of a/r conditioner, refrigerator, washing machine, micro-oven, color television, DVD player and computer. In 2009, efforts were made to make the refrigerator panels thinner and wider, covering all specifications of refrigerator panels. The electro-galvanized products had marched towards the high-end OA market. The color-coated products for home appliance with high surface and gloss requirements were developed, so that the extreme specifications of color-coated and galvanized products for home appliance were further expanded.

The electric steel products are mainly used in the electric motors, compressors, and transformers. In 2009, the Company furthered its efforts to expand the market of non-oriented electrical steel in DC inverter compressors and wind power generation equipment, and the annual shipments of high-grade electric steel increased by 22% y-o-y. Oriented electrical steel products have been stably supplied in batches to the well-known domestic transformer enterprises.

The shipments of cold-rolled products in 2009 was 8.939 million tons, making up 42.8% of the total shipments of the Company's carbon steel products. Among them, the shipments of cold-rolled automotive sheets, home appliance steel, high-grade color coated sheets, and non-oriented electrical steel were 3.315 million tons, 2.35 million tons, 1.32,000 tons, and 1.09 million tons respectively, taking up 50.1%, 37.3%, 54% and 22.4% of



the domestic market respectively

#### Steel tubes and pipes

The steel tubes and pipes are of two types: seamless tubes and welded pipes. The former includes oil well pipes, high pressure boiler tube and machining tubes, and the latter includes welded casings, line pipes and structural tubes. These products are used in petrochemical industry, boiler building, mechanical processing, geology, transportation, and coal mining industry. In 2009, confronted with the severe market situation of steel pipe products, the Company strengthened strategic cooperation with its users and worked actively to explore new cooperation modes in an effort to win customers with value-added services. During the year, it had cooperated with its customers in developing quick joint products and BT-S13Cr110 products. After the successful promotion in 2008, the Ni-base alloy products won more customers in 2009. The grade of HPFW welded line pipe products was further improved and the shipments of X60 and above high steel grade pipelines made up over 50% of the total shipments of HPFW line pipes. The UOE products covered major customers in the country and their popularity was enhanced.

In 2009, the shipments of steel tubes and pipes reached 1.66 million tons, making up 80% of the total shipments of carbon steel products. Among them, the high pressure boiler tubes, oil well pipes, and welded line pipes had a domestic market share of 23.5%, 20.2% and 17.8% respectively.

#### Wires and rods

Wire and rod products include steel cords, spring steel wire rods, cold heading steel wire rods, high strength steel strands, bridge cables, and welding wires, which are widely used in the fields of radial tyre manufacturing, automotive components, fasteners, bridge building, and mechanical manufacturing. In 2009, the shipments of bloom steel cords exceeded 80,000 tons and its market share was increasing steadily. Progress had been made in the localized production of cold heading steel wire rods for automotive use, the cylinder head bolt for automotive engine (B-SCM435) passed the certification by the users and the cylinder head bolt for automotive engine (15B25M) was in trial use by the users. An agreement on the supply of fasteners at the front axle of the chassis (35K) had been signed with the users.

In 2009, the shipments of wires and rods was 461,000 tons, making up 2.2% of the total shipments of carbon steel products. Among them, the shipments of steel cords was 81,000 tons, taking up 9.5% of the domestic market.

#### Steel billets

The Company's major products of steel billets include auto axle steel, oxygen bottle steel, die steel and other high value-added products. In 2009, seizing market opportunities, the Company went all out to promote the sales of exclusive and leading billet products and accelerated the trial making and production of its exclusive product, mooring cable steel R5.

In 2009, the shipments of steel billets was 466,000 tons, making up 2.2% of the Company's total shipments of carbon steel products.

#### (b) Stainless steel

The stainless steel products cover 300, 400 and BN series cold-rolled and hot-rolled products, including austenite, ferrite, martensite, ultra martensite, ultrapur ferrite, dual phase steel, ultra-low-carbon steel, nitrogen stainless steel, etc., which are widely used in such industries as automobile, home appliance, solar energy, building decoration, pressure vessel, container, elevators, rail transportation, and metal products. In 2009, while focusing on the demands of the users, the Company continued to develop new products to satisfy the requirement of the customers, substitute imported products, and lower the use cost of the customers. During the year, the Company mainly developed nickel saving stainless steel represented by BN1D/P and BNDDQ, antibacterial stainless steel represented by B430K, nuclear power steel represented by S135 and S165, and steel for auto exhaust pipes represented by B436L, B409M, B441, and B432L. The BA2 surface stainless steel was successfully used in mobile phone panels and B445R was supplied for the construction of the Asian Games Stadium.

In 2009, the shipments of stainless steel products was 1.262 million tons, making up 5.6% of the total shipments of the Company's steel products and taking up a 15.7% share of the domestic market.

#### (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 pies, steel clasps, steel discs and shaped steel, which are widely used in aviation, aerospace, energy, automobile, railway, ship building, machinery, power station, electronic instrument petrochemical industries. In 2009, the Company succeeded in making such specially alloyed sheets as 2205 and Incoloy800H and developing such hot extrusion tube blanks as 321 and 690, and realized batch production of these products.

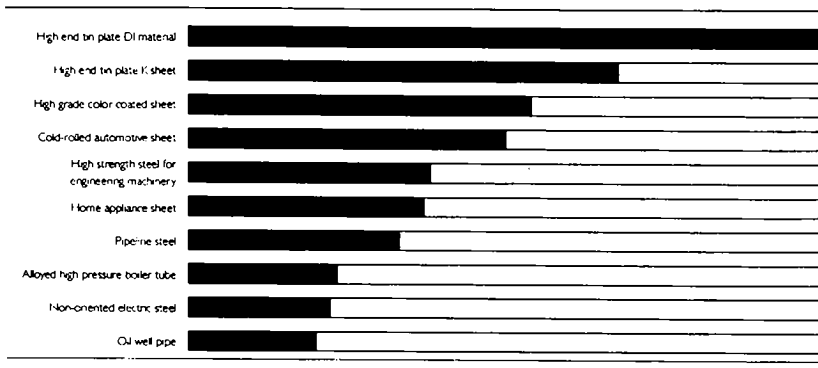
In 2009, the total shipments of special steel was 762,000 tons, making up 3.4% of the total shipments of the Company's steel products. Among them, the shipments of special metallurgical series was 43,000 tons, taking up 1.3% of the domestic market.



## VII. Board of Directors' Report

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Domestic market share



The revenues and costs of major products of the Company are as follows

(10 thousand tons and RMB million)

Product	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (%)
Cold-rolled carbon steel	36,810	30,264	17.78%	-3.24%	-6.24%	2.63% higher
Hot-rolled carbon steel	28,312	24,602	13.10%	-40.84%	-38.55%	3.24% lower
Heavy plates	9,626	10,201	-5.98%	-20.12%	18.99%	34.84% lower
Steel tubes and pipes	10,366	8,942	13.74%	-9.44%	-5.48%	3.61% lower
Stainless steel	14,106	13,516	4.18%	-5.80%	-17.49%	13.57% higher
Special steel	6,495	7,345	-13.08%	-32.69%	-26.01%	10.22% lower
Other steel products	5,480	5,546	-1.20%	-34.25%	-30.48%	5.48% lower
Total	111,196	100,417	9.69%	-21.89%	-19.43%	2.76% lower

Note: The shipments of steel products of the Company in 2009 included 1.437 million tons of carbon steel products sold to BNA, but did not include 1.69 million tons of cold-rolled products sold by BNA.

### 4. Major markets

Sales revenues and cost by geographical regions:

(RMB Million)

Regions	Revenue	Cost of goods sold	Gross margin (%)	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (%)
Domestic market	134,627	122,758	8.82%	-23.64%	-21.19%	2.84% lower
Foreign market	13,955	11,699	16.17%	-43.14%	-42.28%	1.24% lower

In 2009, the Company exported 1.727 million tons of iron and steel products and the regional distribution of steel products is as follows:

Regions	2009	2008
East Asia	47.2%	45.1%
Southeast Asia	21.0%	21.1%
America	12.5%	16.0%
Europe and Africa	19.3%	17.8%
Total	100.0%	100.0%



### 5. Major suppliers and customers

In 2009, the Company's procurement amount from the top five suppliers accounted for 26.9% of the total annual procurement.

In 2009, the Company's sales income from the top five customers accounted for 12.2% 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 201.14 billion, with an increase of RMB 1.12 billion as compared with that at the beginning of the year. The total liability was RMB 99.92 billion, RMB 2.26 billion less than that at the beginning of the year. The shareholder's equity reached RMB 101.22 billion, with an increase of RMB 3.38 billion as compared with that at the beginning of the year. The debt-to-asset ratio of the Company was 49.7%, a drop of 1.4% as compared with that at the beginning of the year.

(RMB Million)

Assets	2009	2008	Increase/ Decrease	Liabilities and shareholders' equity	2009	2008	Increase/ Decrease
Current assets	52,666	58,759	-6,093	Current liabilities	70,722	72,042	-1,320
Including inventory	29,462	35,645	-6,183	Including short term loans	24,274	24,104	170
Receivables	12,994	10,507	2,487	Non-current liability	29,202	30,141	-939
Long-term equity investment	4,207	3,850	357	Including long-term loans	5,295	14,202	-8,907
Fixed assets	115,466	109,188	6,278	Total liabilities	99,923	102,183	-2,260
Intangible assets	7,837	5,965	1,872	Total of liabilities and shareholders' equity	101,219	97,838	3,381
Total assets	201,143	200,021	1,122	Total debts and equities	201,143	200,021	1,122

- (1) As the automobile and petroleum industries were recovering gradually, the sales and prices of steel products had been getting stabilized and increasing. In order to promote sales and ensure the safe return of loans, the Company had increased its collection of notes from outside and its receivables had risen by RMB2.17 billion.
- (2) The Company's inventory was RMB 6.18 billion lower than the previous year, mainly because of the Company's special emphasis on the control and management of rational inventory and its effort to optimize the inventory structure and compress the occupation of the inventory funds.
- (3) The Company's advance collections had increased by RMB 1.83 billion as against the previous year, mainly because of the sales recovery in the second half of the year, the intensified efforts in sales by Baosteel International, and the increase of the advances on sale as a result of the rise of the proportion of full amount advances collection settlement.
- (4) The Company's long-term loans were reduced by RMB 8.91 billion and its bonds payable was increased by RMB10.28 billion, mainly because of the Company's issue of RMB 10 billion worth of medium term notes in an effort to optimize its debt structure.



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## 7. Expenses and income tax changes during the report period

## (1) Operation and management expenses

(RMB Million)

Item	2009	2008	Difference	Difference rate
Sales expense	1,459	1,853	-394	-21.3%
Administrative expense	4,592	5,676	-1,084	-19.1%

The Company's sales expenses and administrative expenses were reduced by RMB 390 million and RMB 1.08 billion respectively in 2009, following the requirement of increasing control on cost expenses, the Company combed each of its cost expenses carefully, abiding by the two principles of not incurring new expenses and not increasing expenses. In addition, efforts were made to promote cost control, adjust expense standard and strengthen control over expense budgets, as a result of which, all the expenses had been lowered dramatically. The expenses under key control in 2009 were reduced by one third to one half compared with 2008.

## (2) Financial expenses

(RMB Million)

Item	2009	2008	Difference	Difference rate
Interest income	-34	-157	123	-78.5%
Interest expense	1,665	3,223	-1,558	-48.3%
Exchange gains or losses	-4	-1,024	1,020	-99.6%
Others	48	54	-6	-10.3%
Total	1,676	2,096	-420	-20.1%

The Company's financial expenses were reduced by RMB420 million compared with the previous year. This was mainly because the Company had staged a series of measures in 2009 to lower its active debts, such as increasing control over operating funds and compressing equity-type expenses. Meanwhile, the Company had seized the opportunity of interest reduction to optimize its debt structure through sequencing the comprehensive financing cost ratio. As a result, its interest expense was RMB 1.56 billion lower than the previous year. At the same time, due to the influence of the 6% drop of the value of RMB against that of the US dollars, the Company's exchange earnings were RMB 1.02 billion lower than the previous year.

## (3) Income tax expense

(RMB Million)

Item	2009	2008	Difference	Difference rate
Consolidated pre-tax profit	7,294	8,154	-860	-10.6%
Consolidated income tax expense	1,199	1,553	-354	-22.8%
Effective tax rate	16.4%	19.1%	2.6% lower	

Since the Company's tax privilege was increased slightly but its total profit was lower than the previous year, so the actual income tax rate of the Company was slightly lower than 2008.

## 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 2009	As at the end of 2008	Change	Impact upon profit of the period
Transactional financial asset	546	1,141	-595	-113
Financial assets available for sale	1,056	860	196	-
Transactional financial liability	6	12	-6	6
Total	-	-	-	-107



## 9. Cash flow analysis

The Company's cash and cash equivalents in 2009 had a net decrease of RMB 1.45 billion, among which the net cash inflow from operating activities was RMB 23.99 billion, the net cash outflow from investment activities was RMB 17.49 billion and the net cash outflow from financing activities was RMB 7.94 billion.

In 2009, the net cash inflow from operating activities was RMB 23.99 billion, RMB 7.75 billion higher than the previous year, among which Finance Co.'s net cash outflow from its financial activities of lending, borrowing, payment and receipt of interests, selling and buying back financial assets was RMB 4.21 billion, while the cash outflow in 2008 was RMB 9.06 billion. Without considering the impact of Finance Co., the net cash inflow from operating activities of the Company was RMB 28.20 billion, a growth of RMB 2.9 billion from RMB 25.3 billion in 2008. During the report period, confronted with the global financial crisis and the severe market situation, the Company's profit was somewhat reduced, but its relatively higher depreciation level still brought to it RMB 22.24 billion of earnings before interest and tax (EBITDA). Meanwhile, the Company worked actively to meet with the market situation, strengthening the control and management of operating funds, adopting measures to lower stock fund occupation and ensure the timely return of sales loans. As a result, the Company registered a growth in the net cash inflow from operating activities compared with the previous year.

The net cash outflow from investment activities was RMB 17.49 billion, RMB 10.11 billion less than in 2008. Without taking into account of the net cash outflow of RMB 1.10 million due to the short-term investment increased by Finance Co., which was net inflow of RMB 1.11 billion in 2008, the net cash outflow for investment in the Company totaled RMB 17.38 billion in 2009, a fall of RMB 11.33 billion from the net cash outflow of RMB 28.71 billion for investment in 2008. This was mainly due to the principle adopted by the Company in 2009, characterized by living within its means and compressing investment in fixed assets. As a result, the cash paid to purchase fixed assets, intangible assets, and other long-term assets was reduced by RMB 8.25 billion than in 2008.

The net cash outflow from financing activities was RMB 7.94 billion, as against a cash inflow of RMB 2.7 billion in 2008. In 2009, the Company received RMB 9.91 billion of cash from issuing medium-term notes and returned RMB 9.79 billion of bank loans, long-term debt of RMB 3.67 billion. The total net repayment was RMB 3.55 billion, while the fund received from new financing activities in 2008 was RMB 11.64 billion.

## 10. Technology innovation and R&D investment

The Company's R&D investment rate in 2009 was 1.75%, the selling rate of new products was 19.8%. In addition, the Company had applied for 939 patents (among which 384 were invention patents) and licensed 659 patents. Two programs, *Development of 3 Cr Series Oil Tubings and Casings with Good CO<sub>2</sub> and H<sub>2</sub>S Corrosion Resistant Properties* and *Online Testing Technology of High-Speed Cold Rolled Strips*, won the second prizes of National Award for Technological Invention and National Award for Scientific and Technological Progress respectively. In addition, in the selection of the 2009 national metallurgy science and technology award winners, the 9 technological innovation achievements chosen by the Company for this event had all won prizes, making the Company the enterprise winning the largest number of prizes. Among them, three achievements, *Development and Application of Tin Plates for Two-piece Pop-top Cans*, *Technological Equipment of the Annealing & Coating Line for Non-Oriented Electrical Steel*, and *Technological Research and Application of Integrated Process Control (BPC) at Baosteel*, won the first prize.

The Company conducted extended technological research for automotive sheet products. Its ultra high-strength steel realized stable production in upstream processes and the manufacturing capacity of 150KG ultra high-strength automotive sheets reached the world's top level. 9 high-efficiency non-oriented electric steel including B35AH230 and B35AH250 achieved mass production and the successful development of the grain-oriented silicon steel with laser scribing, the top product among the top-grade silicon products, breaking the monopoly of foreign products in the high-performance transformer industry.

The 12Cr2Mo1R steel plates used in the high temperature gas cooled reactor internals at Huaneng Shidao Bay Nuclear Power Co., Ltd. realized batch supply of goods, marking that the Company had entered the field of supplying steel plates meeting the standard of first-grade nuclear safety. The program of making 690U tubes used in nuclear power stations in China was officially put into production, symbolizing that the Company had become China's first and the world's fourth enterprise capable of producing tubes used in nuclear power stations. The Company succeeded for the first time in China in producing M65 HFW technology casing and its development of the T92 high pressure boiler tube used in the preheating surface of the ultra supercritical boiler filled a gap in China.

Taking sustainable development as its goal, the Company conducted research in energy conservation, environmental protection and resource recycling. It made rigorous efforts to develop environmental protection technologies like discharge reduction, research in technologies of desulfurization technique for sintering smoke, denigration, and reducing dioxin in flue gas, forming a dioxin data collection method suitable for non-vertical uptakes of the sintering process. The equipment for desulfurization of sintering smoke developed independently by the Company had been in operation for over a year and all the indices met the requirements previously set up. The B55F slag processing technology that took 10 years of research has realized the recycling of converter slag, electrical furnace slag, and ladle slag. It also triggered off the formation of other related industries.



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### 11. Performance of controlled subsidiaries and invested entities

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

As at the end of 2009, 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 2009, Meishan had a total asset size of RMB23.84 billion, a net asset of RMB11.05 billion and a net yearly loss of RMB 0.45 billion.

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

As at the end of 2009, 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 2009, Ningbo Baoxin had a total asset size of RMB6.59 billion and a net asset of RMB2.18 billion and reported a net profit of RMB0.24 billion in 2009.

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

As at the end of 2009, the Company owned 50% of Baosteel-NSC/Arceleor Automotive Steel Sheets Co., Ltd. (BNA). With a registered capital of RMB3 billion, BNA is mainly engaged in the manufacturing and sales of cold-rolled steel sheets and hot-dip and electrolytic galvanized steel sheets for automobile and automotive parts and other services related to its principal business. BNA had total asset of RMB5.12 billion and a net asset of RMB3.42 billion and realized a net profit of RMB0.18 billion as at the end of 2009.

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

As at the end of 2009, 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 asset of RMB1.16 billion and a net asset of RMB0.78 billion and reported a net loss of RMB1.761 million at the end of the reported period.

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

As at the end of 2009, the Company had 39.37% shareholding of Baosteel Huangshi Coating & Galvanizing. With a registered capital of USD8 million, Huangshi specializes in the production and sales of cold-rolled coils, aluminum galvanized steel sheets, color-coated steel sheets and related coated steel products. Huangshi had a total asset size of RMB520 million, with a net asset of RMB110 million and reported a net profit of RMB8.344 million as at the end of 2009.

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

As at the end of 2009, 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 RMB30.76 billion, with a net asset of RMB9.22 billion, and reported a net profit of RMB1.89 billion in 2009.

(7) Shanghai Baosight Software Co., Ltd.

As at the end of 2009, the Company had 55.5% of shareholding of Shanghai Baosight Software Co., Ltd. ("Shanghai Baosight"). With a registered capital of RMB2.60 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 RMB2.01 billion, with a net asset of RMB0.98 billion, and reported a net profit of RMB2.00 million as at the end of 2009.



## (8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2009, 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, "four techniques" services in chemical industry, and import and export activities of its own products. As at the end of 2009, the total asset size of the company reached RMB4.82 billion, with a net asset of RMB 3.50 billion, and pocketed a net profit of RMB0.29 billion.

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

This year the Company additionally invested RMB0.43 billion in Nantong Baosteel Steel and Iron Co. Ltd. alone, making its shareholding of the investee reaching 95.82%. With a registered capital of RMB0.621 billion, Nantong Steel is mainly engaged in production and sales of rebars, round steel bars, steel sections, and semi-finished products (billet steel and steel ingots) as well as other steel products and by-products. As at the end of 2009, the total asset size of the company reached RMB1.85 billion, with a net asset of RMB0.83 billion and a net loss of RMB90 million was reported.

## (10) Baosteel Group Finance Co., Ltd.

As at the end of 2009, 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 2009, the scale of the Company reached RMB9.18 billion, with a total net asset of RMB1.52 billion and the net profit of RMB0.19 billion was reported.

## (11) Yantai Baosteel Steel Tubes Co., Ltd.

As at the end of 2009, the Company owned 80% stake of Yantai Baosteel Steel Tubes Co., Ltd., with the rest owned by Lubao Steel Tubes. With a registered capital of RMB2 billion, Yantai Baosteel Steel Tubes is mainly engaged in manufacturing, processing and sales of steel pipes, their complimentary products and by-products. It also provides technical consultation services on steel tube rolling technology, storage, shipping and exporting services. The company at present is still under construction. Yantai Baosteel Steel Tubes had total asset of RMB1.94 billion and a net asset of RMB1.93 billion and reported a net loss of RMB60 million at the end of the reported period.

## (12) Overseas subsidiaries

By the end of 2009, the Company had overseas subsidiary companies in USA, 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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### (III) The Company's Development in Prospect

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

##### (1) Trend of development of the steel industry

Though the global economy has bottomed out and stabilized, there still exists a lot of uncertainties on its way of recovery. The economic prospect of China is relatively optimistic. The Chinese government will continue to implement pro-active fiscal policies and moderately easy monetary policies and will maintain the continuity and stability of the policies. It will strive to realize a stable, relatively rapid economic and social development centering around the theme of "ensuring growth, adjusting structures, promoting reforms, and benefiting the people".

The world's steel industry will maintain a slow growth and the recovery of the steel market will be a slow and complicated process full of fluctuations. As the economy continues to recover, the consumption demand for steel, especially by the downstream automobile and home appliance industries, will resume growth and the cost increase in the steel industry will finally prop up the price of raw steel materials. Cost competitiveness will remain the fundamental factor of the steel industry.

In the long run, since industrialization and urbanization will support the continuous growth of China's demand for iron and steel, and the heavy chemical industry will continue to dominate China's industrialization, China's steel industry still has space for development. Due to the current imbalance of supply and demand in China's steel industry, the strain of the upstream resources, the export restrictions, the government's adjustment of the economic structure, and the change of the mode of economic growth in the years to come, China's steel industry will face adjustment in the growth mode and structure, which will be a challenge as well as an opportunity.

##### (2) The competitive market the Company faces

Competition in China's steel industry manifests the following characteristics: (a) There is an overall production capacity surplus in the steel industry and the strategic restructuring of the steel industry is being accelerated, gradually forming a pattern of the co-existence of trans-regional enterprises and local enterprise groups. (b) With the product mix adjustment and technological advances of iron and steel enterprises, competition in homogeneity of high-end products has become increasingly fiercer and this is especially true of high-grade sheets. (c) The cost pressure of the enterprises becomes increasingly heavier and iron and steel enterprises have entered an era of "meager profit". (d) Iron and steel enterprises have intensified their efforts to invest in resources overseas and enhancing resource supply will become normal in the industry. (e) Iron and steel enterprises will focus more on the combination of scale, technology and cost, seeking sustainable and comprehensive competitive advantages. This trend of competition will have a far-reaching impact on the pattern of market competition the Company faces.

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 automotive sheet, high-grade color-coated sheet, high-strength steel for engineering machinery, and steel for home appliances in China's domestic market reached 50.1%, 54%, 38.4%, 37.3% respectively and those in high-end DI tin plate and K plate accounted to 100% and 67.7% 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 stainless steel sector had a domestic market share of 15.7%. In terms of special steel, the special metallurgy long products occupied 13% of the domestic market.



## 2. Future opportunities and challenges

### (1) Opportunities

The stabilizing macro-economy provides a fundamental prerequisite for China's stable market demand for iron and steel. In 2010, China will continue to implement pro-active fiscal policies and moderately easy monetary policies and fully improve its package plan and policy measures designed to address the impact of the global financial crisis. Its investment in fixed assets and consumption will maintain a relatively high growth and the iron and steel demands and the steel industry are expected to keep a slow but steady growth.

China will continue to promote the change of the development mode and the continuity of the policy on maintaining a stable and relatively quick economic development will help the development of domestic large and medium-sized iron and steel enterprises. The government will continue to enhance and improve macro-control and will take ensuring growth, expanding domestic demands, and adjusting the structure as the fundamental method to meet with environmental changes and realize sustainable development. The measures to stimulate consumption, such as providing subsidy payment to home appliances and automobiles sold to the countryside and changing old home appliances for new ones, will continue to be implemented. For the steel industry, the principle of merging and reorganization, total amount control and structure adjustment will continue to be implemented and effort will be made to give full play to the role of large enterprise groups and cultivate large and super-large iron and steel groups with international competitiveness.

The low carbon economy and environmental operation pose a severe challenge for the steel industry, but at the same time provide a new opportunity for the development of the large and medium-sized iron and steel enterprises that have implemented the sustainable development of environmental operation. Meeting climate and environmental changes and energy and resource security have become a topic of world concern. Developed countries have taken the development of low carbon economy and new energy as a new breakthrough for economic growth and in the future, low carbon economy and technology will become an important aspect of national competitiveness. If the iron and steel enterprises can seize this major opportunity of world industrial adjustment and the rule of development in the new era, they will stand at an advantageous position in this new industrial revolution.

### (2) Future challenges

Restricted by the rapid change of the external environment, the Company is faced with the adjustment in its original mode and means of competition. There exists an overall production capacity surplus in China's steel industry and competition in homogeneity of high-end products has become increasingly fiercer. Affected by the price of resources and other factors, the cost of the iron and steel enterprises is still at a high level.

As international competition is becoming fiercer, the Company faces severe challenges in expanding international management. The recovering process of this round of world economic crisis might be difficult and long, the international trade protectionism is stepping up, and the increase of the demand of iron and steel on the international market is generally slower than on the domestic market. Therefore, the domestic steel industry shows a tendency of gradually opening for foreign capital.

As the upstream and downstream industries are constantly integrated, the Company is confronted with double attacks, which further increase its pressure. The high degree of international monopoly of iron ore supply and the financialization of some raw iron and steel materials pose a threat to the safe supply of strategic resources of iron and steel enterprises. The fluctuation of the exchange rate of the US dollars will possibly bring about uncontrollable price risks for iron and steel raw materials. The implementation of China's plan to adjust and revitalize some of its industries further integrates the downstream industries of iron and steel.

Confronted with a strain in resources and the development of a low carbon economy, the Company faces higher pressures in energy conservation and emission reduction. It might also be threatened with carbon tax and carbon tariff. In the years to come, carbon emission reduction might become one of the biggest pressures of China's iron and steel enterprises.

### (3) Strategy for future development

Along with the rapid changes of domestic and overseas environment for development, the Company is confronted with the adjustment of its development strategy and the change of its development mode. It will continue to take as its mission "becoming a world-class iron and steel manufacturer and committing to providing value-added 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 steelmaker" as its strategic goal. In addition, it will adhere to the principle of steadfast management and stable development and follow a road of sustainable development that focused on intension. On the course of Baosteel's second pioneering, the Company will take the scientific outlook on development and environmental operation as the guide, implement the intensional development strategy that takes the enhancement and redevelopment of its core competitiveness, product development, technological innovation, management innovation, system capacity, and social responsibility as its strategic focus, and the mode of management and control, technological innovation, ability cultivation, environmental operation, cost control, talent development, and risk management as its major measure.

The Company will combine such methods as product development (quality and performance), the enhancement of product service and the expansion of production mix to constitute product differentiation mix and integration step by step.



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

## (1) Plan for capital needs and use

The Company is expected to make RMB19.55 billion fixed assets investment in 2010, which will mainly be used for a batch of projects to be continued, such as the construction of the subsequent oriented silicon steel project, Luojing Step 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. It will also invest in projects of technical revamping.

After purchasing the relevant assets of the Luojing project of Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd., the Company will, according to the agreement, pay RMB2.87 billion in 2010 to Baosteel Group Shanghai Pudong Iron & 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 basis for the recovery and growth of the world economy and Chinese economy is still not solid and there are still uncertainties and risks.

The slow growth of domestic steel demands and the relatively sustained and rapid growth of iron and steel capacity bring a new impact on the supply and demand balance of iron and steel. China's export of steel products will continue to be suffocated. Meanwhile, the acceleration of the expected inflation and the gradual withdrawal of the economy stimulating policies designed to fight inflation may bring a new impact on the steel industry.

Carbon emission reduction and carbon tariff may become a realistic pressure for the Company.

## (2) Counter-measures

In line with the changes in domestic and overall environment for development, the Company will conduct strategic adjustment, change its development mode and implement a new round of development planning under the guidance of the scientific outlook on development and the notion of environmental operation. It will adhere to the road of intentional development to fully improve its core competitiveness.

On the basis of its construction of the risk management system in recent years, the Company will improve its system of holding regular meetings on risk and risk report, promote its own ability and the ability of other units to fight against risks, and construct the mechanism of promoting key risk management programs. It will manage well 11 key risk programs including market risks.

Based on a new round of planning, the Company will conduct work centering around three themes: production management, cost improvement, management reform and system ability enhancement. It will take market as its orientation of development, strengthen the dynamic interaction between production and sale, optimize the internal flow, and increase operational efficiency, in an effort to create the best performance in the industry in China against a market environment that is most competitive.



## (IV) Operational Plan for 2010

1. The year 2010 is a year of opportunities and challenges. In this year, the Company, centering around a new round of strategic planning, will continue to promote product management, consolidate the achievements made in 2009 through reversed transmission of the pressure, upgrade system competitiveness through management reform, fully launch work on environmental operation and strive to realize sustainable development. For this purpose, the Company puts forward the new requirement of "product management and cost improvement" to adapt itself to new competitions, and the overall management guideline of "improving ability, conducting environmental operation and forging new competitive advantages". It aims to realize a total operating income of RMB170 billion, make the proportion of its exclusive products reach 9%, fully complete its contracts, and make its comprehensive energy consumption per ton of steel less than 746 kilogram of standard coal.

In 2010, the iron and steel production is planned to reach 23.49 and 26.39 million tons respectively; the sale of products is planned to amount to 24.99 million tons; the total operating income and the cost is planned to reach RMB170 billion and 148.1 billion respectively. As the basis for the world's economic recovery is still weak and the export prices of such major materials as iron ore, coke, coal, stainless steel raw materials, and ferroalloy are still uncertain, the management of the Company will handle this situation positively and implement the measures in great detail, so as to maintain the best performance in China against a fiercely competitive market environment.

2. Priority work to be done

In 2010, the Company will promote 16 key programs in 3 aspects centering around product management, cost improvement, management reform and system capacity. It will put at the first place adaptation to market changes, respond to the changes of customer demands quickly, strengthen the interaction among supply, production, and sales, further optimize the internal process, improve the operational efficiency of the organization, and strive to maintain and enhance its comprehensive competitive advantages. The programs are as follows:

- Promoting the mutual material supply of sheet manufacturing and optimizing the product mix;
- Enhancing the inventory management of iron and steel products;
- Promoting the production, sale, and research of the 6 major types of products including automotive sheet and heavy plate;
- Lowering the cost of hot metal;
- Continuing to optimize the maintenance mode and controlling maintenance cost;
- Continuing to optimize the subcontracted services and lowering the cost of production subcontracting;
- Controlling expenses on sales, administrative and financial expenses;
- Lowering the use cost of energy;
- Promoting all-round cost improvement benchmarking;
- Promoting the synergy among the production, supply and research of materials, equipments and components;
- Controlling the investment in construction programs and increasing the management and control ability in the whole process of investment;
- Innovating the management mechanism of research and development and promoting technological advances in different areas;
- Giving full play to the synergetic advantages and improving the competitiveness of the cold-rolled products of Mesteeel;
- Concentrating the product quality improvement and upgrading the manufacturing capacity;
- Promoting work on environmental operation;
- Increasing the capability to fight against risks;



## VII. Board of Directors' Report

### (V) Investments

#### 1. Investment in fixed assets

In 2009, the Company invested RMB 17.76 billion in fixed assets.

#### (1) Fund-raising projects

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

#### (2) Non-fundraising projects

A series of projects have been completed and put into production on schedule, including the overhaul of No. 1 furnace, the continuous annealing/galvanizing pilot unit project, the continuous annealing line newly added to 2030 cold rolling plant, and the structural adjustment and technical renovation of 1422 hot-rolled products of Meisteel. Some key projects are proceeding smoothly according to the plan, including steckel mill project of the special steel unit, the project of the technical renovation of titanium-nickel special metal sheet of the special steel unit, the relocation project of Lubao Steel Tube Co., Ltd and adjustment of its product mix, and Luoging Step 2 project of the medium & heavy plate branch. A series of key projects have started to be constructed, like the project of technical revamping & upgrading of the product mix and technological equipment at Meisteel.

#### (a) Completed projects having been put into operation

The overhaul of No. 1 furnace: Ignited and put into production in February, 2009, this project can ensure the constant and stable supply of high-quality hot metal and at the same time, the independent integration innovation of the project has also helped to form the localization of furnace production unique of Baosteel and the technology of rapid overhaul.

The continuous annealing/galvanizing pilot unit project: Completed and put into operation in March, 2009, this project symbolizes that Baosteel has possessed the production capacity of 100kg ultra high-strength galvanized sheets and 150kg ultra high-strength galvanized sheets for the first time. Meanwhile, through independent integration innovation, the project has also helped to form the unique Baosteel technology of perhydrous fast-cooling and water quenching fast-cooling used for the production of ultra high-strength steel.

The continuous annealing line newly added to 2030 cold rolling plant: Completed and put into operation in December, 2009, this project has had a capacity to produce 860,000 tons of high-grade automotive sheets annually and has formed the post-treatment capacity of home appliance sheets. It is of great significance to the product upgrading of Baosteel's second phase cold-rolled production line.

The project of structural adjustment of 1422 hot-rolled products of Meisteel: Completed and put into operation in October, 2009, this project is the first large-scale sheet cold rolling project constructed in the mode of open and independent integration innovation. It is a successful example of China's localization of the metallurgical equipment.

#### (b) Continued projects

Special steel steckel hot rolling mill project: it aims at building a set of steckel mills, which, after completion, will produce 282,000 tons of steel sheets and coils annually, among which will be 26,000 tons of titanium and titanium alloy, high-temperature alloy, Ni-base corrosion-resist alloy, and precision alloy. The project was started in September, 2007 and the sheet production line was already completed. The coil production line was planned to be completed in February, 2010.

The project of the technical renovation of titanium-nickel special metal sheets of the special steel unit: it aims to build a production line for titanium-nickel special metal sheets, which will produce 75,000 tons of special steel cold-rolled sheets and coils and 24,000 tons of hot-rolled pickled coils every year. The project is now at the stage of equipment installation and is planned to be completed in February, 2010.

The project of the production line of hot-extruded steel tubes of the special steel unit: it aims to build a new hot-extruded steel tube line and its matching equipment, which will produce 23,000 tons of seamless steel tubes, including Ni-base alloy, titanium and titanium alloy, duplex stainless steel. The project was started on 9 January, 2008 and is planned to be completed in March, 2010.

Luoging Step 2 project of the medium and heavy plate branch: it aims to build the Correx process of iron-making, converter-steel-making, slab-casting, oxygen production, CCP power-generation, etc., among which, the No. 3 continuous caster project was started on 28 February, 2008, the Correx process of iron-making on 20 April, 2008, and the oxygen producing project on 19 June, 2008. The continuous caster project is planned to be completed in May, 2011.

The relocation project of Lubao Steel Tube Co., Ltd and adjustment 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 500,000 tons of high-end seamless steel tube products, including high-grade steel, corrosion resistant pipes for oil use only, high-pressure boiler tubes. The first phase of the project, the production line for tube processing, was completed in December, 2009 and the second phase, the production line for hot continuous rolling tubes is under construction and is planned to be completed in April, 2011.

#### (c) Newly-started programs

The project of technical revamping & upgrading of the product mix and technological equipment at Meisteel: Production lines of newly built furnaces, continuous casting, and hot rolling have been built. The project is planned to be fully completed in May 2012.



## 2. Other investments

The Company completed RMB 2.32 billion worth of equity investment programs in 2009.

## 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 Luojing project of Baosteel Group Shanghai Pudong Iron and Steel 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 RMB8.12 billion of funds raised by itself from January to June, 2008 and the funds were transferred from the special account for raised funds 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 Method of Raised Funds Management, the unit of use shall gather last month's actual use of the funds in investment programs early in 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 unit of use and the head of the financial department of the Company.

## (3) Use of funds raised

(RMB million)

Total funds raised	9,940	Total raised funds used in the present year		383		
		Total raised funds used		9,940		
Project of commitment	Changes made	Fund to be invested	Fund invested	As scheduled	Expected profit	Actual profit
No. 5 cold-rolled mill and its affiliated equipments	No	About 2,200	2,062	Yes	IRR: 13.35%	RMB 1.836 billion
Cold-rolling 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 Co., Ltd.	No	2,869	2,869	Yes	IRR: 12.54%	-RMB 0.998 billion
Adjustment of debt structure	No	3,500	3,500	Yes	Not applicable	Not applicable
Total		-	9,940	Yes	-	-

Statement of projects not meeting the planned progress and expected profit

The Medium & Heavy Plate Luojing Project witnessed a loss of RMB 0.998 billion in the period, mainly as a result of the shrunk market demand in downstream ship building industry and continuously falling prices of heavy plates due to the global financial crisis. In addition, the cost per unit increased as the Company operated with a low-load economic model. As the demand in downstream ship building industry recovers and the COREX step 2 project is completed in 2010, effort will be made to improve the profitability of heavy plates with help of cost control and optimized product structure.

Statement of the reason(s) and procedure(s) of project change

None

Future use and direction of remaining fund

None

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

In December 2007, the Company passed Method of Raised Funds Management in an effort to regulate the storage, use, management and supervision of the raised funds. At the end of 2009, 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 Method of Raised Funds Management and the use of the funds raised conformed to what was disclosed in the Statement of Raising Capital Through Share.



## VII. Board of Directors' Report

### (VI) Explanatory Notes from Auditing Firm

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

### (VII) Change in Accounting Estimate

The Company has adjusted the useful life of some of the machines and equipment for stainless steel products from 9-15 years to 15 years on the basis of results of on-site evaluations. The adjustment has resulted in a rise of RMB 0.49 billion in the pre-tax profit in the period, while the net profit attributable to the parent company increased by RMB 0.32 billion in 2009.

### (VIII) 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*

- (1) The sixteenth meeting of the Third Board of Directors was held by means of voting by correspondence in February 2009, and the public announcement of resolutions was posted in the above newspapers dated on 14 February 2009.
- (2) The seventeenth meeting of the Third Board of Directors was held in 26-27 March 2009, and the public announcement of resolutions was posted in the above newspapers dated on 28 March 2009.
- (3) The eighteenth meeting of the Third Board of Directors and the first meeting of the Fourth Board of Directors were held in 28 April 2009, and the public announcement of resolutions was posted in the above newspapers dated on 29 April 2009.
- (4) The second meeting of the Fourth Board of Directors was held in 28 August 2009, and the public announcement of resolutions was posted in the above newspapers dated on 29 August 2009.
- (5) The third meeting of the Fourth Board of Directors was held in 29 October 2009, and the public announcement of resolutions was posted in the above newspapers dated on 30 October 2009.

#### 2. Board of Directors' implementation of resolutions of General Shareholders' Meeting

##### (1) Medium term note and short term financing bill

As approved by the first temporary shareholders' general meeting held on 2 March 2009, the acting directors were entitled to manage issues concerning the issuing of the medium term notes and the short term financing bills (Temporary 2009-002 Notice). National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB10 billion medium term note in its "Notice of Acceptance of Registration" (NAFMII[2009] MTN47) and "Notice of Acceptance of Registration" (NAFMII[2009] CP47). The note and the bill can be issued within the following two years. The notice was published by the Company on 25 May 2009 for issuing the first tranche of three-year medium note and three-year financing bill worth RMB 5 billion, respectively, with a coupon rate of 2.66%. The fund was to be received by 26 May 2009 for bank loans and operating expenses. The second tranche, with the same worth, coupon rate and maturity, was issued on 30 June 2009, the fund was received in the next day and used for operating expenses.

##### (2) Implementation of profit appropriation

According to the resolutions approved at the 2008 shareholders' General Meeting held on 28 April 2009 the proposed profit appropriation for 2008 as follows: All shareholders were entitled to a cash dividend of RMB 1.80 per 10 share (taxes included), for a total dividend payout of RMB 3.15 billion. Details of the dividend distribution were published in the *China Securities News*, *Shanghai Securities News* and *Securities Times* of 9 June 2009. The final share registration date for the dividend entitlement was 12 June 2009, with the ex-dividend date set at 15 June 2009 and dividend payout date on 19 June 2009. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd's Shanghai Branch after the market closed on 12 June 2009, would be entitled to such cash dividends.



### 3. Performance of Auditing Committee under Board of Directors

The "Procedure Rules of Auditing Committee of the Board of Directors" was drafted and revised, in which the structure of the committee, the term of office, duties and procedures are specified. The first edition of the document was approved by the ninth meeting of the First Board of Directors on 1 August 2002, and it was later revised on the second meeting of the third Board on 28 August 2006 and the eleventh meeting of the third Board on 26 March 2008 for improvement.

The "Procedures for Work of Auditing Committee of Board of Directors with Regard to Annual Reports" was approved on the eleventh meeting of the third Board on 26 March 2008.

Constructive suggestions and opinions about the finance and internal control were put forward on the four meetings held by the Committee in the reported period.

The "Procedures for Work of Auditing Committee of Board of Directors with Regard to Annual Reports" was strictly followed by the Committee in reviewing the 2009 Annual Report, acting as an inspector to the Company's financial information, internal control and other performance.

The Auditing Committee had examined the 2009 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 that the Company to interpret the drastic changes of significant events in the 2009 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 2009 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 Company to standardize its operation.

The Auditing Committee discussed and reviewed the proposal to hire Deloitte Touche Tohmatsu CPA Ltd. as the independent auditor for the period of 2010 and agreed to submit it to the Board of Directors for examination.

### 4. Performance of Remuneration & Appraisal Committee

The Committee met three times in the period to profoundly discuss "Methods of Performance Evaluation of Senior Management" and the evaluation indicators and operation target for the President with the outcome of constructive suggestions and opinions.

The Committee met on 23 March 2010 to make 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 2009, and Proposal on the Performance Assessment Target and Goal of Senior Management for 2010 and agreed to submit the above report and proposals to the Board of Directors for examination.

### 5. Performance of Strategic & Risk Management Committee under Board of Directors

The Committee met on 29 March 2010 to make a full discussion and examination of "Proposal on All-round Risk Management Report in 2009" and agreed to submit the proposal to the Board of Directors for examination.



## VII. Board of Directors' Report

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### (IX) Proposed Profit Appropriation

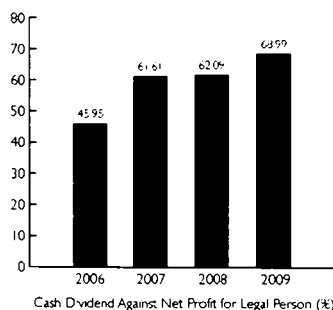
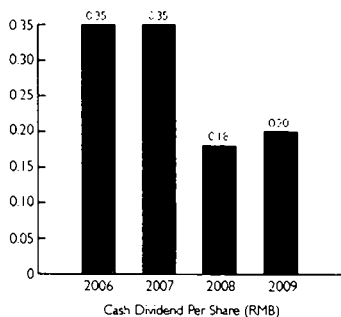
The net profit of the Company in 2009 totaled RMB 5,076,871,428.16. With the addition of the RMB 17,397,044,206.32 of undistributed profit at the beginning of the period and deduction of the RMB3,152,160,000.00 of cash dividend payment for 2008, the distributable profit at the end of 2009 was RMB 19,321,755,634.48.

For the Company's long-term sustainable development and the conception of "maximizing shareholders' value", the Board of Directors proposes the following profit appropriating scheme for the year of 2009:

1. Ten per cent of the net profit, or RMB507,687,142.82, shall be allocated as statutory earnings reserves;
2. Ten per cent of the net profit, or RMB507,687,142.82, shall be allocated as discretionary earnings reserves;
3. In accordance with the demand for fund of the Company in 2010, the Board of Directors has proposed a cash dividend payout of RMB2.0 per 10 shares (pre-tax), with total of dividend payable of RMB 3,502,400,000.00.
4. Other models of distribution, such as capitalizing of common reserves, would not be adopted.
5. Dividend-net profit ratios from 2006 to 2009:

Item	2009	2008	2007	2006
Cash dividend per share (pre-tax) (RMB)	0.20	0.18	0.35	0.35
Total cash dividend (RMB 100 million)	35.02	31.52	61.29	61.29
Net profit for legal person presented in financial statements (RMB 100 million)	50.77	50.77	99.48	133.39
Net profit attributable to parent company in consolidated statements (RMB 100 million)	58.16	68.49	127.02	130.1
Cash dividend against net profit for legal person	68.99%	62.09%	61.61%	45.95%
Cash dividend against net profit attributable to parent company in consolidated statements	60.22%	46.02%	48.25%	47.11%

Note: The cash dividend for 2009 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2009 General Shareholders' Meeting.





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(X) Regulations on Report and Submitting Information to the Outside

The fourth meeting of the fourth Board of Directors approved the revised edition of Methods of Information Disclosure Management pursuant to the requirements set out in CSRC Document [2009] No.34 Announcement on the 2009 Annual Reports of Listed Firms and Associated Tasks, in which regulations on report and submitting information to outside are included

According to the regulations on report and submitting information to outside, efforts should be made to strengthen the management of reporting and submitting information to the outside by emphasizing the procedures of the whole process.

No information from any unit of the Company shall be submitted, following relevant legal procedures, to outsiders earlier than the date on which the Company publishes the brief of its performance. The brief shall not contain less information than that provided for outside users.

In case that information should be submitted to the outside in accordance with relevant laws and regulations, an earlier remainder shall be submitted to the outside unit regarding the filing of the knower and the obligation to keep confidential the information.

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(XI) Others

None



## VIII. Board of Supervisors' Report

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### (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 *Charter of the Company*. The Board of Supervisors attended the seventeenth and eighteenth meetings of the third Board and the first three meetings of the fourth Board to supervise the convening of the Board meetings and ensure that voting procedures on resolutions conform to relevant laws, regulations and the *Charter of the Company*.
- 2 The Board of Supervisors was convened for five meetings in the reported period and the resolutions were published in time. The details of the meetings by the Board of Supervisors are listed as follows:
  - (1) On 27 March, 2009, the Board of Supervisors held its fourteenth meeting of the third Board in Shanghai and approved the following proposals:
    - Proposal for Re-election of Board of Supervisors for the Company;
    - Board of Supervisors' Report;
    - Review of Board of Directors' Proposal for Provisions for Impairment Losses of Assets of the Company as at the end of 2008
    - Review of the "2008 Annual Report and its Abstract";
    - Review of the "Report of the Final Annual Accounts of the Company at the End of 2008";
    - Review of the proposal of "Sustainability Report (2008) of the Company";
    - Review of the proposal of "Self-Evaluation Report on the Internal Control by the Board of Directors of the Company";
    - Review of the proposal of Board of Directors' Proposal of the "2008 Annual Profit Appropriation Proposal of the Company";
    - Review of the proposal of "Adjustment to the useful life of some of the machines and equipment in Stainless Steel Branch and Ningbo Baixin";
    - Review of Board of Directors' Proposal of "Related Transactions of the Company in 2009";
    - Review of Board of Directors' Proposal of the "2009 Budget of the Company";
    - Review of the Board of Directors' Proposal to re-hire Ernst & Young Hua Ming as the auditor of the Company;
    - Review of the Board of Directors' Proposal of "2008 Board of Directors' Report"
  - (2) On 28 April, 2009, the Board of Supervisors held its fifteenth meeting of the third Board in Shanghai and approved the following proposals:
    - Review of Board of Directors' Proposal of the "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Quarter of 2009";
    - Review of the "First Quarter Report of 2009"
  - (3) On 28 April, 2009, the fourth Board of Supervisors held its first meeting in Shanghai and approved the following proposals:
    - Proposal to elect the Chairperson of the fourth Board of Supervisors
  - (4) On 28 August 2009, the fourth Board of Supervisors held its second meeting in Shanghai and approved the following proposals:
    - Review of Board of Directors' Proposal of the "Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Half of 2009";
    - Review of the "2009 Interim Report and its Abstract";
    - Review of the Board of Directors' proposal to revise the "Methods of Performance Evaluation of Senior Management" of the Company and the proposal to adjust the evaluation indexes and targets of the President
  - (5) On 29 October 2009, the fourth Board of Supervisors held its third meeting in Shanghai and approved the following proposals:
    - Review of Board of Directors' "Proposal for Provisions for Impairment Losses of Assets of the Company as at the Third Quarter of 2009";
    - Review of the "First Quarter Report of 2009";



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(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 rules and laws, and regulated the Company's operations accordingly. Board directors and senior managers have behaved responsibly and assiduously in performing their duties and carrying out the resolutions passed by the board and the shareholders alike. None of the directors or senior managers was found to have breached any rules, laws and regulations of the country and the *Charter 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.

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(III) Opinions on the Company's Financial Status

The Company was in good and solid financial health in the reported period. Its financial management and internal control system have been further strengthened. Its 2009 financial statements are a true reflection of the financial condition and operating results of the Company in all major aspects, and the standard, unqualified opinion issued by Ernst & Young Hua Ming in the auditors' report is fair and objective. No malpractices were discovered with regard to their professional duties.

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(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 found in the actual projects.

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

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

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(VI) Opinions on Related Party Transactions of the Company

In the period reported, the related party transactions were carried out according to *Related Party Transaction Management Methods of Baoshan Iron & Steel Co., Ltd.* at fair prices and without any damage to the Company's benefits.



## IX. Significant Events

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### (I) Legal Proceedings

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

### (II) Bankruptcies and Re-structuring

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

### (III) Shares 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 period	Weighting as at end of period (%)	Profit
1	Stock	600089	TBEA	29.56	1,346,084	32.04	5.07	-0.30
2	Bond	058012	05BEIH-ZY(5)	10.00	100,000	10.35	1.71	0.36
3	Stock	601088	Shenhua Energy	8.93	271,000	9.44	1.53	-0.42
Other bonds held as at the end of period				534.88	-	534.90	91.69	-
Profit in bonds sold				-	-	-	-	2.00
Total				583.36	-	586.73	100%	1.64



## 2 Stocks held of other listed companies

(RMB million)

Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Profit	Change in shareholders' equity in the period	Accounting type	Share source
601699	Luan Environmental Energy	5.05	0.44%	305.77	169.60	125.66	Financial assets available for sale	Investment when issued
600508	Shanghai Energy	5.55	0.77%	140.15	71.83	36.56	Financial assets available for sale	Investment when issued
600997	Kailuan Corporation	3.51	0.28%	117.48	62.79	51.51	Financial assets available for sale	Investment when issued
601001	Datong Coal Industry	2.57	0.31%	80.98	46.10	33.41	Financial assets available for sale	Investment when issued
601111	Air China	35.70	0.03%	38.68	-	2.98	Financial assets available for sale	Purchase
600030	CITIC Securities	30.68	0.02%	33.66	0.29	2.98	Financial assets available for sale	Purchase
600000	SPD Bank	34.83	0.02%	32.43	-	-2.40	Financial assets available for sale	Purchase
601899	Zyn Mining	32.76	0.02%	31.50	13.65	-1.26	Financial assets available for sale	Purchase
600999	China Merchants Securities	30.35	0.03%	28.78	-	-1.58	Financial assets available for sale	Purchase
601989	China Shipbuilding Industry	26.14	0.05%	27.66	-	1.52	Financial assets available for sale	Purchase
601666	Pingmei Coal Mining	27.60	0.06%	26.92	-	-0.67	Financial assets available for sale	Purchase
601618	Metallurgical Corporation of China	12.63	0.01%	12.63	-	-	Financial assets available for sale	Purchase
002122	Tianma Bearing	9.96	0.05%	9.27	-	-0.70	Financial assets available for sale	Purchase
601299	China CNR	7.69	0.02%	8.48	-	0.79	Financial assets available for sale	Purchase
300002	Ultrapower Software	4.16	0.06%	7.55	-	3.39	Financial assets available for sale	Purchase
000002	Shenzhen Wanke	11.82	0.01%	6.49	-1.48	-5.34	Financial assets available for sale	Purchase
300028	Geeya Technology	2.05	0.12%	5.64	-	3.59	Financial assets available for sale	Purchase
300039	Kaobao Pharmaceutical	4.24	0.10%	4.24	-	-	Financial assets available for sale	Purchase
600048	Baoli Estate	4.51	0.00%	3.85	2.32	-0.65	Financial assets available for sale	Purchase
002304	Yanghe Brewery	2.00	0.01%	3.81	-	1.80	Financial assets available for sale	Purchase
300001	TGOOD Electric	2.13	0.07%	3.78	-	1.65	Financial assets available for sale	Purchase
300003	Lepu Medical Device	2.05	0.02%	3.62	-	1.57	Financial assets available for sale	Purchase
300008	Bestway Marine Engineering	.96	0.14%	3.59	-	1.63	Financial assets available for sale	Purchase
300006	Lummy Pharmaceutical	1.58	0.10%	3.21	-	1.62	Financial assets available for sale	Purchase
300004	Nanfeng Ventilator	1.87	0.09%	3.20	-	1.33	Financial assets available for sale	Purchase
300010	Lanxum Technology	1.66	0.09%	3.01	-	1.36	Financial assets available for sale	Purchase
002309	Zhongji Science and Technology	2.09	0.03%	2.78	-	0.69	Financial assets available for sale	Purchase
300026	Chase Sun Pharmaceutical	1.81	0.06%	2.75	-	0.94	Financial assets available for sale	Purchase
002320	Hainan Strait Shipping	1.76	0.03%	2.69	-	0.92	Financial assets available for sale	Purchase
300034	Csn-Gaona	.32	0.06%	2.34	-	1.01	Financial assets available for sale	Purchase
300009	Anke Biotechnology	0.93	0.06%	2.32	-	1.40	Financial assets available for sale	Purchase
300011	Dingnan Technology	1.16	0.06%	2.19	-	1.03	Financial assets available for sale	Purchase
300023	Bode Energy Equipment	1.09	0.09%	2.15	-	1.06	Financial assets available for sale	Purchase
300018	Zhongguan Huadian	1.42	0.07%	2.15	-	0.72	Financial assets available for sale	Purchase
300031	Boton Belt	1.38	0.07%	2.05	-	0.67	Financial assets available for sale	Purchase
601139	Shenzhen Gas	0.79	0.01%	1.91	-	1.12	Financial assets available for sale	Purchase
002317	Zhongsheng Pharmaceutical	1.47	0.03%	1.90	-	0.42	Financial assets available for sale	Purchase
300015	Aier Eye Hospital	1.08	0.03%	1.88	-	0.80	Financial assets available for sale	Purchase
300024	Sasun Robot	1.04	0.04%	1.88	-	0.84	Financial assets available for sale	Purchase
300007	Hanwei Electronics	1.14	0.07%	1.86	-	0.72	Financial assets available for sale	Purchase
300019	Guobao Science & Technology	0.96	0.08%	1.83	-	0.87	Financial assets available for sale	Purchase



## IX. Significant Events

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Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Profit	Change in shareholders' equity in the period	Accounting type	Share source
300042	Netac Technology	1.82	0.07%	1.82	-	-	Financial assets available for sale	Purchase
002308	Vtron Technologies	1.34	0.03%	1.80	-	0.45	Financial assets available for sale	Purchase
300035	Zhongke Electric	1.28	0.06%	1.73	-	0.44	Financial assets available for sale	Purchase
300012	Centre Testing	1.03	0.05%	1.72	-	0.69	Financial assets available for sale	Purchase
002333	Lopsing Aluminum	1.67	0.05%	1.67	-	-	Financial assets available for sale	Purchase
002307	Beyon Road & Bridge	0.52	0.03%	1.65	-	1.13	Financial assets available for sale	Purchase
000928	Sinosteel Jin Carbon	0.30	0.07%	1.65	-	0.67	Financial assets available for sale	Purchase
002302	West Construction	0.77	0.04%	1.63	-	0.86	Financial assets available for sale	Purchase
002303	MYS	1.30	0.03%	1.62	-	0.32	Financial assets available for sale	Purchase
002300	Sun Cable	1.00	0.04%	1.62	-	0.62	Financial assets available for sale	Purchase
300017	Wangsu Science & Technology	0.90	0.04%	1.60	-	0.70	Financial assets available for sale	Purchase
002306	Xiangqing	0.88	0.02%	1.56	-	0.67	Financial assets available for sale	Purchase
002315	Focus Technology	0.90	0.02%	1.48	-	0.58	Financial assets available for sale	Purchase
300025	Huaxing Chuangye	0.58	0.07%	1.35	-	0.78	Financial assets available for sale	Purchase
002325	Hongtao Decoration	1.09	0.03%	1.34	-	0.25	Financial assets available for sale	Purchase
300014	EVE Energy	0.59	0.04%	1.29	-	0.70	Financial assets available for sale	Purchase
300005	Toread Outdoor Products	0.58	0.04%	1.26	-	0.68	Financial assets available for sale	Purchase
002301	Comix Stationery	0.71	0.03%	1.26	-	0.54	Financial assets available for sale	Purchase
300013	Xinming Logistics	0.59	0.06%	1.23	-	0.65	Financial assets available for sale	Purchase
002305	Langold Real Estate	0.73	0.01%	1.16	-	0.43	Financial assets available for sale	Purchase
002316	Keybridge Communications	0.68	0.03%	1.12	-	0.44	Financial assets available for sale	Purchase
002323	Zhonglian Electric	0.73	0.03%	0.98	-	0.26	Financial assets available for sale	Purchase
300036	Supermap Software	0.48	0.03%	0.93	-	0.46	Financial assets available for sale	Purchase
002322	Lugong Online Monitoring	0.60	0.02%	0.93	-	0.33	Financial assets available for sale	Purchase
002332	Xianju Pharmaceutical	0.80	0.03%	0.80	-	-	Financial assets available for sale	Purchase
002331	Wantong Technology	0.72	0.05%	0.72	-	-	Financial assets available for sale	Purchase
002313	Sunsea Telecommunications	0.43	0.02%	0.71	-	0.28	Financial assets available for sale	Purchase
Total		347.50		1,015.67	365.10	286.92		

Note: The securities are mainly held by Finance Co., a subsidiary of the Company



## 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	Cost	Profit
Stocks	4,113.85		4,220.80		
Shares bought		7,055.69		484.94	
Shares sold		6,948.75			492.46

## (IV) Significant Acquisitions, Sales and Consolidations

No significant acquisitions, sales and consolidations occurred in the period

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

None



## IX. Significant Events

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### (VI) Significant Related Party Transactions

#### 1. Day-to-day related party transactions

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

#### (1) Purchases and sales of products and purchases of services

		(RMB million)	
Affiliates	Transactions	Pricing	Amount
Baosteel Development Corp.	Sales of iron and steel products, auxiliary materials, etc.	Market	2,038
Baosteel Metal Co., Ltd.	Sales of iron and steel products, etc.	Market	950
Baosteel Resource Co., Ltd.	Sales of raw materials and fuels	Market	2,097
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Sales of iron and steel products, raw materials and fuels, auxiliary materials, etc.	Market	951
Sub-total of sales			6,036
Baosteel Development Corp.	Purchase of raw materials and fuels, auxiliary materials, etc.	Market	1,079
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Purchase of raw materials and fuels, auxiliary materials, etc.	Market	1,245
Shanghai Baosteel Engineering & Technological Co., Ltd.	Purchase of equipment, etc.	Market	1,316
Baosteel Group Bayi Iron and Steel Co., Ltd.	Purchase of iron and steel products	Market	1,185
Baosteel Resource Co., Ltd.	Purchase of raw materials and fuels	Market	5,032
Bao Island Trading Co., Ltd.	Purchase of raw materials and fuels	Market	2,475
Sub-total of purchase			12,332
Baosteel Development Corp.	Comprehensive logistics, project installation services, equipment examination & maintenance service, storage and transportation services, etc.	Negotiation	1,154
Baosteel Group Shanghai No.1 Steel Co., Ltd.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services, etc.	Negotiation	484
Baosteel Group Shanghai Meishan Iron & Steel Co., Ltd.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services, etc.	Negotiation	831
Baosteel Industrial Examination Corp.	Services in examinations, etc.	Negotiation	553
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd.	Project installation services and equipment examination & maintenance service, etc.	Negotiation	768
Sub-total of services			3,790

The sales above accounted for 4.1% of the Company's revenue from its principal businesses in the reported period; purchases and services received took up 9.2% and 2.8%, 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. (hereafter referred to as Finance Co.), a national non-bank financial company with the Baosteel Group (with 35.18% of the shares) and the Company (with 62.1% of the shares), was established for central management of the funds of the Company so as to raise the efficiency of fund use. It provides a comprehensive service of internal accounting, settlement, fund deposited and loan, short term capital financing, investment and fund-raising for companies within group level.

In the period reported, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 5.91 billion loan to the Group and its controlled companies, with outstanding loan of 2.74 billion and a total interest income of RMB 110 million. At the same time, it absorbed a total deposit of RMB 6.98 billion of the balance funds at the end of the period of the Group and its controlled companies, paying a total of interest of RMB 100 million.

In the period reported, Finance Co. discounted a total of RMB 0.89 billion to controlled companies of the Group at the discount rate set by the People's Bank of China with the closing balance of RMB 0.87 billion and a total sum of interests of RMB 2.760 million.



(3) Necessity and continuity of related party transactions

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

2. Transfer of assets or equity

No assets and equity were transferred in the period.

3. Affiliated external investments with affiliated 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 non-operating fund appropriation in the reported period.

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(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.



## IX. Significant Events

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## (VIII) Convertible Bonds with Attached Warrants

## 1. Convertible bonds with attached warrants

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 was 0.8%. On 30 June 2008, 100,000,000 corporate bonds (a worth 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 day 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 bond 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.

## 2. Shareholdings of 08 Baosteel Bond

Shareholders as at the end of the period	15,053
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## Top ten holders of 08 Baosteel Bond

Holders	Shareholding as at end of the period (RMB)	(%)
China Pacific Insurance (Group) Co., Ltd	1,625,192,000	16.25%
New China Insurance Co., Ltd	1,447,333,000	14.47%
Ping An Insurance (Group) Co., Ltd	919,471,000	9.19%
Ping An Property & Casualty Insurance Company of China, Ltd—Tradition—Ordinary Products	628,521,000	6.29%
Ping An Life Insurance Company of China, Ltd	568,350,000	5.68%
National Social Security Fund Combination 305	499,158,000	4.99%
Securities and Funds New China Life Insurance Co., Ltd—Universal Life Insurance—Deyi Financial Planning	384,108,000	3.84%
China Petroleum Finance Co., Ltd	377,073,000	3.77%
China Pacific Life Insurance Co., Ltd	367,160,000	3.67%
China Petroleum Finance Co., Ltd	316,977,000	3.17%

## 3. Adjustments to conversion price of Baosteel CWB1

Adjustment date of conversion price	Adjusted conversion price	Disclosed on	Disclosed by	Remarks on adjusted conversion price
15 June 2009	RMB 12.16	15 June 2009	China Securities News, Shanghai Securities News, Securities Times and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> )	Ex-dividend
Newly adjusted exercise price as at the end of the period		RMB 12.16		

## 4. The profitability, assets status and credit rating of Baosteel Group, the guarantee of the Company's "08 Baosteel Bond", have not experienced significant changes

## 5. In the reported period, the asset-liability ratio was 48.3%, an indication of a stable capital structure. 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) Baosteel 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, Baosteel 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. Baosteel Group also promises that, when Baosteel 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) Baosteel Group owns no less than 30% of the Company's issued shares.

In addition, on 13 June 2001, and 6 September 2002, Baosteel 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.

2. Commitments made in issuance prospectus by Baosteel Group

- (1) The Company has the right to acquire the holding assets and businesses which may be in competition with the Company;
- (2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until Baoshan Iron and Steel gives up the commercial opportunities;
- (3) Baosteel Group is committed to helping dealing with the relevant property certificates for buildings and lands after the Company completed the mergers and acquisitions;

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

3. Commitments Baosteel Group undertook about new factory project of Handan Group

Baosteel 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 Baosteel Group could invest on the project, but retained that right to purchase the equity of the joint venture.

Baosteel 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 individual estimating organization.

These commitments stay in force under two conditions: (a) the company is listed at a stock exchange and (b) Baosteel 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.

In the report period, Baosteel Group had completely withdrawn its investment from Hanbao Iron & Steel Co., Ltd.



## IX. Significant Events

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## 4. Commitments Baosteel Group undertook about Luojing Land

Baosteel Group Shanghai Pudong Steel and Iron Co. Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter, Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3,228 million m<sup>2</sup>, 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. Baosteel Group promises

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

## 5. Supplementary commitments about the land involved in 2005 share capital increase of the Company

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.

Baosteel 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 used now.

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

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

## 6. Commitments the Company undertook about land use right in 2005

(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 581,000m<sup>2</sup>, which involved in the in 2005 increase in share capital, has not completed at the end of the reported period. 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.



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(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 ten 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 approved by 2008 Annual Shareholders' Meeting, the auditing fees payable to Ernst & Young Hua Ming in 2008 was RMB3.25 million. The auditing fees for the year of 2008 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 150,000 for its service in the internal control auditing work, which does not influence the independence of the auditors in their work for the Company, as the Board of Directors believes.
3. Signatory auditors to the Company's 2008 Financial Statements are Zhou Youmei and Gu Xiaogang, while Yang Jun and Gu Xiaogang signed on the previous year's audit report.

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- (XI) Neither the Company, nor its directors, supervisors, senior manager, shareholder or actual controller was the subject of an investigation by the China Securities Regulatory Commission in the report period, 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

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## (XII) Index of Important Announcements

	Item	Disclosure date
1	Documentation for the First Temporary General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd. in 2009	2009-2-14
2	Announcement of the Resolutions of the Sixteenth Meeting of Third Board of Directors and Announcement of the First Temporary General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd. in 2009	2009-2-14
3	Legal Opinion on the First Temporary General Shareholders' Meeting in 2009	2009-3-3
4	Announcement of the Resolutions of the First Temporary General Shareholders' Meeting in 2009	2009-3-3
5	Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year of 2008	2009-3-26
6	Notice of Related Party Transactions in 2009 of Baoshan Iron & Steel Co., Ltd.	2009-3-28
7	Announcement of the Resolutions of the Fourteenth Meeting of Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2009-3-28
8	Special Remarks on Baosteel Funds Occupied by Controlling Shareholders and Related Parties & Guarantees Provided by Baosteel for Controlling Shareholder and Its Enterprises	2009-3-28
9	Annual Report of Baoshan Iron & Steel Co., Ltd.	2009-3-28
10	Abstract of the Annual Report of Baoshan Iron & Steel Co., Ltd.	2009-3-28
11	Announcement of the Resolutions of the Seventeenth Meeting of Third Board of Directors and Announcement of the 2008 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2009-3-28
12	Annual Report of Baoshan Iron & Steel Co., Ltd. (revised edition)	2009-4-1
13	Further Issues Concerning 2008 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2009-4-8
14	Materials for 2008 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2009-4-10
15	Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2009	2009-4-25
16	Announcement of the Resolutions of the First Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	2009-4-29
17	Announcement of the Resolutions of the First Meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2009-4-29
18	Legal opinion on 2008 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	2009-4-29
19	Announcement of the Resolutions of the 2008 General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	2009-4-29
20	First Quarter Report of Baoshan Iron & Steel Co., Ltd.	2009-4-29
21	Announcement of the Resolutions of the Eighteenth Meeting of the Third Board of Directors of Baoshan Iron & Steel Co., Ltd.	2009-4-29
22	Announcement of the Resolutions of the Fifteenth Meeting of the Third Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2009-4-29
23	Reminder of Successful Registration of Medium-term and Short-term Notes	2009-5-18
24	Notice of Results of the First Medium Term Notes in 2009 by Baoshan Iron & Steel Co., Ltd.	2009-6-1
25	Announcement of Implementing 2008 Annual Dividends Appropriation of Baoshan Iron & Steel Co., Ltd.	2009-6-9
26	Notice of Dividend Distribution of 08 Baosteel Bond by Baoshan Iron & Steel Co., Ltd. in 2009	2009-6-15
27	Notice of Income Tax for QFII in Dividend Distribution for Baosteel Share in 2008 by Baoshan Iron & Steel Co., Ltd.	2009-6-17
28	Notice of Income Tax for QFII in Dividend Distribution for 08 Baosteel Bond in 2008 by Baoshan Iron & Steel Co., Ltd.	2009-6-17
29	Corporate Charter of Baoshan Iron & Steel Co., Ltd. (2009 revised edition)	2009-7-3
30	Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Half of 2009	2009-8-28
31	Announcement of the Resolutions of the Second Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	2009-8-28
32	Announcement of the Resolutions of the Second Meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2009-8-29
33	Interim Report of Baoshan Iron & Steel Co., Ltd.	2009-8-29
34	Abstract of the Interim Report of Baoshan Iron & Steel Co., Ltd.	2009-8-29
35	Announcement of the Resolutions of the Third Meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	2009-10-30
36	Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Third Quarter of 2009	2009-10-30
37	Third Quarter Report of Baoshan Iron & Steel Co., Ltd.	2009-10-30
38	Announcement of the Resolutions of the Third Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	2009-10-30



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(XIII) Other Significant Matters

No significant event occurred in 2009

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(XIV) Significant Matters in Controlled Companies

No significant event occurred in any of its controlled company in 2009.



X. Financial Statements

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## Auditor's Report

Ernst & Young Hua Ming  
(2010) Audit No. 60428378 B01

To the shareholders of Baoshan Iron & Steel Company Limited:

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 2009 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 Baosteel 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 Baosteel Group as of 31 December 2009, 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  
Zhou Youmei  
Gu Xiaogang

March 31, 2009



Baoshan Iron & Steel Co., Ltd.  
Consolidated Balance Sheet  
31 December 2009

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RMB

Assets	Note 5	31 December 2009	31 December 2008
<b>CURRENT ASSETS</b>			
Monetary funds	(1)	5,558,276,152.91	6,851,604,374.54
Funds lent to other financial institutions	(2)	-	-
Trading financial assets	(3)	546,377,068.35	1,141,165,158.85
Notes receivable	(4)	6,674,251,784.05	4,501,112,144.38
Trade receivable	(5)	5,566,287,279.15	5,269,190,881.79
Payment in advance	(6)	4,099,365,175.79	4,600,807,313.48
Interests receivable	(7)	5,702,089.26	14,759,478.14
Other receivables	(8)	753,857,108.28	736,214,627.64
Inventories	(9)	29,462,171,383.42	35,644,590,875.74
Total current assets		52,666,288,041.21	58,759,444,854.56
<b>NON-CURRENT ASSETS</b>			
Loans granted and cash advances	(10)	4,132,276,993.30	1,907,753,092.68
Available-for-sale financial assets	(11)	1,056,020,521.34	860,182,984.66
Long-term equity investment	(12)	4,207,114,195.86	3,849,504,621.27
Investment real estates	(13)	130,535,317.25	136,754,792.01
Fixed assets	(14)	115,465,901,991.79	109,187,870,660.63
Construction-in-progress	(15)	13,746,832,781.17	16,275,909,358.26
Project materials	(16)	689,829,883.01	1,114,501,067.25
Intangible assets	(17)	7,837,110,155.00	5,964,551,561.91
Long-term deferred expenses	(18)	34,538,554.27	57,723,308.83
Deferred income tax assets	(19)	1,054,669,754.72	1,779,480,353.48
Other non-current assets	(20)	121,664,327.46	127,460,272.60
Total non-current assets		148,476,494,475.17	141,261,692,073.58
<b>TOTAL ASSETS</b>		<b>201,142,782,516.38</b>	<b>200,021,136,928.14</b>

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
Consolidated Balance Sheet (Continued)  
31 December 2009

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Liabilities & Shareholders' Equity	Note 5	31 December 2009	31 December 2008
<b>CURRENT LIABILITIES</b>			
Short term borrowings	(22)	24,274,429,785.95	24,104,126,921.47
Financial institution deposits and deposits from or to other financial institutions	(23)	7,018,610,678.45	9,256,840,186.79
Borrowings from banks and other financial institutions	(24)	34,141,000.00	-
Transaction liabilities	(25)	6,285,024.95	11,500,444.73
Financial assets sold for repurchase		-	294,000,000.00
Notes payable	(26)	4,855,355,992.37	4,251,242,725.68
Trade payable	(27)	18,582,613,440.64	18,621,675,643.72
Receipts in advance	(28)	11,045,412,382.55	9,219,197,161.95
Accrued payroll	(29)	1,595,130,198.30	1,716,327,357.44
Taxes payable	(30)	(946,370,733.37)	(1,799,441,237.31)
Interests payable	(31)	240,456,545.77	355,730,320.99
Dividends payable	(32)	16,683,769.64	19,951,672.62
Other payables	(33)	1,016,238,301.24	1,140,848,514.14
Current portion of non-current liabilities	(34)	2,982,960,014.44	4,050,420,366.30
Current portion of long-term amount due to holding company		-	800,000,000.00
Total current liabilities		70,721,946,400.93	72,042,420,078.52
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	(35)	5,294,932,134.33	14,201,884,772.41
Bonds payable	(36)	18,067,156,259.62	7,785,029,718.21
Long-term payables	(37)	5,092,440,941.36	7,544,731,994.48
Special payables	(38)	110,914,331.45	18,878,920.71
Deferred income tax liabilities	(19)	265,472,181.46	431,657,612.06
Other non-current liabilities	(39)	370,619,491.07	158,846,453.73
Total non-current liabilities		29,201,535,339.29	30,141,029,471.60
Total liabilities		99,923,481,740.22	102,183,449,550.12
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	(40)	17,512,000,000.00	17,512,000,000.00
Capital reserve	(41)	37,314,308,498.73	36,806,692,595.98
Special reserve	(42)	8,314,857.96	-
Surplus reserve	(43)	17,827,770,213.00	16,812,395,927.36
Undistributed profits	(44)	22,583,995,111.41	20,935,302,003.95
Foreign currency translation difference		(109,491,178.96)	(109,520,780.55)
Equity attributable to the parent company		95,136,897,502.14	91,956,869,746.74
Minority interest	(45)	6,082,403,274.02	5,880,817,631.28
Total shareholders' equity		101,219,300,776.16	97,837,687,378.02
<b>TOTAL OF LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>201,142,782,516.38</b>	<b>200,021,136,928.14</b>

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.

The financial statements on pages 60 to 155 were signed by

Statutory representative: Xu Lejiang

Financial controller: Chen Ying

Chief accountant: Wu Kunzong





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Baoshan Iron & Steel Co., Ltd.  
Consolidated Balance Sheet  
For the Year Ended 31 December 2009

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	Note 5	2009	2008
I TOTAL OPERATING REVENUE		148,525,268,999.44	200,638,008,565.03
Including Business income	(46)	148,326,363,909.94	200,331,773,819.59
Interest income		196,906,237.65	296,748,673.20
Income from service fees and commissions		1,998,851.85	9,486,072.24
II TOTAL OPERATING EXPENSE		142,117,550,906.22	193,014,426,451.59
Including Business cost	(46)	134,332,458,305.02	175,893,827,316.50
Interest expense		123,991,211.26	382,883,449.36
Expenses on service fees and commissions		211,991.59	105,218.50
Sales tax and surcharge	(47)	569,634,292.13	1,219,135,766.64
Sales expense		1,458,740,948.42	1,852,519,620.01
Administrative expense		4,592,115,090.69	5,676,345,810.76
Financial expense	(48)	1,675,503,461.87	2,095,741,117.57
Loss on the asset impairment/(reversal)	(49)	(635,104,394.76)	5,893,868,152.25
Add Net (loss)/gain from change in fair value	(50)	(107,403,713.41)	3,420,990.63
Investment gains	(51)	953,451,861.75	677,165,950.60
Including Gains from investments in joint ventures and associated entities		264,376,702.98	247,233,654.20
III TOTAL OPERATING PROFIT		7,253,766,241.56	8,304,169,054.67
Add Non-operating income	(52)	495,599,260.18	472,477,453.45
Less Non-operating expense	(53)	454,810,105.87	622,280,870.69
Including Loss from disposal of non-current assets		342,022,037.90	323,906,661.47
IV PRE-TAX PROFIT		7,294,555,395.87	8,154,365,637.43
Less Income tax expense	(54)	1,199,353,677.79	1,553,272,517.52
V NET PROFIT		6,095,201,718.08	6,601,093,119.91
Net profit attributable to the parent company		5,816,227,393.10	6,459,207,460.21
Including Net profit/loss of merged parties before combination under the same control		-	(390,190,885.33)
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
Profit and loss attributable to minority shareholders		278,974,324.98	141,885,659.70
Including Net profit of merged parties before combination under the same control		-	-
		6,095,201,718.08	6,601,093,119.91
VI EARNINGS PER SHARE			
Basic EPS	(55)	0.33	0.37
Other consolidated income	(56)	316,070,757.00	(754,603,538.87)
Total consolidated income		6,411,272,475.08	5,846,489,581.04
Including Consolidated income attributable to parent company		6,106,329,419.80	5,758,380,380.74
Consolidated income attributable to minority shareholders		304,943,055.28	88,109,200.30

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron &amp; Steel Co., Ltd.

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# Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended 31 December 2009

	Capital stock	Capital reserve	Special reserve
I. Opening balance in the period	17,512,000,000.00	36,806,692,595.98	-
II. Amount of increase or decrease in the year			
(1) Net profit	-	-	-
(2) Other consolidated income	-	290,072,425.11	-
Total consolidated income	-	290,072,425.11	-
(3) Capital paid in and reduced by owners			
1. Capital paid in by minorities in subsidiaries	-	-	-
2. Acquisition of equity from minority shareholders in subsidiaries	-	(652,650.54)	-
3. Others	-	218,196,128.18	-
(4) Profit distribution			
1. Surplus reserve provision	-	-	-
2. Distribution to shareholders	-	-	-
3. Dividend paid to minority shareholders	-	-	-
(5) Special reserve			
1. Provision for the year	-	-	22,585,557.62
2. Amount used	-	-	(14,270,699.66)
III. Closing balance of the year	17,512,000,000.00	37,314,308,498.73	8,314,857.96

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



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2009

Shareholder's interests attributable to parent company

Earnings reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total	Minority interests	Total of shareholder's interests
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
-	5,816,227,393.10	-	5,816,227,393.10	278,974,324.98	6,095,201,718.08
-	-	29,601.59	290,102,026.70	25,968,730.30	316,070,757.00
-	5,816,227,393.10	29,601.59	6,106,329,419.80	304,943,055.28	6,411,272,475.08
-	-	-	-	86,044,008.59	86,044,008.59
-	-	-	(652,650.54)	(20,277,840.83)	(20,930,491.37)
-	-	-	218,196,128.18	33,930.57	218,230,058.75
1,015,374,285.64	(1,015,374,285.64)	-	-	-	-
-	(3,152,160,000.00)	-	(3,152,160,000.00)	-	(3,152,160,000.00)
-	-	-	-	(169,157,510.87)	(169,157,510.87)
-	-	-	22,585,557.62	-	22,585,557.62
-	-	-	(14,270,699.66)	-	(14,270,699.66)
17,827,770,213.00	22,583,995,111.41	(109,491,178.96)	95,136,897,502.14	6,082,403,274.02	101,219,300,776.16



Baoshan Iron &amp; Steel Co., Ltd.

# Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the Year Ended 31 December 2009

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	Capital stock	Capital reserve	Special 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) Other comprehensive income	-	(662,791,949.84)	-
Total consolidated income	-	(662,791,949.84)	-
(3) Capital paid in and reduced by owners			
1. Business combination under same control	-	(10,196,276,961.49)	-
2. Issuing convertible bonds from transactions	-	2,332,472,977.02	-
3. Capital paid in by minorities in subsidiaries	-	-	-
4. Acquisition of equity from minority shareholders in subsidiaries	-	-	-
5. Reduction from disposal of subsidiaries	-	-	-
6. Others	-	209,353,391.49	-
(4) Profit distribution			
1. Surplus reserve provision	-	-	-
2. Distribution to shareholders	-	-	-
3. Dividend paid to minority shareholders	-	-	-
IV. Closing balance of the year	17,512,000,000.00	36,806,692,595.98	-

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



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2008

Shareholder's interests attributable to parent company

Earnings reserve	Undistributed profit	Difference in foreign currency exchange translation	Sub-total	Minority interests	Total of shareholder's interests
15,796,900.21428	21,620,790.25682	(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
15,796,900.21428	21,620,790.25682	(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
-	-	(38,035,129.63)	(700,827,079.47)	(53,776,459.40)	(754,603,538.87)
-	6,459,207,460.21	(38,035,129.63)	5,758,380,380.74	88,109,200.30	5,846,489,581.04
-	-	-	(10,196,276,961.49)	-	(10,196,276,961.49)
-	-	-	2,332,472,977.02	-	2,332,472,977.02
-	-	-	-	26,829,500.00	26,829,500.00
-	-	-	-	(21,684,391.12)	(21,684,391.12)
-	-	-	-	(108,659,086.86)	(108,659,086.86)
-	-	-	209,353,391.49	2,938,120.58	212,291,512.07
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 Cash Flow Statement  
For the Year Ended 31 December 2009

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	Note 5	2009	2008
I CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		170,302,100,610.65	233,286,853,216.99
Net decrease in deposit reserves in central bank and deposits from or to other financial institutions		451,627,613.72	600,630,944.13
Cash received from interests, service fees, and commissions		207,962,478.38	309,711,899.36
Net increase in deposits from customers and from or to financial institutions		-	42,366,680.00
Net increase in borrowing from banks and other financial institutions		34,141,000.00	-
Net increase in financial assets sold for repurchase		-	294,000,000.00
Tax refunds received		137,413,351.21	156,672,452.35
Cash received relating to other operating activities	(57)	782,365,538.60	582,355,390.71
Sub-total of cash inflows		171,915,610,592.56	235,272,590,583.54
Cash paid for goods purchased and labor services received		126,354,894,461.12	180,859,601,400.26
Net increase in customer loans and cash advances		2,242,453,900.62	1,093,720,329.71
Net decrease in deposits from customers and from or to financial institutions		2,238,229,508.34	8,785,526,705.91
Net decrease in financial assets sold for repurchase		294,000,000.00	-
Cash paid for interests, service fees, and commissions		124,203,202.85	423,921,860.02
Cash paid to employees and for employees		7,543,949,345.19	7,093,318,238.25
Payment of taxes		6,213,718,753.80	15,565,411,926.57
Cash payments relating to other operating activities	(57)	2,911,039,439.53	5,207,538,076.98
Sub-total of cash outflows		147,922,488,611.45	219,029,038,537.70
Net cash flows from operating activities	(58)	23,993,121,981.11	16,243,552,045.84
II CASH FLOWS ARISING FROM INVESTING ACTIVITIES			
Cash received from returns of investments		-	121,880,721.67
Cash received from returns on investments		219,309,051.24	448,927,507.73
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		17,311,292.38	133,985,615.50
Net cash received from the disposal of financial assets		-	1,287,909,899.41
Net cash and cash equivalents received from the disposal of subsidiaries		-	33,757,281.92
Net cash from financial assets available for sale		717,384,148.29	-
Cash received relating to other investing activities	(57)	33,729,231.67	157,140,673.12
Sub-total of cash inflows		987,733,723.58	2,183,601,699.35
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		18,236,437,204.60	26,486,944,620.35
Cash paid for investments		147,271,003.00	237,410,774.86
Net cash for purchasing transactional financial assets		96,497,732.93	-
Cash paid for Luoying assets		-	2,868,833,680.10
Cash payments relating to other investing activities		-	192,103,653.09
Sub-total of cash outflows		18,480,205,940.53	29,785,292,728.40
Net cash flows from investing activities		(17,492,472,216.95)	(27,601,691,029.05)

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
**Consolidated Cash Flow Statement (Continued)**  
 For the Year Ended 31 December 2009

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	Note 5	2009	2008
III. CASH FLOWS ARISING FROM FINANCING ACTIVITIES			
Cash received by absorbing investments		86,044,008.59	1,110,839,301.06
Including: Cash received by subsidiaries from minority shareholders' investments		86,044,008.59	26,829,500.00
Cash received from debts		69,620,220,747.78	85,514,351,938.95
Cash received from issuing convertible bonds		-	9,940,000,000.00
Cash received from issuing medium term notes		9,910,000,000.00	-
Sub-total of cash inflows		79,616,264,756.37	96,565,191,240.01
Cash paid for repayments of debts		79,411,342,871.16	83,810,200,957.57
Cash paid for distribution of dividends or profits, or cash payments for interests		4,478,175,783.79	9,251,262,206.81
Including: Dividends subsidiaries paid to minority shareholders		172,425,413.85	187,046,913.16
Cash paid for Luojing assets		2,868,833,680.10	-
Cash paid for assets of Phase-3 and acquisition of parts of assets under custody		800,000,000.00	800,000,000.00
Sub-total of cash outflows		87,558,352,335.05	93,861,463,164.38
Net cash flows from financing activities		(7,942,087,578.68)	2,703,728,075.63
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(7,044,278.17)	(182,513,361.33)
V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		(1,448,482,092.69)	(8,836,924,268.91)
Add: Balance of cash and cash equivalents at beginning of period		6,272,564,999.67	15,109,489,268.58
VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (59)		4,824,082,906.98	6,272,564,999.67

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
Balance Sheet of the Company  
31 December 2009

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Assets	Note 11	31 December 2009	31 December 2008
<b>CURRENT ASSETS</b>			
Monetary funds		1,767,579,044.85	3,182,690,342.86
Trading financial assets		-	114,598,750.75
Notes receivable		15,028,797,350.34	8,592,061,194.53
Trade receivables	(1)	5,730,373,097.21	5,588,834,929.34
Payment in advance		1,929,570,050.69	2,323,393,029.61
Other receivables	(2)	238,860,829.07	124,791,695.83
Inventories		19,171,004,173.36	22,231,758,491.63
Total current assets		43,866,184,545.52	42,158,128,434.55
<b>NON-CURRENT ASSETS</b>			
Long-term equity investment	(3)	25,526,158,150.03	23,913,628,552.28
Fixed assets		90,420,193,517.81	91,932,235,412.15
Construction-in-progress		11,032,212,912.66	8,953,563,859.31
Project materials		11,097,125.42	46,397,429.90
Intangible assets		3,638,598,491.23	3,407,121,836.15
Long-term deferred expenses		17,085,879.05	30,761,683.25
Deferred income tax assets		316,582,323.96	1,112,726,834.63
Other non-current assets		117,905,780.14	117,905,780.14
Total non-current assets		131,079,834,180.30	129,514,341,387.81
<b>TOTAL ASSET</b>		<b>174,946,018,725.82</b>	<b>171,672,469,822.36</b>

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
Balance Sheet of the Company (Continued)  
31 December 2009

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Liabilities & Shareholders' Equity	Note 11	31 December 2009	31 December 2008
<b>CURRENT LIABILITIES</b>			
Short-term borrowings		20,890,937,335.18	21,137,467,584.30
Notes payable		3,448,640,293.44	2,369,885,042.55
Trade payables		14,053,098,945.89	15,272,996,018.72
Receipts in advance		9,063,340,499.13	7,259,374,935.06
Accrued payroll		1,130,478,960.54	1,170,529,785.21
Taxes payable		(725,350,433.07)	(1,348,286,755.40)
Interests payable		203,156,969.24	290,087,497.58
Other payables		316,477,072.22	344,156,293.59
Current portion of non-current liabilities		2,925,170,774.44	3,924,376,646.30
Current portion of long-term amount due to holding company			800,000,000.00
Other current liabilities		4,632,246,270.71	1,418,812,393.05
Total current liabilities		55,938,196,687.72	52,639,399,440.96
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings		5,109,205,094.33	15,234,545,932.41
Bonds payable		18,067,156,259.62	7,785,029,718.21
Long-term payables		5,092,440,941.36	7,544,731,994.48
Special payables		104,914,331.45	18,184,797.90
Deferred income tax liabilities		113,926,874.31	147,824,808.07
Other non-current liabilities		92,685,803.47	-
Total non-current liabilities		28,580,329,304.54	30,730,317,251.07
Total liabilities		84,518,525,992.26	83,369,716,692.03
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock		17,512,000,000.00	17,512,000,000.00
Capital reserve		36,781,341,171.72	36,581,312,996.65
Surplus reserve		17,827,770,213.00	16,812,395,927.36
Undistributed profit		18,306,381,348.84	17,397,044,206.32
Total shareholders' equity		90,427,492,733.56	88,302,753,130.33
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY		174,946,018,725.82	171,672,469,822.36

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
 Profit Statement of the Company  
 For the Year Ended 31 December 2009

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	Note 11	2009	2008
I TOTAL OPERATING REVENUE	(4)	116,288,373,505.74	150,529,103,380.96
Less: Business cost	(4)	105,771,765,958.70	134,056,075,105.92
Sales tax and surcharge		355,941,557.66	915,798,702.07
Sales expense		651,433,727.96	731,145,795.73
Administrative expense		2,749,218,242.00	3,426,767,920.75
Financial expense		1,663,038,338.34	1,771,139,601.90
Loss on the asset impairment		495,685,046.06	4,102,421,414.83
Add: Net (loss)/gain from change in fair value		(114,598,750.74)	283,678,477.45
Investment gains	(5)	1,299,401,708.34	397,964,577.38
Including: Gains from investments in joint ventures and associated entities		243,552,265.14	312,986,784.42
II TOTAL OPERATING PROFIT		5,786,093,592.62	6,207,397,894.59
Add: Non-operating income		240,242,894.30	212,570,117.88
Less: Non-operating expense		138,499,236.42	353,580,675.15
Including: Net loss from disposal of non-current assets		85,948,606.84	149,075,976.34
III PRE-TAX PROFIT		5,887,837,250.50	6,066,387,337.32
Less: income tax expense		810,965,822.34	988,908,771.95
IV NET PROFIT		5,076,871,428.16	5,077,478,565.37
Other consolidated income		(381,164.80)	(20,099,315.00)
Total consolidated income		5,076,490,263.36	5,057,379,250.37

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron &amp; Steel Co., Ltd.

Statement of Changes in Shareholders' Equity of the Company  
For the Year Ended 31 December 2009

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2009					
	Capital stock	Capital reserve	Earnings reserve	Undistributed profit	Total of Shareholder's interests
I. Opening balance in the period	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
II. Amount of increase or decrease in the year					
(1) Net profit	-	-	-	5,076,871,428.16	5,076,871,428.16
(2) Other consolidated income	-	(381,164.80)	-	-	(381,164.80)
Total consolidated income	-	(381,164.80)	-	5,076,871,428.16	5,076,490,263.36
(3) Capital paid in and reduced by owners					
1. Others	-	200,409,339.87	-	-	200,409,339.87
(4) Profit distribution					
1. Surplus reserve provision	-	-	1,015,374,285.64	(1,015,374,285.64)	-
2. Distribution to shareholders	-	-	-	(3,152,160,000.00)	(3,152,160,000.00)
III. Closing balance of the year	17,512,000,000.00	36,781,341,171.72	17,827,770,213.00	18,306,381,348.84	90,427,492,733.56

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					
(1) Net profit	-	-	-	5,077,478,565.37	5,077,478,565.37
(2) Other consolidated income	-	(20,099,315.00)	-	-	(20,099,315.00)
Total consolidated income	-	(20,099,315.00)	-	5,077,478,565.37	5,057,379,250.37
(3) Capital paid in and reduced by owners					
1. Business combination under same control	-	891,661,687.21	-	-	891,661,687.21
2. Issuing convertible bonds	-	2,332,472,977.02	-	-	2,332,472,977.02
3. Others	-	201,342,889.31	-	-	201,342,889.31
(4) 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

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron &amp; Steel Co., Ltd.

## Cash Flow Statement of the Company

For the Year Ended 31 December 2009

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	Note 11	2009	2008
I CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		129,666,772,978.31	179,086,590,131.63
Tax refunds received		2,822,007.31	94,956,000.00
Cash received relating to other operating activities		789,405,368.30	484,450,340.47
Sub-total of cash inflows		130,459,000,353.92	179,665,996,472.10
Cash paid for goods purchased and labor services received		102,112,144,153.58	140,684,728,139.77
Cash paid to employees and for employees		5,068,686,279.59	4,579,488,172.83
Payment of taxes		3,808,969,258.14	11,117,714,223.50
Cash payments relating to other operating activities		1,701,831,064.96	1,668,365,621.85
Sub-total of cash outflows		112,691,630,756.27	158,050,296,157.95
Net cash flows from operating activities	(7)	17,767,369,597.65	21,615,700,314.15
II CASH FLOWS ARISING FROM INVESTING ACTIVITIES			
Cash received from returns of investments		-	3,729,282.06
Cash received from returns on investments		1,061,315,363.20	527,217,514.05
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		17,122,017.52	49,246,818.15
Cash received relating to other investing activities		24,203,768.46	190,275,041.32
Sub-total of cash inflows		1,102,641,149.18	770,468,655.58
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		12,786,383,155.89	19,461,460,538.46
Cash paid for investments		1,390,000,000.00	-
Cash paid for Luojing assets		-	2,868,833,680.10
Cash payments relating to other investing activities		-	114,507,444.75
Sub-total of cash outflows		14,176,383,155.89	22,444,801,663.31
Net cash flows from investing activities		(13,073,742,006.71)	(21,674,333,007.73)
III CASH FLOWS ARISING FROM FINANCING ACTIVITIES			
Cash received by absorbing investments		69,260,679,212.30	87,964,536,678.60
Cash received from issuing convertible bonds		-	9,940,000,000.00
Cash received from issuing medium term notes		9,910,000,000.00	-
Cash received from other financing activities		3,213,369,246.74	1,720,803,034.63
Sub-total of cash inflows		82,384,048,459.04	99,625,339,713.23
Cash paid for repayments of debts		80,623,490,734.88	90,021,308,560.45
Cash paid for distribution of dividends or profits, or cash payments for interests		4,192,983,885.53	8,988,436,351.07
Cash paid for Luojing assets		2,868,833,680.10	-
Cash paid for assets of Phase-3 and acquisition of parts of assets under custody		800,000,000.00	800,000,000.00
Sub-total of cash outflows		88,485,308,300.51	99,809,744,911.52
Net cash flows from financing activities		(6,101,259,841.47)	(184,405,198.29)
IV EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(7,479,047.48)	(234,206,296.00)
V NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,415,111,298.01)	(477,244,187.87)
Add: Balance of cash and cash equivalents at beginning of period		3,182,690,342.86	3,659,934,530.73
VI BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	(8)	1,767,579,044.85	3,182,690,342.86

The accompanying notes on pages 75 to 155 constitute an integral part of the Financial Statements.



Baoshan Iron & Steel Co., Ltd.  
Notes to the Financial Statements  
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## 1. Company Profile

Baoshan Iron & Steel Company Limited (hereinafter "the Company") was incorporated and registered on 2 March 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 Shanghai Baosteel Group Corporation, Ltd. (formerly Shanghai Baosteel Group Corporation, hereinafter "S&G" or "the Group") as the sole originator, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company issued 1,877,000,000 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 five billion shares with a par value of RMB 1 each and an offer price of RMB 5.12 per share, including three billion state-owned shares to S&G and two billion to the general public, with the latter on a combinatorial basis of preferential claiming pro-rata and online and off-line bidding inquiry.

Approved by the CSRC (No. 739 document in 2008), the Company issued RMB 10 billion of convertible bonds featuring the separation between stock rights and bonds 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 based on its face value, which was RMB 100 per stock. The dividend was paid once a year and the principal was returned once and for all when the time expired. The annual contract interest rate was 0.8%. The purchaser of the bond was able to obtain 16 copies of stock purchase 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 exercise proportion was 2:1 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.

The business scope of the Company covers 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. In summary, the principal activities of the Company are the manufacture and sales of iron and steel products as well as the sales and services of the by-products generated during the process of steel production and sales.

The Company is registered in the South Building, Baoshan Hotel, 1813 Mudanjiang Road, Baoshan District, Shanghai. Its business address is Baosteel Headquarters Center, 885 Fujin Rd Baoshan District, Shanghai. The controlling shareholder of the Company is Baosteel Group, while its actual controller is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The Financial Report was approved by the Board of Directors on 31 March 2010. It will be submitted to the Shareholders' General Meeting for approval in accordance with the Charter of the Company.



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## 2. Principal Accounting Policies and Accounting Estimates

### (1) Basis for the presentation of the financial statements

The financial statements were prepared in accordance with the newly revised *Accounting Standards for Business Enterprises* (February, 2006) published 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.

The financial statements have been prepared on the basis of historical cost method, with the exception of certain financial instruments. Non-current asset held for sale is measured at the lower of its original carrying amount and fair value less estimated costs. Where assets impairments occur, preparations for the impairments are made according to relevant regulations.

### (2) 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, 2009 in accordance with the Accounting Standards for Business Enterprises.

### (3) Accounting period

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

### (4) 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.

### (5) 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 acquiree. 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.



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Notes to the Financial Statements (Continued)  
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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 acquiree in light of their fair values.

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.

(6) 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 as at 31 December 2009. 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. Gains and losses resulted and to be resulted from 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 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.

(7) Cash and cash equivalent

The term "cash" refers to cash on hand and deposits that are available for payment at any time. "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.



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## (8) Foreign currency transaction and 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 other consolidated income 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 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.

## (9) Inventories

Inventories include raw materials, work-in-progress, finished goods and spare parts and consumables.

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 write-off method.

The perpetual inventory system is 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 comp subsidiary companies, joint ventures and associated enterprises estimated sale expense and relevant taxes from the estimated sale price of inventories. The provision for loss on decline in value of inventories is made on the basis of each item of inventories.

## (10) 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 price of a long-term equity investment measured by employing the cost method is included at its initial investment cost. For the merger of enterprises under the same control, the share of the book value of the owner's equity of the merged enterprise is regarded as the initial cost of the long-term equity investment. For the merger under different control, the merging party shall, on the date of merger, regard the merger costs as the initial cost of the long-term equity 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 initial cost of a long-term equity investment obtained by other means is ascertained in accordance with the following standards: For a long-term equity investment obtained by making payment in cash, the initial cost includes the purchase cost actually paid, expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses. The fair value of the equity securities issued is regarded as the initial cost of a long-term equity investment obtained on the basis of issuing equity securities. The initial cost of a long-term equity investment of an investor is the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.



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## Notes to the Financial Statements (Continued)

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The price of a long-term equity investment is measured by employing the cost method when the Company does not do joint control or does not have significant influences on the invested entity and the entity has no offer in the active market and its fair value cannot be reliably measured. However, the equity method is used when the Company does joint control or has significant influences over the investee.

The investment income from long-term equity investment by the cost method is recognized on the basis of the dividends or profits declared to distribute by the invested entity, with the exception of the amount of paid for the investment or the declared but undistributed cash dividends or profits in the consideration and recorded in the current investment income. At the same time, decisions were made in accordance with related policies of asset impairments as to whether it was necessary to confirm the impairment loss.

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 believes it is not feasible to make retroactive modulations to long-term equity investments prior to the date of initial adoption of the new standards. Therefore, according to *Accounting Standards for Enterprises No. 38 - Initial Implementation of Accounting Standards for Enterprises*, if a long-term equity investment is generated from a business 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 gains from investment income that was not retroactively modulated and recorded in long-term equity investment of subsidiaries was recognized as current investment income on the basis of the cash dividend or profit for the invested entity as declared and, at the same time, decisions were made in accordance with related policies of asset impairments as to whether it was necessary to confirm the impairment loss.

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 one 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 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.

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. It will be recorded into current losses and gains in proportion when the project is disposed.

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.

Refer to Note 2 (18) for how the asset impairment test is conducted and provisions for impairments are prepared concerning long-term equity investments on subsidiaries, joint ventures and associates and note 2(16) for the same methods concerning other long-term equity investments for which there is no quoted price in the active market and whose fair value cannot be reliably measured.



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## (11) 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. The useful life, expected net salvage value and the depreciation method of each type of fixed assets is as follows:

Categories	Useful life	Salvage value	Depreciation rate
Buildings and plants	15 - 35 years	4%	2.7% - 6.4%
Land use right	50 years		2%

Refer to Note 2(18) for details about how the impairment test is conducted and provisions for impairments are prepared concerning investment real estates whose follow-up measurement is conducted on the basis of the cost model.

## (12) Fixed asset

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.

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:

Category	Useful life	Salvage value	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.

Refer to Note 2(18) for details about how the impairment test is conducted and provisions for impairments are prepared concerning fixed assets.

## (13) 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.

Refer to Note 2(18) for details about how the impairment test is conducted and provisions for impairments are prepared concerning construction-in-progress.



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## (14) 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	Amortization period
Land use rights	46 - 50
Software copyrights	5

The land-use right that the Group obtained 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 lands 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.

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 only 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.

Refer to Note 2(18) for details about how the impairment test is conducted and provisions for impairments are prepared concerning intangible assets.

## (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 recorded into the profits and losses of the current period.

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.



## (16) Financial instruments

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

## Recognition and termination of financial instruments

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

Where a financial asset (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, or 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 derecognized 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.

Regular transactions of financial assets are recognized and derecognized on a settlement date basis. Regular transactions of financial assets refer to transactions in which financial assets are purchased or sold during the time period as stipulated in a regulation or practiced as a convention on the basis of a contract between two parties. The term "the transaction date" refers to the date when the Group promises to purchase or sell a financial asset.

## 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, financial assets available for sale, and the designated derivative instruments which are effective hedging instruments. The 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.

The follow-up measurement of a financial asset depends on the category to which it belongs.

## Financial assets at their fair 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. The dividends or interest income related to financial assets at their fair through profit and loss is recorded in the current profits and losses.

## 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 are 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 are impaired or amortized are recorded into the profits and losses of the current period.



#### Sellable financial assets

The "sellable financial assets" refers to the non-derivative financial assets which are designated as sellable when they are initially recognized as well as the financial assets. The subsequent measurements on these financial assets are made at their fair values. Their premiums or reduced values are amortized by adopting the actual interest rate method and recorded into the interest income or expenses loss of the current period. The profits and losses arising from the change in the fair value of a sellable financial asset are included in capital reserve and recognized a separate item directly in the 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 a sellable 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 three 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, other financial liabilities, and the designated derivative instruments which are effective hedging instruments. 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.

The subsequent measurement of financial liabilities depends on the category to which they belong.

#### Financial liabilities at their fair value 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 liabilities meeting any of the following requirements shall be classified as transactional 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 contract as used in the Company means an agreement pursuant to which a surety and a creditor agree that the surety shall perform the obligation or bear the liability according to the agreement, when the debtor fails to perform his obligation. Financial guarantee contracts are measured initially at their fair values. Financial guarantee contracts are recognized initially at their fair value. 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.

#### 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, with the exception of the effective portion in cash flow hedging, which is recorded into other consolidated income.



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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 include the two components, 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 canceled, 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 Group adopts 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 is 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 are not included in any combination of financial assets with similar risk features for any impairment test.

Where a financial asset measured on the basis of post-amortization costs is impaired, 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 shall be determined according to the capitalization of the original actual interest rate of the said financial asset (the actual interest rate as determined when the financial asset was initially recognized), taking into account the value of the relevant guarantee. With regard to the floating interest rate loans, accounts receivable, and the investments held until their maturity, the current actual interest rate as stipulated in the contract shall be adopted as the capitalization rate in the calculation of current value of the cash flow.

**Sellable 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 transferred out are the balance obtained from the initially obtained costs of the said 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 sellable 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 and the increase in the fair value is confirmed in other consolidated income.

**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.



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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 the Group 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, 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 are recognized as expenses, and are recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts.

**(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 is measured on basis of their costs in the Group, are measured following the principles as described below:

The Group makes a judgment, on the day of balance sheet, on whether there is any sign of possible assets 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. Such test is also conducted to intangible assets that are not ready for its intended use.

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.



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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 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 reversed in the future accounting periods.

## (19) Non-current assets held for sale

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

- (1) Non-current assets which the Group has decided to dispose;
- (2) Non-current assets on which the Group has signed uncancelable transfer 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.

## (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 Group;
- (2) It is likely to cause any economic benefit to flow out of the Group 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 are 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 by the Group to the buyer; 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. The Group ascertains the total revenue incurred by selling goods in accordance with the received or receivable price stipulated in the contract or agreement signed between the Group and the buyer, unless the received or receivable amount as stipulated in the contract or agreement is unfair.



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## Revenue from providing labor services

If the Group is able to reliably estimate, on the date of the balance sheet, 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 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. The Group ascertains the total revenue from the providing of labor services in accordance with the received or to-be-received price of the party that receives the labor services as stipulated in the contract or agreement, unless the received or to-be-received price as stipulated in the contract or agreement is unfair.

Where a contract or agreement signed between the Group and another party concerns both 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 revenue

The amount of interest revenue 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. Contingent rents are recognized as an expense in the period in which they are actually incurred.

## (22) Government subsidies

Government subsidies are recognised where there is reasonable assurance that the subsidies will be received and all attaching conditions will be complied with. Where a government subsidy is a monetary asset, it is measured in the light of the received or receivable amount, while it is measured at its fair value if it is non-monetary. When its fair value cannot be obtained in a reliable way, it is measured at its nominal amount. Those subsidies pertinent to incomes and used for compensating the related future expenses or losses are recognized as deferred income and included in the current profits and losses, while those used for compensating the related expenses or losses incurred are directly included in the current profits and losses. The government subsidies pertinent to assets are recognized as deferred income, released over the expected useful lives of the relevant assets by equal annual instalments, and included in the current profits and losses. However, subsidies measured at their nominal amounts are directly included in the current profits and losses.

## (23) 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".

## Lessees 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. Contingent rents are recognized as an expense in the period in which they are actually incurred.

## Lessors 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. Contingent rents are recognized as an expense in the period in which they are actually incurred.

## (24) Employee compensation

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



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The expenditures of the Group on the employee's medical insurance, endowment insurance, unemployment insurance and other social insurances, as well as housing accumulation fund, are recorded as 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.

## (25) Income taxes

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

The amount of current or previous taxable income is calculated according to the tax law provisions on the basis of pre-tax accounting profit of the Group or amount to be returned in the period.

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 good will 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 expected future.

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

- (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. The Group reestimates the unconfirmed deferred income tax assets on balance sheet day; the deferred income tax assets are confirmed within the limit where it is likely to obtain sufficient taxable income taxes to reverse all or part of the deferred income tax assets.

The Group offsets deferred tax assets and deferred tax liabilities and the balance displayed if it has a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities relate to income taxes are levied by the same taxation authority.



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## (26) 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.

## Impairment of non-current assets other than financial assets (except good will)

The Group determines on the balance sheet day whether non-current assets other than financial assets are impaired. An impairment test is conducted when there is evidence that the carrying value of a non-current asset other than financial asset cannot be recovered. Where the recoverable amount of the relevant assets or the asset groups is lower than the fair value less disposal cost, the Group recognizes the impairment. The estimate is made on basis of the balance of the fair value and the cost of disposal less additional cost attributable to the disposal of the said assets, with reference to negotiated prices or observable market prices of similar assets in fair trading. Significant management judgment is required to determine the future amount of cash flow and an appropriate discount rate is used for the future value of cash flow.

## 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.

## Provision rates

	Provision rates for accounts receivable (%)	Provision rates for other receivables (%)
Within 1 year	5%	5%
1-2 years	30%	30%
2-3 years	60%	60%
Over 3 years	100%	100%



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## Notes to the Financial Statements (Continued)

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## (27) Changes in accounting policies and accounting estimates

## Changes in accounting policies

In the previous financial report, for long-term equity investments measured by employing the cost method, the investment income was recognized on the basis of the amount received from the accumulative net profits that arose after the invested entity has accepted the investment. Where the amount of profits or cash dividends obtained by the investing entity exceeded the aforesaid amount, it was regarded as recovery of initial investment cost. In addition, the investment income that was not retroactively modulated on the basis of the cost method and recorded in long-term equity investment of subsidiaries was limited to accumulated net profit occurred after 1 January 2007 and the positive balance of the profit or cash dividend gained and the afore-mentioned amount was written back as cost at the initial implement of the new standard.

The accounting policy has been changed since 1 January 2009 in accordance with "Interpretation of Enterprise Accounting Standards—No.3". The net profit from invested entities has no longer been divided into two parts: that realized before and after the initial employment of the new standards (1 January 2007). In the new practice, the investment income from long-term equity investment by the cost method is recognized on the basis of the dividends or profits declared to distribute by the invested entity, with the exception of the amount paid for the investment or the declared but undistributed cash dividends or profits in the consideration. The change has had no impact on the financial report of the Group, but has resulted in an increase of RMB 623,669,672.70 of net profit in the Company's statements.

## Changes in accounting estimates

The useful lives of some of the machines and equipment for stainless steel products have been adjusted on the basis of results of on-site evaluations. The following new depreciable lives and depreciation rate have been approved by the Board of Directors.

Category	Before		After	
	Depreciable life	Depreciation rate	Depreciable life	Depreciation rate
Some of the machines and equipment for stainless steel production	9-15 years	6.4% - 10.7%	15 years	6.4%

The impact of the change upon financial report:

## The Group

2009	Closing balance before the change	Impact of the change for the period			Closing balance after the change
		Pre-income tax	Impact of income tax	Post-income tax	
Undistributed profit	22,260,995,982.52	425,639,916.38	102,640,787.49	322,999,128.89	22,583,995,111.41
Minority interest	6,031,030,588.32	64,215,857.12	12,843,171.42	51,372,685.70	6,082,403,274.02
Total	28,292,026,570.84	489,855,773.50	115,483,958.91	374,371,814.59	28,666,398,385.43

## The Company

2009	Closing balance before the change	Impact of the change for the period			Closing balance after the change
		Pre-income tax	Impact of income tax	Post-income tax	
Undistributed profit	18,043,689,285.77	350,256,084.10	87,564,021.03	262,692,063.07	18,306,381,348.84



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## 3. Taxation

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

1. Value-added tax	The VAT is levied at the rate of 13% or 17% of the taxable sales revenue less the deductible input tax.
2. Business tax	3% or 5% of the taxable sales revenue
3. City construction and maintenance tax	1%, 5% or 7% of actual turnover tax
4. Enterprise income tax	25% of taxable revenue as stipulated in the Enterprise Income Tax Law, which came into effect January 1, 2008, and other regulations; Applicable tax rates for subsidiaries according to their taxable revenue
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 real estate
7. 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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## Notes to the Financial Statements (Continued)

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## 4. Scope of Consolidated Financial Statements

## Major subsidiaries

## Subsidiaries obtained through combination under same control

Subsidiary	Place	Category	Industry	Registered capital (thousand)	Businesses	Organization code
Lubao Steel Tubes	Yantai	LLC	Manufacturing	RMB 100,000	Production & sales of steel tubes	16503431 - 2
Huangshi Coating & Galvanizing	Huangshi	LLC	Manufacturing	USD 8,000	Production & sales of galvanized sheets	61543578 - 0
Baosteel International	Shanghai	LLC	Steel trading	RMB 2,248,879	Steel trading	13221289 - X
Mieshan Steel	Nanjing	LC	Manufacturing	RMB 6,256,570	Steel processing & sales	13487285 - 9
Ningbo Baoxin	Ningbo	LLC	Manufacturing	RMB 2,848,380	Processing & sales of cold-rolled stainless sheets	61027433 - 2
Baosight Software	Shanghai	LC	IT	RMB 262,244	Software development	60728059 - 8
Baosteel America	Texas USA	LLC	Steel trading	USD 980	Steel trading	Not applicable
Howa Trading	Tokyo, Japan	LLC	Steel trading	JPY 876,000	Steel trading	Not applicable
Baosteel Europe	Hamburg, Germany	LLC	Steel trading	EUR 2,050	Steel trading	Not applicable
Baosteel Singapore	Singapore	LLC	Steel trading	SGD 1,500	Steel trading	Not applicable
Bao-Island Enterprise	Hong Kong	LLC	Steel trading	HKD 1,000	Steel trading	Not applicable
Baosteel Brazil Trading	Rio de Janeiro, Brazil	LLC	Steel trading	USD 980	Steel trading	Not applicable
Baosteel Chemical	Shanghai	LLC	Manufacturing	RMB 2,110,040	Production and sales of chemical products	13223068 - 4
No. 5 Steel Gas	Shanghai	LLC	Manufacturing	RMB 127,718	Gas supply & inspection, installation & sales of gas generation equipment	63083656 - 6
Finance Co.	Shanghai	LLC	Finance	RMB 500,000	Financial & foreign exchange	13220090 - 1
Nantong Steel	Nantong	LLC	Manufacturing	RMB 620,532	Steel processing & sales	60830768 - 4
Subsidiaries obtained through establishment or investment						
Special Metal	Shanghai	LLC	Steel trading	RMB 50,000	Steel sales	79452819 - 9
Baoyin Tubes	Yixing	LLC	Manufacturing	RMB 200,000	Steel tube production & sales	66325688 - 3
Yantai Baosteel	Yantai	LLC	Manufacturing	RMB 2,000,000	Steel tube production & sales	66350514 - 9



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## Major subsidiaries

Subsidiaries obtained through combination under same control

	Amount invested as at the end of period (thousand)	Percentage of share	Voting power percentage	Consolidation in the report	Equity of minority (thousand)	Share in minority interests to offset losses in minority interests
Lubao Steel Tubes	RMB 79,820	79.82%	79.82%	Yes	156,808	-
Huangshi Coating & Galvanizing	USD 3,150	39.37%	Note 1	Yes	64,251	-
Baosteel International	RMB 2,248,879	100%	100%	Yes	773,863	-
Meishan Steel	RMB 4,630,621	74.01%	74.01%	Yes	2,875,653	-
Ningbo Baoxin	RMB 1,538,125	54%	54%	Yes	845,382	-
Baosight Software	RMB 145,545	55.5%	55.5%	Yes	433,738	-
Baosteel America	USD 980	100%	100%	Yes	-	-
Howa Trading	JPY 876,000	100%	100%	Yes	-	-
Baosteel Europe	Euro 2,050	100%	100%	Yes	58,146	-
Baosteel Singapore	SGD 1,500	100%	100%	Yes	-	-
Bao-Island Enterprise	HKD 1,000	100%	100%	Yes	-	-
Baosteel Brazil Trading	USD 980	100%	100%	Yes	-	-
Baosteel Chemical	RMB 2,110,040	100%	100%	Yes	194,627	-
No. 5 Steel Gas	RMB 127,718	100%	100%	Yes	-	-
Finance Co	RMB 310,500	62.1%	62.1%	Yes	575,898	-
Nantong Steel	RMB 594,582	95.82%	95.82%	Yes	34,511	-
Subsidiaries obtained through establishment or investment						
Special Metal	RMB 50,000	100%	100%	Yes	-	-
Baoyin Tubes	RMB 130,000	65%	65%	Yes	69,527	-
Yantai Baosteel	RMB 2,000,000	100%	100%	Yes	-	-

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

The scope of the consolidated financial statements is basically the same with that of the previous year with the exceptions of a new subsidiary set up by Baosteel International and a subsidiary disposed by Baosight Software.

Exchange rates used in the financial statements for overseas entities:

	Average exchange rate		Exchange rate at end of period	
	2009	2008	2009	2008
USD	6.8314	7.0696	6.8282	6.8346
Euro	9.728	10.1630	9.7971	9.6590
JPY	0.0747	0.0699	0.07378	0.07565
BRL	3.4539	3.5446	3.9549	2.9529



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## 5. Notes to Consolidated Financial Statements

## (1) Monetary capital

	31 December 2009			31 December 2008		
	Original currency	Rate	RMB equivalent	Original currency	Rate	RMB equivalent
Cash						
—RMB			1,359,934.40			1,979,482.27
Deposit with banks						
—RMB			2,679,100,853.00			3,913,590,025.15
—USD	238,359,814.32	6.8282	1,627,568,484.14	193,571,009.05	6.8346	1,322,980,418.44
—JPY	1,649,892,538.22	0.07378	121,729,071.47	348,155,999.74	0.07565	26,338,001.38
—Euro	25,096,328.37	9.7971	245,871,238.68	23,988,516.67	9.6590	231,705,082.49
—HKD	1,666,777.81	0.8805	1,467,597.86		0.8819	
—Other currencies			33,495,221.38			51,199,648.08
			4,709,232,466.53			5,545,813,175.54
Other monetary capital						
—RMB			13,490,506.05			17,990,857.08
Deposit reserve in central bank by Finance Co.			834,193,245.93			1,285,820,859.65
Total			5,558,276,152.91			6,851,604,374.54
Less Monetary capital other than cash and cash equivalent						
Deposit reserve in central bank by Finance Co.			834,193,245.93			1,285,820,859.65
Cash			4,724,082,906.98			5,565,783,514.89

Foreign currency translation rates adopted are: 1 USD for 6.8282 RMB (Year 2008: 6.8346 RMB); 1 JPY for 0.07378 RMB (Year 2008: 0.07565 RMB); 1 EURO for 9.7971 RMB (Year 2008: 9.6590 RMB); 1 HKD for 0.8805 RMB (Year 2008: 0.8819 RMB)

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 2009, a total worth of RMB 1,557,960,027.69 (31 December 2008: RMB 1,267,317,960.51) of monetary capital were deposited in overseas banks.

By 31 December 2009, other forms of monetary capital of the Group consist of a credit card deposit of RMB 2,694,566.80, an acceptance bill deposit of RMB 8,921,142.55, and an officer's cheque and credit deposit of RMB 1,701,327.34.



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## (2) Funds lent to financial institutions

	31 December 2009	31 December 2008
Original value	30,242,300.00	30,251,900.00
Including: Funds lent to institutions other than banks	30,242,300.00	30,251,900.00
Provision for loss	(30,242,300.00)	(30,251,900.00)
Total	-	-

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 10,242,300.00 as at 31 December 2009 and RMB 10,251,900.00 as at 31 December 2008) 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 the guarantor Huacheng Investment Company had held in Huafang Joint Stock Co., Ltd. in August 2001, but the fund has not been transferred to the Finance Co. so far, 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 2009	31 December 2008
Transactional bond investment	-	208,183,567.20
Transactional equity instrument investment	41,473,019.20	-
Derivative financial assets	-	114,598,750.75
Transactional fund investment	115,024,049.15	818,382,840.90
Others	389,880,000.00	-
Total	546,377,068.35	1,141,165,158.85

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

## (4) Note-receivables

	31 December 2009	31 December 2008
Trade acceptance	1,823,396,528.12	792,149,860.77
Bank acceptance	4,850,855,255.93	3,708,962,283.61
Total	6,674,251,784.05	4,501,112,144.38

As at 31 December 2009, a total book value of RMB 1,597,793,646.17 (31 December 2008: RMB 692,587,730.76) of the bank acceptance was being mortgaged for a short term mortgage loan of RMB 1,597,793,646.17 (31 December 2008: RMB 692,587,730.76).

The five notes receivable with largest sums mortgaged (for short term loans) as at 31 December 2009:

Issuing Entity	Date	Date due	Amount
Baosteel Resource	16 October 2009	16 April 2010	390,526,848.87
Baosteel Resource	24 November 2009	23 May 2010	194,508,172.13
Baosteel Resource	23 December 2009	22 June 2010	180,691,533.86
BNA	15 December 2009	15 January 2010	100,000,000.00
BNA	15 December 2009	29 January 2010	100,000,000.00
			965,726,554.86

As at 31 December 2009, there were no notes receivable due from any shareholder holding 5% or more of the Company's shares or voting power (same as by 31 December 2008).



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## Notes to the Financial Statements (Continued)

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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

	31 December 2009	31 December 2008
Within 1 year	5,628,978,700.95	5,375,221,904.77
1-2 years	168,229,663.47	95,035,387.03
2-3 years	36,660,937.97	24,330,705.88
Over 3 years	150,743,183.00	164,631,220.32
	5,984,612,485.39	5,659,219,218.00
Less bad debt provision for trade-receivables	418,325,206.24	390,028,336.21
Total	5,566,287,279.15	5,269,190,881.79

## Changes in bad debt provision for trade-receivables

	2009	2008
Opening balance	390,028,336.21	433,482,463.37
Provision for the year	253,512,075.16	97,401,995.61
Reversal in the year	(228,562,186.63)	(106,405,815.20)
Transfer-out due to disposal of subsidiaries		(779,560.50)
Writing-off	(1,818,715.83)	(33,301,855.67)
Writing-off recovered	5,059,108.66	
Foreign currency translation difference	106,588.67	(368.89)
Closing balance	418,325,206.24	390,028,336.21

	31 December 2009			31 December 2008		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	1,550,707,206.99	26%	165,649,716.56	1,729,623,644.59	31%	158,440,967.17
Receivable with insignificant single amounts but with considerable credit risk	4,433,905,278.40	74%	252,675,489.68	3,929,595,573.41	69%	231,587,369.04
	5,984,612,485.39	100%	418,325,206.24	5,659,219,218.00	100%	390,028,336.21



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## Notes to the Financial Statements (Continued)

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Provisions for bad debts for receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2009.

	Carrying amount	Bad debt provision	Provision rate	Reasons
Trade receivable with large sums	1,457,955,253.08	72,897,762.65	5%	Note 1
Trade receivable with longer ages	92,751,953.91	92,751,953.91	100%	Note 2
	1,550,707,206.99	165,649,716.56		

Notes: 1. The provision rate for notes receivable with an age no more than one year, for which no evidence is found for possible difficulty in recovering, is 5%.

2. A 100% provision is prepared for notes with longer ages and difficulties in recovering.

Provisions for bad debts for receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2008:

	Carrying amount	Bad debt provision	Provision rate	Reasons
Notes receivable with large sums	1,653,876,502.54	82,693,825.12	5%	Note 1
Notes receivable with longer ages	75,747,142.05	75,747,142.05	100%	Note 2
	1,729,623,644.59	158,440,967.17		

Notes: 1. The provision rate for notes receivable with an age no more than one year, for which no evidence is found for possible difficulty in recovering, is 5%.

2. A 100% provision is prepared for notes with longer ages and difficulties in recovering.

	31 December 2009	31 December 2008
Total of top five debts	1,457,955,253.08	1,653,876,502.54
Ratio against total receivable	24%	29%
Debt duration	Within 1 year	Within 1 year

As at 31 December 2009, a total book value of RMB 600,000,000.00 of trade-receivables was being mortgaged for a short-term loan of RMB 600,000,000.00 by means of bank guarantee.

As at 31 December 2009, the balance in the account included a total debt of RMB 16,225,115.48 (31 December 2008: RMB 8,433,405.29) of shareholding institutes or affiliated parties who own 5% or more of the Company's shares or voting power. Refer to Note 6, "affiliated party relationships and transactions", for details.



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## (6) Payment in advance

	31 December 2009		31 December 2008	
	Book value	Percentage (%)	Book value	Percentage (%)
Within 1 year	3,592,895,515.80	88%	4,549,909,224.79	99%
1-2 years	484,797,395.53	12%	38,400,211.31	1%
2-3 years	17,901,937.13	-	9,676,059.93	-
Over 3 years	3,770,327.33	-	2,821,817.45	-
Total	4,099,365,175.79	100%	4,600,807,313.48	100%

As at 31 December 2009, there was no payment in advance due from any shareholder holding 5% or more of the Company's shares or voting power (same as by 31 December 2008).

As at 31 December 2009, large sums of payments in advance with ages over than one year were mainly made to pay for large equipment.

	31 December 2009	31 December 2008
Total of top five debts	1,392,038,121.52	775,554,487.73
Ratio against total receivable	34%	17%
Debt duration	Within 1 year	Within 1 year

## (7) Interests receivable

2009

	Opening balance	Increase	Decrease	Closing balance
Interests receivable	14,759,478.14	196,906,237.65	(205,963,626.53)	5,702,089.26

The ages of interests 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 2009	31 December 2008
Within 1 year	698,957,470.89	654,489,539.70
1-2 years	29,268,489.29	84,348,213.85
2-3 years	47,416,854.04	2,894,714.30
Over 3 years	133,339,456.81	137,146,015.45
	908,982,271.03	878,878,483.30
Less: bad debt provision for other receivables	155,125,162.75	142,663,855.66
Total	753,857,108.28	736,214,627.64

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

	2009	2008
Opening balance	142,663,855.66	148,244,470.22
Provision for the year	25,818,045.81	5,668,493.47
Reversal in the year	(12,466,925.92)	(6,828,872.72)
Transfer-out due to disposal of subsidiaries	-	(348,990.70)
Writing-off	(889,812.80)	(4,071,244.61)
Closing balance	155,125,162.75	142,663,855.66



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	31 December 2009			31 December 2008		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	596,229,551.98	66%	123,828,510.35	581,281,448.12	66%	117,572,208.50
Receivable with insignificant single amounts but with considerable credit risk in combination	312,752,719.05	34%	31,296,652.40	297,597,035.18	34%	25,091,647.16
	908,982,271.03	100%	155,125,162.75	878,878,483.30	100%	142,663,855.66

Provisions for bad debts for receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2009

	Carrying amount	Bad debt provision	Provision rate	Reasons
Other receivables with large sums	472,401,041.63		0%	Note 1
Other receivables with longer ages	123,828,510.35	123,828,510.35	100%	Note 2
	596,229,551.98	123,828,510.35		

Notes: 1. Provisions were not prepared for bad debts due to the fact these estimates were for customs deposits and input VATs of affiliated transactions, which have very low risk in recovering.

2. A 100% provision is prepared for notes with longer ages and difficulties in recovering.

Provisions for bad debts for other receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2009:

	Carrying amount	Bad debt provision	Provision rate	Reasons
Other receivables with large sums	463,709,239.62		0%	Note 1
Other receivables with longer ages	117,572,208.50	117,572,208.50	100%	Note 2
	581,281,448.12	117,572,208.50		

Notes: 1. Provisions were not prepared for bad debts due to the fact these estimates were for customs deposits and input VATs of affiliated transactions, which have very low risk in recovering.

2. A full amount of provision was prepared due to the age as well as the difficulty in recovering.

	31 December 2009	31 December 2008
Total of top five debts	472,401,041.63	463,709,239.11
Ratio against total other receivables	52%	53%
Debt duration	Within 2 years	Within 1 year

As at 31 December 2009, 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 2008).



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## (9) Inventories

	31 December 2009	31 December 2008
Raw material	9,360,371,802.98	14,153,333,215.22
Work in progress	8,738,985,351.48	10,472,027,336.07
Finished products	7,993,194,308.30	12,802,185,768.54
Spare parts and others	4,430,262,990.72	4,121,522,254.55
	30,522,814,453.48	41,549,068,574.38
Less: provisions for reductions in the value of inventories	1,060,643,070.06	5,904,477,698.64
	29,462,171,383.42	35,644,590,875.74

Changes in provisions for inventories in the period are as follows:

	Raw material	Work in progress	Finished products	Spare parts and others	Total
Opening 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
Provision in the year	104,319,200.17	454,002,692.96	289,934,882.91	20,714,768.44	868,971,544.48
Reversal in the year	(97,874,114.06)	(181,052,327.95)	(1,278,234,435.06)	(3,868,538.23)	(1,561,029,415.30)
Writing-off in the year	(2,530,344,764.80)	(1,111,729,222.58)	(508,822,798.66)	(1,296,428.37)	(4,152,193,214.41)
Foreign currency translation difference			416,456.65		416,456.65
Closing balance	65,923,112.9	460,997,402.23	436,846,270.90	96,876,284.02	1,060,643,070.06

Provisions for inventories in the year

	Basis for provision for decline in value of inventory	Reason for reversal of provision for decline in value of inventory	Ratio of reversed sum against closing balance of inventory
Raw material	Lower inventory cost than net realizable	Rise in market price	1.05%
Work in progress	Lower inventory cost than net realizable	Rise in market price	2.19%
Finished products	Lower inventory cost than net realizable	Rise in market price	16.92%
Spare parts and others	Lower inventory cost than net realizable	Rise in market price	0.08%

## (10) Loans granted and cash advances

	31 December 2009	31 December 2008
Loans	3,182,373,101.13	1,886,746,000.00
Discount	974,953,892.17	28,127,092.68
Provision for loss of borrowings	(25,050,000.00)	(7,120,000.00)
Total	4,132,276,993.30	1,907,753,092.68

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

	2009	2008
Opening balance	7,120,000.00	4,600,000.00
Provision for the year	17,930,000.00	2,520,000.00
Closing balance	25,050,000.00	7,120,000.00



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## (11) Financial assets available for sale

	31 December 2009	31 December 2008
Financial bonds available for sale	10,353,920.00	439,720,000.00
Equity instruments available for sale	1,015,666,601.34	400,462,984.66
Others	30,000,000.00	20,000,000.00
Total	1,056,020,521.34	860,182,984.66

Long-term bond investments available for sale:

	Book value	Annual rate	Initial investment cost	Date due	Interests in the year	Accumulated or received interests	Closing balance
Corporate bond	10,000,000.00	4.80%	10,000,000.00	6 July 2010	480,000.00	1,920,000.00	10,353,920.00

## (12) Long-term equity investments

	31 December 2008	Increase	Decrease	Including: Cash dividend received	31 December 2009
Cost method	938,490,670.40	-	-	-	938,490,670.40
Equity method	2,903,064,461.69	384,070,037.46	(25,737,995.23)	(25,737,995.23)	3,261,396,503.92
Equity transferred from old system trade right due to non-tradable share reform	7,949,489.18	-	-	-	7,949,489.18
	3,849,504,621.27	384,070,037.46	(25,737,995.23)	-	4,207,836,663.50
Less: impairment provisions for long-term equity investments	-	722,467.64	-	-	722,467.64
	3,849,504,621.27	383,347,569.82	(25,737,995.23)	-	4,207,114,195.86

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

Investees	Percentage of equity (%)	31 December 2009	31 December 2008	Current dividend	Provision for impairment
Baovale Mining Co., Ltd.	Note 50	103,282,213.00	103,282,213.00	19,341,712.45	-
Taiyuan Baoyuan Mechanical Industry Co., Ltd.	15	9,000,000.00	9,000,000.00	1,500,000.00	-
CISDI Engineering Co., Ltd.	8	9,508,999.34	9,508,999.34	7,486,042.93	-
Jinchuan Group Automation Engineering Co., Ltd.	7.128	1,000,000.00	1,000,000.00	-	-
Dandong Hanma Refractoriness Co., Ltd.	20	20,000,000.00	20,000,000.00	831,656.76	-
Zhongji Investment Consultancy Stock Co., Ltd.	5	3,000,000.00	3,000,000.00	-	666,024.47
Hanyang Components Co., Ltd.	20	3,311,720.00	3,311,720.00	-	-
Anhui Huishang Co., Ltd.	35.3	3,000,000.00	3,000,000.00	-	-
Henan Longyu Energy Co., Ltd.	12.96	370,269,254.56	370,269,254.56	65,639,911.38	-
Shanghai Luojing Mining Port Co., Ltd.	12	88,734,096.00	88,734,096.00	8,056,841.32	-
Yongmei Group Co., Ltd.	10	279,000,000.00	279,000,000.00	99,262,193.00	-
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	215,923.23	-	56,443.17
China Resources Land Limited (Beijing)	0.09	1,618,750.00	1,618,750.00	93,120.00	-
Others	Insignificant	980,000.00	980,000.00	21,000.00	-
Total		938,490,670.40	938,490,670.40	202,232,477.84	722,467.64

Note: As the Company does not exert actual control or significant influence over the operating policies and financial decisions of Baovale Mining Co., Ltd., 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	Duration	Ratio against registered capital of invested	Initial amount of investment RMB	Total addition of investment	Investment cost increase/(decrease) /Transfer-out due to disposal	Investment cost 31 December 2009
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
Niagara Machinery	20 years Note	50%	123,721,439.29	-	-	109,080,147.98
Shipping-Baosteel	20 years	50%	99,965,000.00	-	-	99,965,000.00
			1,866,770,571.29	-	-	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 accumulated unrecognized investment losses as at the end of 2008 totaled RMB 2,579,521.08. As the Company discontinued operations in the reported period, its shareholders' equity remained unchanged.

## (iii) Investments on associates measured on basis of equity method

Invested company	Duration	Ratio against registered capital of invested	Initial amount of investment RMB	Total addition of investment	Investment cost increase/(decrease) /Transfer-out due to disposal	Investment cost 31 December 2009
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	-	80,370,000.00
Renwei Software	20 years	41.33%	5,131,591.00	-	-	5,131,591.00
Heinan Pingbao	50 years	40.00%	120,000,000.00	200,000,000.00	120,000,000.00	320,000,000.00
Tianjin BCM	50 years	40.00%	56,000,000.00	-	-	56,000,000.00
Baoyang Shipping	20 years	40.00%	16,000,000.00	-	-	16,000,000.00
Wuxi Baomit	50 years Note	51.00%	32,522,976.15	-	-	32,522,976.15
Zhongyou Baoshun	30 years	35.00%	1,912,509.83	-	-	1,912,509.83
			399,741,618.91	363,652,880.00	120,000,000.00	763,394,498.91

Note: As at the balance sheet date, the investment from the Group accounts 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.

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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Adjustment of equity						
Change in profit and loss in the year	Cash dividend received	Transfer-out due to disposal	Total change in gain and loss 31 December 2009	Investment preparation		
				Increase/decrease in the year	Transfer-out due to disposal	Total increase/decrease
123,561,749.91	-	-	143,612,427.19	70,750.00	-	(2,956,392.34)
77,284,981.70	-	-	385,410,456.35	(381,164.80)	-	(44,542,499.25)
-	-	-	(109,080,147.98)	-	-	-
-	-	-	-	-	-	-
200,846,731.61	-	-	419,942,735.56	(310,414.80)	-	(47,498,891.59)
						99,965,000.00
						2,224,573,123.95

Adjustment of equity						
Change in profit and loss in the year	Cash dividend received	Transfer-out due to disposal	Total change in gain and loss 31 December 2009	Investment preparation		
				Increase/decrease in the year	Transfer-out due to disposal	Total increase/decrease
42,705,533.53	(5,465,920.00)	-	227,069,385.18	3,749.28	-	40,909.70
13,492,244.13	-	-	9,124,327.59	-	-	162,744.17
111,507.79	-	-	(1,643,344.75)	-	-	-
79,744.34	-	-	(43,176.34)	-	-	-
493,590.36	-	-	(9,486,873.24)	-	-	2,240,000.00
5,503,871.72	(5,275,441.53)	-	11,220,642.56	-	-	579,303.72
1,142,465.34	(14,996,633.70)	-	34,153,496.65	-	-	-
1,014.16	-	-	11,465.82	-	-	-
63,529,971.37	(25,737,995.23)	-	270,405,923.47	3,749.28	-	3,022,957.59
						1,036,823,379.97



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## (iv) Financial information of joint ventures and associated entities

Baosteel-NSC/Arcelel Automotive Steel Sheets Co., Ltd. (BNA)	Bao-Island Enterprise Co., Ltd. (Bao-Island Enterprise)
Niagara Machinery Products Co., Ltd. (Niagara Machinery)	Shanghai China Shipping-Baosteel Steel Processing Co., Ltd. (Shipping-Baosteel)
Shanghai STAL Precision Stainless Steel Co., Ltd. (STAL Precision)	Shanghai Baosteel & Arcelel Laser Welding Company Ltd. (Welding Co.)
Shanghai Renwei Software Co., Ltd. (Renwei Software)	Heinan Pingbao Coal Co., Ltd. (Heinan Pingbao)
Tianjin BCM Distribution Co., Ltd. (Tianjin BCM)	Shanghai Baoyang Shipping Co., Ltd. (Baoyang Shipping)
Wuxi Baommt Steel Processing and Delivery Co., Ltd. (Wuxi Baommt)	Shanghai Zhongyong Baoshun Chemical Industry Co., Ltd. (Zhongyong Baoshun)

## Joint ventures

	Type	Place of registry	Legal representative	Business	Currency	Registered capital thousand	Percentage of equity held	Percentage of voting power
BNA	LLC	Shanghai	Dai Zhihao	Manufacturing	RMB	3,000,000	50%	50%
Bao-Island Enterprise	LLC	Hong Kong	Not applicable	Ship chartering	HKD	3,300	50%	50%
Niagara Machinery	LLC	Ontario Canada	Not applicable	Manufacturing	CAD	37,500	50%	50%
Shipping-Baosteel	LLC	Shanghai	Zhang Yong	Manufacturing	RMB	199,930	50%	50%

## Associates

	Type	Place of registry	Legal representative	Business	Currency	Registered capital thousand	Percentage of equity held	Percentage of voting power
STAL Precision	LLC	Shanghai	Xie Wei	Manufacturing	USD	96,560	40%	40%
Welding Co.	LLC	Shanghai	Hou Xiangdong	Manufacturing	RMB	211,500	38%	38%
Renwei Software	LLC	Shanghai	Song Jianhai	IT	USD	1,500	41.33%	41.33%
Heinan Pingbao	LLC	Xuchang	Chen Jiansheng	Mining	RMB	800,000	40%	40%
Tianjin BCM	LLC	Tianjin	Pan Zhijun	Iron & steel trading	RMB	140,000	40%	40%
Baoyang Shipping	LLC	Shanghai	Yan Heping	Transportation	RMB	40,000	40%	40%
Wuxi Baommt	LLC	Wuxi	Ogawara Shinichi	Iron & steel trading	USD	7,700	51%	Refer to Note (iv)
Zhongyong Baoshun	LLC	Shanghai	Li Ruoping	Manufacturing	RMB	5,000	35%	35%

	As at end of 2009 Total assets	As at end of 2009 Total liabilities	2009 Annual Business revenue	2009 Annual Net profit
Joint ventures				
Bao-Island Enterprise	1,392,898,174.40	416,964,033.00	682,314,713.20	154,569,963.40
BNA	5,122,601,046.44	1,705,707,482.90	8,938,973,842.26	179,332,753.14
Niagara Machinery	137,545,399.43	142,704,441.60	-	-
Shipping-Baosteel	199,930,000.00	-	-	-
Total	6,852,974,620.27	2,265,375,957.50	9,621,288,555.46	333,902,716.54
Associates				
STAL Precision	1,412,409,930.38	215,990,638.36	710,458,291.68	106,763,833.83
Welding Co.	542,590,439.42	306,605,776.88	576,502,113.20	35,505,905.61
Renwei Software	9,346,424.10	906,438.02	14,232,760.13	269,798.67
Heinan Pingbao	1,754,367,108.42	954,475,049.26	-	199,360.85
Tianjin BCM	200,246,797.76	78,363,980.87	240,015,273.17	1,233,975.90
Baoyang Shipping	80,389,278.95	10,889,413.25	107,236,460.33	13,759,679.30
Wuxi Baommt	469,153,441.87	338,415,259.91	796,236,186.55	2,240,128.12
Zhongyong Baoshun	5,560,875.24	63,801.95	-	2,897.60
Total	4,474,064,296.14	1,905,710,358.50	2,444,681,085.06	159,975,579.88



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## (13) Investment real estates

Subsequent measurement is made on basis of cost method

	Houses and buildings
Original prices	
1 January 2009	203,982,022.38
Transfer from fixed assets	712,321.56
31 December 2009	204,694,343.94
Accumulated depreciation & amortization	
1 January 2009	67,227,230.37
Accrual	6,279,596.87
Transfer from fixed assets	652,199.45
31 December 2009	74,159,026.69
Book value	
31 December 2009	130,535,317.25
1 January 2009	136,754,792.01

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
<b>Original price</b>					
1 January 2009	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
Purchases	59,328,760.14	296,123,155.39	113,857,256.40	80,758,572.20	550,067,744.13
Transfer from construction-in-progress	7,262,685,427.85	8,014,737,435.42	1,354,437,126.49	2,787,679,046.23	19,419,539,035.99
Re-classification	76,733,494.82	(1,400,120,172.48)	49,508,390.95	1,273,878,286.71	-
Purchase from associates	-	-	-	264,686.10	264,686.10
Sales to associates	(2,411,562.77)	(2,029,178.41)	-	-	(4,440,741.18)
Disposals	(408,113,573.43)	(1,042,897,125.05)	(97,702,399.11)	(344,370,474.57)	(1,893,083,572.16)
Amount transferred to real estate	(712,321.56)	-	-	-	(712,321.56)
Other reductions	(31,302,010.69)	(125,891,712.44)	(6,702,132.19)	(126,055,020.61)	(289,950,875.93)
Difference in foreign currency translation	(2,625,939.20)	48,500.37	(60,875.17)	(109,275.96)	(2,747,589.96)
31 December 2009	52,973,218,525.26	154,418,439,509.96	17,597,584,973.00	18,717,297,540.52	243,706,540,548.74
<b>Accumulated depreciation</b>					
1 January 2009	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
Provision in the year	2,339,065,283.54	7,618,730,969.77	1,375,560,214.49	1,728,718,020.34	13,062,074,488.14
Re-classification	(528,917.83)	(514,567,223.94)	22,566,195.58	492,529,946.19	-
Purchase from associates	-	-	-	253,383.40	253,383.40
Sales to associates	(1,902,451.53)	(1,592,980.81)	-	-	(3,495,432.34)
Writing-off	(251,894,041.64)	(869,557,149.72)	(91,487,571.95)	(321,621,654.43)	(1,534,560,417.74)
Amount transferred to real estate	(652,199.45)	-	-	-	(652,199.45)
Other reductions	(288,619.57)	(20,118,335.30)	(788,513.61)	(445,935.07)	(21,641,403.55)
Difference in foreign currency translation	(843,377.45)	33,180.06	(49,293.83)	(78,759.99)	(938,251.21)
31 December 2009	19,421,521,800.04	82,393,342,237.80	13,613,642,635.51	12,760,303,192.01	128,188,809,865.36
<b>Net fixed asset</b>					
31 December 2009	33,551,696,725.22	72,025,097,272.16	3,983,942,337.49	5,956,994,348.51	115,517,730,683.38
1 January 2009	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
<b>Provision for impairment</b>					
1 January 2009	17,240,364.02	33,767,985.89	411,006.65	544,468.01	51,963,824.57
Re-classification	-	(51,644.00)	-	51,644.00	-
Writing-off from disposals	-	(86,206.98)	(44,770.00)	(4,156.00)	(135,132.98)
31 December 2009	17,240,364.02	33,630,134.91	366,236.65	591,956.01	51,828,691.59
<b>Net fixed asset</b>					
31 December 2009	33,534,456,361.20	71,991,467,137.25	3,983,576,100.84	5,956,402,392.50	115,465,901,991.79
1 January 2009	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

As at 31 December 2009, a total value of RMB 3,557,625.76 (2008: RMB 11,605,405.44) of fixed assets were temporarily unused.

As at 31 December 2009, the property-user rights of the buildings and plants, which are worth RMB 5,488,516,696.50 (2008: RMB 5,433,118,836.35) 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.



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

	Houses and buildings	Mechanical equipment	Transportation vehicles	Office and equipment other	Total
Closing balance	-	8,981,068.22	94,255.44	524,616.64	9,599,940.30
Opening balance	-	11,560,092.42	1,381,241.34	234,937.21	13,176,270.97

## (15) Construction-in-progress

	31 December 2009			31 December 2008		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Technical revamping and infrastructure construction	13,746,832,781.17	-	13,746,832,781.17	16,275,909,358.26	-	16,275,909,358.26
Names of projects	Technical revamping and infrastructure construction					
Opening balance	16,275,909,358.26					
Increase in the year	16,890,462,458.90					
Fixed assets transferred in the year	(19,419,539,035.99)					
Closing balance	13,746,832,781.17					
Budget amount	51,996,374,960.82					
Capital source	Self-possessed funds, bank loans and bonds					
Investment-budget ratio	0.02%-99.00%					

The increase in the construction-in-progress included RMB 234,335,290.51 of payment for capitalized interests. The capitalization rate used for the amount of capitalized borrowings ranged from 4.374%-5.6187%.

As at 31 December 2009, the balance of the value of construction-in-progress included a total sum of RMB 160,346,205.63 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

	1 January 2009	Increase in the year	Decrease in the year	31 December 2009
Special materials	35,862,673.41	6,449,360.45	(35,922,282.30)	6,389,751.56
Special equipment	843,533,907.73	171,705,319.31	(714,358,076.81)	300,881,150.23
Equipment in transit	235,104,486.11	160,141,892.42	(12,687,397.31)	382,558,981.22
Total	1,114,501,067.25	338,296,572.18	(762,967,756.42)	689,829,883.01



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## (17) Intangible assets

	Land use right	Computer software	Others	Total
Original price				
1 January 2009	6,447,558,875.06	39,312,540.46	98,294,332.97	6,585,165,748.49
Increase in the year	2,016,590,977.18	3,307,601.51	41,367,197.67	2,061,265,776.36
Other reductions in the year	(2,388,152.72)	-	-	(2,388,152.72)
Foreign currency translation differences	-	(848.57)	-	(848.57)
31 December 2009	8,461,761,699.52	42,619,293.40	139,661,530.64	8,644,042,523.56
Accumulated Amortization:				
1 January 2009	541,624,441.55	26,154,706.07	52,835,038.96	620,614,186.58
Provision in the year	156,836,810.16	8,210,902.19	21,916,436.03	186,964,148.38
Writing-off	(645,517.36)	-	-	(645,517.36)
Foreign currency translation differences	-	(449.04)	-	(449.04)
31 December 2009	697,815,734.35	34,365,159.22	74,751,474.99	806,932,368.56
Book value				
31 December 2009	7,763,945,965.17	8,254,134.18	64,910,055.65	7,837,110,155.00
1 January 2009	5,905,934,433.51	13,157,834.39	45,459,294.01	5,964,551,561.91

As at 31 December 2009, the Group was going through the procedures for land-use right certificates with a book value of RMB 279,172,169.55 (31 December 2008: RMB250,803,868.12). The management of the Company 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 for impairment was needed for the intangible assets on the balance sheet date.

## (18) Long-term deferred expenses

2009

	1 January 2009	Increase in the year	Amortization in the year	Other decreases	Recording into foreign currency exchange difference	31 December 2009
Fees for decorations	45,752,249.92	1,220,010.56	(17,467,750.97)	(557,246.00)	-	28,947,263.51
Leasing expenses	4,448,728.07	782,871.12	(1,778,080.85)	-	-	3,453,518.34
Others	7,522,330.84	616,121.44	(6,053,360.56)	-	52,680.70	2,137,772.42
Total	57,723,308.83	2,619,003.12	(25,299,192.38)	(557,246.00)	52,680.70	34,538,554.27



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## (19) Deferred income tax assets/liabilities

## Recognized deferred income tax assets:

	1 January 2009	Recording into profit and loss	Recording into equity	Recording into foreign currency exchange difference	31 December 2009
Provision for asset impairment	1,569,575,552.48	(1,162,714,113.04)	-	-	406,861,439.44
Unrealized profit deduction in internal transaction	-	104,134,873.49	-	-	104,134,873.49
Difference in residuals of fixed assets	53,524,924.70	8,167,914.36	-	(902.23)	61,691,936.83
Loss from change in fair value	13,725,299.38	(142,261.28)	(13,583,038.10)	-	-
Termination benefit	63,724,469.70	(3,857,862.58)	-	-	59,866,607.12
Deductible loss	48,444,459.78	290,198,909.11	-	-	338,643,368.89
Others	30,485,647.44	53,039,322.95	-	(53,441.44)	83,471,528.95
Total	1,779,480,353.48	(711,173,216.99)	(13,583,038.10)	(54,343.67)	1,054,669,754.72

## Recognized deferred income tax liabilities:

	1 January 2009	Recording into profit and loss	Recording into equity	Recording into foreign currency exchange difference	31 December 2009
Payment of tax unpaid for investment income	119,175,120.39	(5,248,246.08)	-	-	113,926,874.31
Gains from change in fair value	90,326,180.54	(28,297,044.56)	87,023,659.11	-	149,052,795.09
Unrealized profit deduction in internal transaction	219,703,847.13	(219,703,847.13)	-	-	-
Others	2,452,464.00	9,595.09	-	30,452.97	2,492,512.06
Total	431,657,612.06	(253,239,542.68)	87,023,659.11	30,452.97	265,472,181.46

There is no deductible deferred income tax assets/liabilities.

## Timing differences and deductible losses of unrecognized deferred income tax assets:

	31 December 2009	31 December 2008
Provision for asset impairment	70,460,858.43	158,710,316.84
Deductible loss	844,217,126.74	1,269,313,749.97
Others	25,311,447.71	17,394,168.61
Total	939,989,432.88	1,445,418,235.42

## Deductible losses of unrecognized deferred income tax assets due by periods:

	31 December 2009	31 December 2008
2010	261,069,755.03	601,677,677.44
2011	35,549,414.86	102,181,851.07
2012	44,100,644.49	44,100,644.49
2013	425,517,129.10	521,353,576.97
2014	77,980,183.26	-
Total	844,217,126.74	1,269,313,749.97



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## Timing differences for recognized deferred income tax assets:

	Timing difference
Provision for asset impairment	1,671,476,039.85
Unrealized profit from internal transactions	416,539,493.96
Deductible loss	1,383,798,063.69
Others	1,253,568,586.55
Total	4,725,382,184.05

## Timing differences for recognized deferred income tax liabilities:

	Timing difference
Payment of tax unpaid for investment income	455,707,497.24
Gains from change in fair value	671,536,222.00
Others	8,040,361.48
Total	1,135,284,080.72

## (20) Other non-current assets

	31 December 2009	31 December 2008
Loans receivable from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Deposit	298,440.75	6,032,479.38
Others	3,460,106.57	3,522,013.08
Total	121,664,327.46	127,460,272.60

## (21) Asset impairment provisions

	Provision for bad debts	Provision for deposit loss	Provision for loss from inventories	Provision for fixed asset impairment	Provision for long-term equity investment impairment	Total
Opening balance	532,692,191.87	37,371,900.00	5,904,477,698.64	51,963,824.57	-	6,526,505,615.08
Provision in the year	279,330,120.97	17,930,000.00	868,971,544.48	-	722,467.64	1,166,954,133.09
Reversal in the year	(241,029,112.55)	-	(1,561,029,415.30)	-	-	(1,802,058,527.85)
Writing off in the period	(2,708,528.63)	-	(4,152,193,214.41)	(135,132.98)	-	(4,155,036,876.02)
Recovery from writing off	5,059,108.66	-	-	-	-	5,059,108.66
Foreign currency translation difference	106,588.67	(9,600.00)	416,456.65	-	-	513,445.32
Closing balance	573,450,368.99	55,292,300.00	1,060,643,070.06	51,828,691.59	722,467.64	1,741,936,898.28



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## (22) Short term loans

	31 December 2009	31 December 2008
Credit loans	22,064,136,139.78	23,361,569,310.71
Guaranteed loans	12,500,000.00	49,969,880.00
Loans by pledge	2,197,793,646.17	692,587,730.76
Total	24,274,429,785.95	24,104,126,921.47

At the balance sheet date, among the Group's short term loans, the annual interest rate ranges from 1.7062% to 4.374% for short term loans in RMB (2008: 2.4% to 7.2%), and from LIBOR+0.4% to LIBOR+0.7% for short term loans in USD (2008: LIBOR+0.4% to LIBOR+1.8%). The annual interest rate in Euro ranges from LIBOR+0.35% to LIBOR+0.65% (2008: LIBOR+0.35% to LIBOR+0.45%).

The foreign currency translation rate is RMB 6.8282 (2008: 6.8346) vs 1 USD; RMB 0.07378 vs 1 JPY (2008: 0.07565); RMB 9.7971 vs 1 Euro (2008: 9.6590).

As on 31 December 31, 2009, a total of RMB1,597,793,646.17 of pledge for the short term loans are unexpired discounted bank acceptance bills. A total of RMB 600,000,000.00 is pledged by receivables through business guarantee. As at 31 December 31, 2009, they are collateralized by guarantee letters issued by Mitsui & Co Ltd.

## (23) Customer bank deposits and deposits due to banks and other financial institutions

	31 December 2009	31 December 2008
Current deposit	147,301,946.55	455,770,186.79
Fixed deposit	6,871,308,731.90	8,801,070,000.00
Total	7,018,610,678.45	9,256,840,186.79

## (24) Loans from other banks

	31 December 2009	31 December 2008
Loans from domestic banks	34,141,000.00	-

## (25) Transactional financial liabilities

	31 December 2009	2008: 12:31
Derivative financial liabilities	6,285,024.95	11,500,444.73

As at 31 December 2009, the derivative financial liabilities were interest rate swaps to evade exchange rate risks.

## (26) Notes payable

	31 December 2009	31 December 2008
Bank acceptance bills of exchange	1,200,314,389.24	2,015,466,811.71
Commercial acceptance bills of exchange	3,655,041,603.13	2,235,775,913.97
	4,855,355,992.37	4,251,242,725.68

The above-mentioned notes payable will be due in 2010. As at 31 December 2009, 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 (2008: None).



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## (27) Trade payable

	31 December 2009	31 December 2008
Account payable for equipment	775,693,257.49	4,088,290,992.46
Account payable for raw materials	17,806,920,183.15	14,533,384,651.26
Total	18,582,613,440.64	18,621,675,643.72

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

As at 31 December 2009, the balance of the account included RMB 290,697,606.18 (2008: RMB 9,735,047.05) which were attributable to shareholding institutes or related parties who own 5% or more of the Company's shares or voting power. Refer to Note 6, "related party relationships and transactions", for details.

As at 31 December 2009, trades payable with an age over one year, totaling RMB 163,335,593.80, were uncleaned constructions fees for technical revamping and infrastructure projects, which last for a long period.

## (28) Advance receipt

	31 December 2009	31 December 2008
Advance receipt	11,045,412,382.55	9,219,197,161.95

As at 31 December 2009, the balance of the account included RMB7,007,876.45 (31 December 2008: RMB622,571.78) which were attributable to shareholding institutes or related parties who own 5% or more of the Company's shares or voting power. Refer to Note 6, "related party relationships and transactions", for details.

The ages of payments in advance in significant amount in the Group were all within one year as at 31 December 2009.

## (29) Employee compensations payable

	1 January 2009	Increase	Decrease	31 December 2009
Salaries, bonuses, allowances and subsidies	1,031,235,882.18	5,194,602,501.26	(5,062,657,280.42)	1,163,181,103.02
Welfare expenses		141,077,617.47	(141,077,617.47)	
Social insurances				
Including Basic pension insurance	2,010,035.33	784,985,615.60	(783,944,591.18)	3,051,059.75
Medical insurance	21,542.34	385,727,027.85	(385,408,099.60)	340,470.59
Unemployment insurance	114,026.63	66,214,900.90	(66,223,193.43)	105,734.10
Work injury insurance	190,136.45	18,344,430.17	(18,325,591.70)	208,974.92
Maternity insurance	392,256.54	18,285,354.49	(18,620,180.40)	57,430.63
Employment for the injured	752,508.38	28,301,166.83	(28,301,166.83)	752,508.38
Annuity fund	253,270,928.85	179,370,676.52	(426,908,941.71)	5,732,663.66
Others	2,878,665.44	32,258,220.95	(34,115,602.13)	1,021,284.26
Housing accumulation fund	104,244.93	257,285,473.41	(257,285,473.41)	104,244.93
Labor union expenditure and employee education expenses	111,825,737.16	204,368,375.13	(180,118,950.30)	136,075,161.99
Compensations for cancellation of labor relationship	260,675,719.38	98,238,365.70	(138,291,555.03)	220,622,530.05
Others	52,855,673.83	83,582,140.60	(72,560,782.41)	63,877,032.02
Total	1,716,327,357.44	7,492,641,866.88	(7,613,839,026.02)	1,595,130,198.30

As at 31 December 2009, the total employee compensation payable amounted to RMB 982,397,188.61 (RMB 982,397,188.61 in 2008), including unpaid portion which was accounted in line with work efficiency.



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## (30) Taxes and fees payable

	31 December 2009	31 December 2008
VAT	(359,176,289.40)	(225,711,586.29)
Business tax	12,778,648.22	21,064,064.26
Enterprise income tax	(784,411,969.47)	(1,768,022,983.79)
Individual income tax	117,323,281.96	83,426,763.77
Property tax	18,224,286.80	5,106,651.51
City construction and maintenance taxes	10,894,365.64	17,145,481.52
Others	37,996,942.88	67,550,371.71
Total	(946,370,733.37)	(1,799,441,237.31)

Details about methods to provisions of taxes and fees payable and tax rates are presented in Note (3): "Taxation".

## (31) Interests payable

	31 December 2009	31 December 2008
Interests payable for convertible bonds	42,222,222.22	42,222,222.22
Interests payable for medium term notes	146,482,191.78	
Others	51,752,131.77	313,508,098.77
Total	240,456,545.77	355,730,320.99

## (32) Dividends payable

	31 December 2009	31 December 2008
China Orient Asset Management Corp.	8,850,086.58	6,787,400.00
Sumitomo Corporation Ltd.	4,037,596.46	7,559,349.60
Comring (Hong Kong) Ltd.	2,582,443.05	
Mitsui & Co. Ltd.	691,621.34	4,216,755.67
Anhui Huishang Co., Ltd.		683,702.09
Others	522,022.21	704,465.26
Total	16,683,769.64	19,951,672.62



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## (33) Other payables

	31 December 2009	31 December 2008
Guarantee and deposit fees	492,053,170.35	487,973,836.57
Advanced fund	186,880,060.05	141,084,809.78
Transportation and port dues	151,202,287.30	148,330,978.52
Profit for sales promotion		90,372,917.05
Construction fees payable	1,270,068.24	62,899,768.60
Rents	271,052.09	
Land compensation	21,881,784.00	15,600,000.00
Return payable	22,902,536.36	391,165.06
Relief fund	13,016,932.34	13,016,932.34
Commission expense	21,986,879.67	1,943,712.76
Others	104,773,530.84	179,234,393.46
Total	1,016,238,301.24	1,140,848,514.14

As at 31 December 2009, the balance of the account did not include any fund (same as 31 December 2008) 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 other receivable in significant amount in the Group is over one year as at 31 December 2009:

Category	Amount payable	Reason for delay
Guarantee and pledge	72,468,330.21	Longer period of contract term.

## (34) Non-current liabilities due within one year

	Note 5	31 December 2009	31 December 2008
Long-term loan due within 1 year	(35)	114,126,334.34	1,181,586,686.20
Long-term payable due within 1 year	(37)	2,868,833,680.10	2,868,833,680.10
Total		2,982,960,014.44	4,050,420,366.30



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## (35) Long-term borrowings

	31 December 2009	31 December 2008
Credit loan	5,294,932,134.33	14,201,884,772.41

## Top five debts

Bank	Starting	Ending	Currency	Rate (%)	Closing amount		Opening amount	
					Original currency	Translated RMB	Original currency	Translated RMB
BOC	5/4/2009	5/4/2012	USD	3LIBOR+0.4%	100,000,000.00	682,820,000.00	-	-
BOC	5/8/2009	5/8/2012	USD	3LIBOR+0.4%	100,000,000.00	682,820,000.00	-	-
BOC	5/20/2009	5/20/2012	USD	3LIBOR+0.4%	100,000,000.00	682,820,000.00	-	-
EIBC	6/11/2009	6/10/2012	USD	3LIBOR+0.4%	100,000,000.00	682,820,000.00	-	-
EIBC	6/25/2009	6/25/2012	USD	3LIBOR+0.4%	100,000,000.00	682,820,000.00	-	-
Total						3,414,100,000.00		-

## Long-term borrowings due within one year

	31 December 2009	31 December 2008
Credit loan	114,126,334.34	1,181,586,686.20

## Top five current long-term borrowings due within one year

Bank	Start	End	Currency	Rate (%)	Closing balance		Beginning balance	
					Original currency	Translated RMB	Original currency	Translated RMB
CCB	3/18/2008	9/18/2010	Euro	LIBOR+0.305%	5,750,384.74	56,337,094.34	5,750,384.74	55,542,966.20
CCB	8/11/2004	12/20/2010	USD	LIBOR+1.2%	4,800,000.00	32,775,360.00	4,800,000.00	32,806,080.00
CCB	4/29/2004	12/20/2010	USD	LIBOR+1%	3,400,000.00	23,215,880.00	3,400,000.00	23,237,640.00
SMBC	7/17/2007	6/30/2010	RMB	4.86%	-	1,798,000.00	-	5,394,000.00
Total						114,126,334.34		116,980,686.20

The long-term loans of the Group as on the balance sheet day were all credit loans. The applicable foreign exchange rates are RMB 6.8282 (2008 RMB6.8346) v. 1 USD; RMB 0.07378 (2008 RMB 0.07565) against one JPY; RMB 9.7971 (2008 RMB 9.6590) against one EURO; and RMB0.8805 (2008 0.8819) against one HKD.

## Bank credit-granting quota

As at 31 December 2009, the remaining bank credit-granting quota of the Company was RMB 89.105 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.



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## (36) Bond payable

	1 January 2009	Increase	Decrease	31 December 2009
Convertible bonds	7,785,029,718.21	357,419,285.11	-	8,142,449,003.32
Medium term notes	-	9,924,707,256.30	-	9,924,707,256.30
Total	7,785,029,718.21	10,282,126,541.41	-	18,067,156,259.62

Balance of bond payable as at 31 December 2009:

	Duration	Issuing date	Total of carrying value	Value after separation	Adjustment to accumulated interest	Closing value in the period
08Baosteel Bond (126016)	6 years	20 June 2008	10,000,000,000.00	7,601,824,595.29	540,624,408.03	8,142,449,003.32
medium term note (09B2075)	3 years	25 May 2009	5,000,000,000.00	Not applicable	(37,161,995.16)	4,962,838,004.84
medium term note (09B2097)	3 years	30 June 2009	5,000,000,000.00	Not applicable	(38,130,748.54)	4,961,869,251.46
Less: Current portion of bond payable						-
						18,067,156,259.62

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 inquiry coupon rate range was 0.8%. The dividend 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 copies of stock purchase warrants issued by the issuer, the duration of the warrant was 24 months from the date of its being listed on the market. The number of the bond remained unchanged in the reported period.

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, which was adjusted to RMB 12.16 per stock 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 alteration 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.

In May 2009, the National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB 10 billion medium term note in China by the Company. The note can be issued within the following two years and by installment. The Company issued on 25 May 2009 the first tranche of three-year medium note (09Baosteel MTN1) worth RMB 5 billion, with a coupon rate of 2.66%, a face value of RMB 100 and a fixed interest rate. The second tranche (09Baosteel MTN2), with the same worth, coupon rate, face value, interest rate and maturity, was launched on 30 June 2009. The medium term notes are tradable at the inter-bank bond market.

## (37) Long-term payables

Item	Note 5	31 December 2009	31 December 2008
Payable to Luojing assets		7,961,274,621.46	10,413,565,674.58
Less: Current portion of long-term payables	(34)	2,868,833,680.10	2,868,833,680.10
		5,092,440,941.36	7,544,731,994.48

The delivery price of Luojing 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 2009, the book value of the long-term payables in the Group totaled RMB 8,606,501,040.30 and the unrecognized financing charge to be amortized was RMB 645,226,418.84.



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## (38) Special payables

Type	Opening balance	Increase	Decrease	Closing balance
Government appropriation	18,878,920.71	121,706,338.55	(29,670,927.81)	110,914,331.45

## (39) Other non-current liabilities

Type	31 December 2009	31 December 2008
Deferred income	368,408,656.13	157,019,848.06
Others	2,210,834.94	1,826,605.67
Total	370,619,491.07	158,846,453.73



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## (40) 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	Change in the year				Closing balance
		New share issued	Bonus share	Share transferred from reverse	Sub-total	
Shares with conditional right						
RMB ordinary share	17,512,000,000	-	-	-	-	17,512,000,000

As at the end of 31 December 2009, Baosteel Group holds 12,953,517,441 common shares of the total non-restricted RMB common 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 22 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 exercise price of 4.50. The non-tradable share of the Group shall circulate on market when credits are made to the accounts of the shareholders. After the implement of the program, the total capital stock of the Company is still 17,512,000,000 and financial indexes such as 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 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 4.53 per share, the Group shall inject no more than RMB2 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 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 been used up, to purchase the Company's shares by means of competitive pricing at the Stock Exchange of Shanghai until the promised sum has been used up or the Company's shares rise at a level above 4.53 per share. The promise shall be fulfilled before the China Securities Regulatory Commission exempts the Group from the duties in purchasing the shares of the Company and the non-tradable share reform program will be approved 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 30 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, a total of 11,900,917,441 conditional shares of the Company that 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, Baosteel Group neither bought nor sold any of the shares of the Company it held.



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## (41) Capital reserves

	Note	31 December 2008	Increase	Decrease	31 December 2009
<b>Capital premium</b>					
Reserve from conversion of state-owned share		5,726,556,609.73	-	-	5,726,556,609.73
Share premium		27,370,337,395.58	-	-	27,370,337,395.58
<b>Others</b>					
Provision for equity investment	(1)	(1,558,481.16)	74,499.28	(381,164.80)	(1,865,146.68)
Change in fair value of available-for-sale financial assets	(2)	273,336,823.72	382,369,500.74	-	655,706,324.46
Impact of change in fair value of available-for-sale financial assets upon income tax		(60,759,347.35)	(91,915,910.83)	-	(152,675,258.18)
Convertible corporate bonds		2,332,472,977.02	-	-	2,332,472,977.02
Other capital reserves	(3)	1,166,306,618.44	217,502,679.14	(33,700.78)	1,383,775,596.80
<b>Total</b>		<b>36,806,692,595.98</b>	<b>508,030,768.33</b>	<b>(414,865.58)</b>	<b>37,314,308,498.73</b>

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

(2) 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.

(3) 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.

## (42) Special reserve

	Opening balance	Increase of year	Decrease of year	Closing balance
Fees for security in operation	-	22,585,557.62	(14,270,699.66)	8,314,857.96

## (43) Earnings reserve

	Opening balance	Increase of year	Decrease of year	Closing balance
Statutory earnings reserve	6,770,471,793.79	507,687,142.82	-	7,278,158,936.61
Discretionary earnings reserve	10,041,924,133.57	507,687,142.82	-	10,549,611,276.39
<b>Total</b>	<b>16,812,395,927.36</b>	<b>1,015,374,285.64</b>	<b>-</b>	<b>17,827,770,213.00</b>

According to the Company Law and the Charter 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 can be used to make up the loss from the previous year or converted into the Company's share capital.



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## (44) Undistributed profit

	2009	2008
Undistributed profit at beginning of year	20,935,302,003.95	21,620,790,256.82
Net profit	5,816,227,393.10	6,459,207,460.21
Decrease of the year	(4,167,534,285.64)	(7,144,695,713.08)
Including Surplus reserve	(1,015,374,285.64)	(1,015,495,713.08)
Dividend distributed	(3,152,160,000.00)	(6,129,200,000.00)
Closing balance of the year	22,583,995,111.41	20,935,302,003.95

## (45) Minority interests

Minority interests of major subsidiaries of the Group:

	31 December 2009	31 December 2008
Yantai Lubao	156,807,721.03	159,469,347.00
Huangshi Coating & Galvanizing	64,251,348.95	59,192,655.64
Subsidiaries of Baosteel International	773,862,818.27	683,754,359.32
Meshan Steel and its subsidiaries	2,875,652,766.64	2,991,561,364.48
Ningbo Baoxin and its subsidiaries	845,381,625.00	760,618,994.54
Baosheng Software and its subsidiaries	433,738,495.96	368,025,493.83
Finance Co	575,898,147.91	552,535,773.62



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(46) Business revenue and business cost

Business revenue

	2009	2008
Revenue from principal businesses	147,282,020,262.18	199,254,340,394.44
Revenue from other businesses	1,044,343,647.76	1,077,433,425.15
Total	148,326,363,909.94	200,331,773,819.59

Revenue and cost from principal businesses:

	2009		2008	
	Revenue	Cost	Revenue	Cost
Sales of goods	145,934,261,072.47	132,283,675,434.23	197,338,034,509.93	173,618,137,226.96
Others	1,347,759,189.71	1,105,724,371.29	1,916,305,884.51	1,768,761,960.97
	147,282,020,262.18	133,389,399,805.52	199,254,340,394.44	175,386,899,187.93

Principal businesses by industry:

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Iron & steel manufacturing	125,637,716	114,536,566	165,015,943	147,176,141
Sales of iron & steel products	129,682,540	126,586,662	172,658,672	169,242,794
Others	9,222,745	8,193,932	10,101,447	9,263,477
Offset between industries	(117,260,981)	(115,927,760)	(148,521,722)	(150,295,513)
	147,282,020	133,389,400	199,254,340	175,386,899

Principal businesses by product:

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Iron & steel	143,202,073	130,742,802	197,338,034	173,618,137
Others	4,079,947	2,646,598	1,916,306	1,768,762
	147,282,020	133,389,400	199,254,340	175,386,899

Principal businesses by region

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Domestic	133,326,620	121,690,748	174,711,917	155,117,257
Overseas	13,955,400	11,698,652	24,542,423	20,269,642
	147,282,020	133,389,400	199,254,340	175,386,899
Total revenue of top five customers	18,066,783,876.29		19,900,077,791.47	
Ratio against total operating revenue	12%		10%	



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## (47) Operating taxes and surcharges

	2009	2008
Business tax	73,827,005.53	84,506,019.95
City construction tax & educational surcharge	446,722,113.39	743,094,813.75
Tariff	9,766,105.25	362,785,298.75
Others	39,319,067.96	28,749,634.19
	569,634,292.13	1,219,135,766.64

Refer to Note 3, "Taxation", for relevant criteria and tax rates for the above items.

## (48) Financial expenses

	2009	2008
Interest expenses	1,898,990,980.15	3,296,931,394.55
Less: capitalization of interests	234,335,290.51	74,292,681.69
Less: income from interests	33,729,231.67	157,140,673.12
Exchange gain	(3,652,851.60)	(1,023,548,453.03)
Others	48,229,855.50	53,791,530.86
	1,675,503,461.87	2,095,741,117.57

## (49) Asset impairment loss

	2009	2008
Loss from bad debts/(reversal)	38,301,008.42	(10,164,198.84)
Loss from borrowings	17,930,000.00	2,520,000.00
Loss from long-term equity investment	722,467.64	
Loss/(reversal) from provision for inventories	(692,057,870.82)	5,901,512,351.09
Total	(635,104,394.76)	5,893,868,152.25

## (50) (Loss)/Income from change in fair value

	2009	2008
Transactional financial assets	(112,619,133.19)	9,049,223.59
Transactional financial liabilities	5,215,419.78	(5,628,232.96)
Total	(107,403,713.41)	3,420,990.63



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## (51) Investment income

	2009	2008
Investment income of long-term equity investment in cost method	202,232,477.84	151,907,014.24
Stock investment income	492,459,555.16	273,723,168.29
Bond investment income/(loss)	(2,114,184.53)	90,804,935.87
Fund investment income	4,314,940.59	13,534,166.78
Loss from derivative financial instruments to avoid risks	(8,661,421.83)	(114,947,003.22)
Recognized net profit and loss received from associates and joint ventures	264,376,702.98	247,233,654.20
Profit/(Loss) in equity transfer investment	-	11,613,685.27
Others	843,791.54	3,296,329.17
Total	953,451,861.75	677,165,950.60

Top five investors whose investment income from long-term equity investment accounts for more than 5% or highest proportion of the pre-tax profit on the basis of the cost method:

Investee	2009	2008	Reason for the change
Yongcheng Coal & Electricity Holding Group Co., Ltd.	99,262,193.00	6,550,297.00	Cash dividend
Henan Longyu Energy Co., Ltd.	65,639,911.38	94,028,568.42	Cash dividend
Baovale Mining Co., Ltd.	19,341,712.45	19,849,536.00	Cash dividend
Shanghai Luoyang Mining Port Co., Ltd.	8,056,841.32	-	Cash dividend
CISDI Engineering Co., Ltd.	7,486,042.93	9,000,000.00	Cash dividend
	199,786,701.08	129,428,401.42	

Top five investors whose investment income from long-term equity investment accounts for more than 5% or highest proportion of the pre-tax profit on the basis of the equity method:

	2009	2008	Reason for the change
BNA	123,561,749.91	144,026,124.52	Investment gain by equity method
Bao-Island Enterprise	77,284,981.70	114,770,020.50	Investment gain by equity method
STAL Precision	42,705,533.53	54,190,639.40	Investment gain by equity method
Welding Co	13,492,244.13	254,832.05	Investment gain by equity method
Baoyang Shipping	5,503,871.72	5,861,601.69	Investment gain by equity method
	262,548,380.99	319,103,218.16	

As at 31 December 2009, no significant limits existed regarding investment income repatriation.



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## (52) Non-operating income

	2009	2008
Government subsidies	318,053,634.15	221,670,980.22
Income from compensations	63,113,059.57	36,386,518.37
Others	114,432,566.46	214,419,954.86
Total	495,599,260.18	472,477,453.45

Government subsidies recorded into current gains and losses:

	2009	2008
Tax refund	121,622,123.49	109,844,944.57
Awards from government	19,384,873.61	27,567,550.7
Supporting funds	118,079,171.46	30,414,707.03
Others	58,967,465.59	53,843,777.91
Total	318,053,634.15	221,670,980.22

## (53) Non-operating expense

	2009	2008
Loss from disposal of non-current assets	342,022,037.90	323,906,661.47
Including: Loss from disposal of fixed assets	342,022,037.90	323,906,661.47
Donations	38,848,308.09	22,742,414.00
Others	73,939,759.88	275,631,795.22
Total	454,810,105.87	622,280,870.69



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## (54) Income tax expenses

	2009	2008
Current income tax expenses	741,420,003.48	2,389,402,538.42
Deferred income tax expenses	457,933,674.31	(836,130,020.90)
	1,199,353,677.79	1,553,272,517.52

## Relationship between income tax and total profit

	2009	2008
Total profit	7,294,555,395.87	8,154,365,637.43
Taxation by LTR (Note 1)	1,823,638,848.96	2,038,591,409.36
Adjustment to previous taxation	(36,984,042.37)	(234,173,415.00)
Tax-free revenue	(134,410,458.33)	(119,691,831.23)
Undetectable tax expense	36,962,548.79	26,091,731.17
Impact of change in tax rate	(12,022,434.71)	(8,335,754.20)
Previous tax loss used	(83,014,027.49)	(1,223,513.42)
Unrecognized tax loss	7,937,974.62	142,602,120.04
Surcharge preference	(328,867,753.93)	(290,705,021.87)
Others	(73,886,977.75)	116,792.67
Taxation by ETRs of the Group	1,199,353,677.79	1,553,272,517.52

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

## (55) 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:

	2009	2008
Profit		
Current net profit attributable to the shareholders of ordinary shares	5,816,227,393.10	6,459,207,460.21
Shares		
Weighted average number of ordinary shares issued to the public	175,120,000,000	175,120,000,000

The Company issued RMB 10 billion worth of convertible bonds with attached warrants with a maturity 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, an expiry period of 24 months and the exercise proportion of 2:1. The exercise price was adjusted to 12.16 per share due to dividend distribution on 15 June 2009. As the A-share of the Company was lower than the price of the warrant up to 31 December 2008 and in 2009, its diluted potential was not considered.

As no diluted potentials were detected for its A-shares in 2008 and 2009, the diluted earnings per share was not disclosed.



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## (56) Other comprehensive income

	2009	2008
Gain/(Loss) from financial assets available for sale	902,210,153.79	(806,991,323.32)
Less Income tax impact from financial assets available for sale	100,606,697.21	(247,503,837.99)
Net amount recorded in previous comprehensive income but transferred to current profits and losses	485,077,507.55	122,404,844.41
	316,525,949.03	(681,892,329.74)
Difference in foreign currency translation	(74,027.23)	(52,611,894.13)
Less Net amount recorded in previous comprehensive income but transferred to current profits and losses		
	(74,027.23)	(52,611,894.13)
Share in investee's other comprehensive income on basis of equity method	(381,164.80)	(20,099,315.00)
Less Income tax impact from the share in investee's other comprehensive income on basis of equity method		
	(381,164.80)	(20,099,315.00)
	316,070,757.00	(754,603,538.87)

## (57) Notes to cash flow statements

## Other cash received relating to operating activities

	2009	2008
Income from non-operating activities and government subsidies	782,365,538.60	582,355,390.7

## Other cash paid relating to operating activities

	2009	2008
Sales expense	1,179,241,057.38	1,627,249,548.13
Administrative expense	1,388,668,363.82	3,283,839,582.34
Others	343,130,018.33	296,448,946.51
	2,911,039,439.53	5,207,538,076.98

## Other cash received relating to investing activities

	2009	2008
Income from interests	33,729,231.67	157,140,673.12



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## (58) Cash flow from operating activities

	2009	2008
Reconciliation of net profit to cash flows from operations:		
Net profit	6,095,201,718.08	6,601,093,119.91
Add: Provision for impairment of assets	(635,104,394.76)	5,893,868,152.25
Depreciation of fixed assets and investment properties	13,068,354,085.01	14,475,479,434.69
Amortization of intangible assets	186,964,148.38	160,504,301.99
Amortization of long-term deferred expenses	25,299,192.38	25,370,143.31
Net loss on disposal of fixed assets, intangible assets and other long-term assets	342,022,037.90	323,906,661.47
Loss from change in fair value (less: profit)	107,403,713.41	(3,420,990.63)
Financial expense	1,627,273,606.37	2,041,949,586.71
Income from investment	(953,451,861.75)	(677,165,950.60)
Increase in deferred income tax assets (less: increase)	711,173,216.99	(1,006,646,307.85)
Increase in deferred income tax liabilities (less: decrease)	(253,239,542.68)	170,516,286.95
Decrease in inventories (less: increase)	6,874,060,906.49	(2,367,655,886.00)
Decrease in operating receivables (less: increase)	(3,435,167,862.70)	3,505,455,146.41
Increase in operating payables (less: decrease)	232,333,017.99	(12,899,701,652.77)
Net cash flow from operating activities	23,993,121,981.11	16,243,552,045.84

## (59) Cash and cash equivalents

	2009	2008
Cash	4,724,082,906.98	5,565,783,514.89
Including: Cash reserve	1,359,934.40	1,979,482.27
Realizable bank deposit	4,709,232,466.53	5,545,813,175.54
Other realizable monetary funds	13,490,506.05	17,990,857.08
Cash equivalents	100,000,000.00	706,781,484.78
Including: Funds from monetary market	100,000,000.00	706,781,484.78
Closing balance of cash and cash equivalent	4,824,082,906.98	6,272,564,999.67



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## 6. Related Party Relationships and Transactions

## (1) Parent company

Company	Type	Registered in	Legal representative	Business	Registered capital	Shareholding (%) in the Company	Voting power (%) in the Company	Organization code
Baosteel Group Corporation	LLC	Shanghai	Xu Lejiang	Iron and steel manufacturing & processing	RM851.083 billion	73.97	73.97	13220082-1

## (2) Subsidiaries

Refer to Note 4 for details of the subsidiaries of the Company

## (3) Joint ventures and associates

Refer to Note 5(12) for details of the joint ventures and associates.

## (4) Others related parties

Entities affiliated to the Group in business

Related parties	Relationship	Organization code
Bao-Island Trading Co., Ltd. (Bao-Island Trading)	Brother companies	#6080030-0
Baosteel Metal Co., Ltd. and its subsidiaries (Baosteel Metal and its subsidiaries)	Brother companies	13223304-1
Shanghai Baosteel Engineering & Technology Co., Ltd. and its subsidiaries (Engineering & Technology Co. and its subsidiaries)	Brother companies	63083393-9
Fortune Trust Co., Ltd. (Fortune Trust)	Brother companies	63124192-7
Fortune Investment Co., Ltd. (Fortune Investment)	Brother companies	13222881-6
Baosteel Group Baoshan Hotel (Baoshan Hotel)	Brother companies	13242754-2
Baosteel Development Co., Ltd. and its subsidiaries (Baosteel Development and its subsidiaries)	Brother companies	13343894-6
Baosteel Group Shanghai No.2 Iron & Steel Co., Ltd. and its subsidiaries (No. 2 Steel and its subsidiaries)	Brother companies	13320566-7
Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd. and its subsidiaries (No. 1 Steel and its subsidiaries)	Brother companies	13220760-1
Baosteel Group Shanghai Pipes Co., Ltd. (Shanghai Pipes)	Brother companies	63057927-2
Baosteel Group Shanghai Meridian Co., Ltd. and its subsidiaries (Meridian Steel and its subsidiaries)	Brother companies	13226493-X
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries (Pudong Steel and its subsidiaries)	Brother companies	13221291-0
Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries (No. 5 Steel and its subsidiaries)	Brother companies	13222040-5
Baosteel Group Xinyang Bayi Iron & Steel Co., Ltd. and its subsidiaries (Xinyang Bayi and its subsidiaries)	Brother companies	22860110-1
Baosteel Group Resource Co., Ltd. and its subsidiaries (Baosteel Resource and its subsidiaries)	Brother companies	79144036-X
Shanghai Baosteel Industrial Examination Co., Ltd. and its subsidiaries (Examination Co. and its subsidiaries)	Brother companies	13349253-9
Nanjing Baon Steel Wires Co., Ltd. (Baon Wires)	Brother companies	60897903-4
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. (Examination & Maintenance Co.)	Brother companies	63083350-9
Shanghai Institute of Steel and Iron (Institute of Steel and Iron)	Brother companies	13342720-0
Zhanjiang Longteng Logistics Co., Ltd. (Zhanjiang Longteng)	Brother companies	79779551-6
Ningbo Iron & Steel Co., Ltd. (Ningbo Steel)	Brother companies	74497613-7
Bao-Island Enterprises Limited	Joint venture	38783-0
BNA	Joint venture	71785178-5
Weidong Co., Ltd.	Associated Companies	75571733-3
Tianjin BCM	Associated Companies	60089497-6
Baojiang Shipping	Associated Companies	63179113-6
Henan Pingbao	Associated Companies	76314008-7



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## (5) Related transactions between the Group and Baosteel Group and its related parties:

## (1) Sales to related parties

Related party	Notes	2009 RMB thousand	(%)	2008 RMB thousand	(%)
Baosteel Group	(1)a	12,544	0.01	18,484	0.01
No. 1 Steel and its subsidiaries	(1)b	150,802	0.10	529,781	0.26
No. 2 Steel and its subsidiaries	(1)b	143,747	0.10	269,693	0.13
No. 5 Steel and its subsidiaries	(1)b	12,630	0.01	73,371	0.04
Pudong Steel and its subsidiaries	(1)b	71,765	0.05	1,282,151	0.64
Shanghai Pipes	(1)b	-	-	19,301	0.01
Baosteel Development and its subsidiaries	(1)b	2,038,300	1.37	4,604,545	2.30
Engineering & Technology Co. and its subsidiaries	(1)b	53,858	0.04	242,213	0.12
Baosteel Metal and its subsidiaries	(1)b	949,571	0.64	1,007,383	0.50
BNA	(1)b	7,718,220	5.20	9,501,329	4.74
Meishan Steel and its subsidiaries	(1)b	950,734	0.64	1,634,856	0.82
Baoan Wires	(1)b	577	-	180,261	0.09
Examination & Maintenance Co. and its subsidiaries	(1)b	59,883	0.04	150,966	0.08
Examination Co. and its subsidiaries	(1)b	164,356	0.11	199,989	0.10
Baosteel Resources and its subsidiaries	(1)b	2,097,335	1.41	4,714,521	2.35
Welding Co.	(1)b	235,616	0.16	110,822	0.06
Tianjin BCM	(1)b	153,137	0.10	119	-
Zhanjiang Longteng	(1)b	180,750	0.12	-	-
Others	(1)b	21,746	0.01	43,028	0.02
Total		15,015,571	10.11	24,582,813	12.27

## (2) Purchases from related parties

Related party	Notes	2009 RMB thousand	(%)	2008 RMB thousand	(%)
No. 1 Steel and its subsidiaries	(2)a	182,342	0.14	253,508	0.14
No. 2 Steel and its subsidiaries	(2)a	2,828	-	4,591	-
No. 5 Steel and its subsidiaries	(2)a	353	-	151,521	0.09
Pudong Steel and its subsidiaries	(2)a	650	-	1,041,736	0.59
Engineering & Technology Co. and its subsidiaries	(2)a	1,316,373	0.98	1,072,476	0.61
Baosteel Development and its subsidiaries	(2)a	1,079,194	0.80	1,620,230	0.92
Baosteel Metal and its subsidiaries	(2)a	42,229	0.03	56,632	0.03
BNA	(2)a	8,396,783	6.25	11,081,116	6.30
Examination Co. and its subsidiaries	(2)a	9,422	0.01	11,244	0.01
Examination & Maintenance Co.	(2)a	205,884	0.15	370,859	0.21
Meishan Steel and its subsidiaries	(2)a	1,245,278	0.93	1,240,256	0.71
Baosteel Resource and its subsidiaries	(2)a	5,031,714	3.75	12,648,682	7.19
Bao-Island Trading	(2)a	2,474,677	1.84	1,254,723	0.71
Bao-Island Enterprise	(2)a	-	-	335,046	0.19
Xinjiang Bayi and its subsidiaries	(2)a	1,184,669	0.88	1,698,466	0.97
Others	(2)a	120,873	0.09	110,171	0.06
Total		21,293,269	15.85	32,951,257	18.73



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## (3) Labor services provided to related parties

Category	Notes	2009 RMB thousand	2008 RMB thousand
Transportation services	(3)a	70,779	81,317
Technical supports	(3)b	107,114	82,630
Total		177,893	163,947

Category	2009 RMB thousand	2008 RMB thousand
Baosteel Group	53,672	6,982
Welding Co.	58	924
Fortune Trust	350	
Examination Co. and its subsidiaries	4,150	1,190
Xinyang Baiy Steel and its subsidiaries	15,300	16,390
Pudong Steel and its subsidiaries	3,893	16,164
Baosteel Development and its subsidiaries	8,231	8,034
Engineering & Technology and its subsidiaries	6,961	4,098
Baosteel Metal and its subsidiaries	1,856	438
Miehan Steel and its subsidiaries	13,323	6,316
Baosteel Resources and its subsidiaries	10,909	37,518
Examination & Maintenance Co.	4,890	1,149
BNA	51,652	52,132
Others	2,648	12,612
Total	177,893	163,947



Baoshan Iron & Steel Co., Ltd.  
Notes to the Financial Statements (Continued)  
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REVENUE

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(4) Labor services received from related parties

Category	Notes	2009 RMB thousand	2008 RMB thousand
Examination & maintenance fees paid	(4)a	466,138	1,655,112
Processing fees paid	(4)b	303,067	286,559
Training fees paid	(4)c	29,392	33,360
Logistics fees paid	(4)d	2,816,698	2,482,668
Transportation fees paid	(4)e	782,451	635,258
Project fees paid	(4)f	572,153	819,615
Warehousing and shipping fees paid	(4)g	80,681	140,224
Total		5,050,580	6,052,796

Related party	2009 RMB thousand	2008 RMB thousand
Baosteel Group	34,407	41,613
BINA	145,951	124,455
Examination & Maintenance Co. and its subsidiaries	767,617	883,443
Engineering & Technology Co. and its subsidiaries	446,742	544,081
Mershan Steel and its subsidiaries	831,093	952,711
No. 1 Steel and its subsidiaries	484,443	779,215
Pudong Steel and its subsidiaries	101,594	127,936
Bao-Island Enterprise	286,709	224,114
Examination Co. and its subsidiaries	553,480	566,203
Baosteel Development and its subsidiaries	1,153,626	1,425,154
No. 5 Steel and its subsidiaries	124,889	302,046
Others	120,029	81,825
Total	5,050,580	6,052,796

(5) Related transactions between the Group and Baosteel Group and its related companies

Category	Notes	2009 RMB thousand	2008 RMB thousand
Leases paid for plants and land	5(a)	421,745	131,893
Income from leasing plants	5(a)	36,540	37,261
Income from financial services	5(b)	113,938	273,665
Expenses on financial services	5(c)	104,329	370,140
Interests paid for Phase 3 assets	5(d)	16,000	48,000
Interests paid for entrusted (via Finance Co.) loans from the Group	5(e)	33,056	147,373



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Notes to the Financial Statements (Continued)

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RMB

## Notes

- (1) Sales of products to the related party
- (a) In 2009, the Group mainly sold BGC energy raw materials and spare parts at market prices for a total amount of RMB 12,544,414 (2008: RMB 18,483,984)
- (b) Since the Group purchased them on 1 May 2005, the Group has provided steel and iron products and other materials for No. 1 Steel, No. 2 Steel, No. 5 Steel (Pudong Steel, Meshan 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 2009, the Group sold to these subsidiaries, joint ventures and associates a value of RMB 11,105,477,834 (2008: RMB 16,513,140,986) of major products and byproducts and a value of RMB 3,168,175,338 (2007: RMB 6,246,751,483) 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 Baosteel Group's subsidiaries and associates at the market price totaled RMB 695,696,960 in 2009, as compared to RMB 677,149,696 in the previous year.
- The total value of spare parts the Group sold to some BGC subsidiaries reached RMB 33,676,677 in 2009, compared to RMB 1,127,286,831 in 2008
- (2) Purchases from related parties
- (a) The Group has been purchasing spare parts from No. 5 Steel, Meshan 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, Meshan 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 above-mentioned companies in 2009 totaled RMB 1,409,292,132 (2007: RMB 1,345,167,325), RMB 1,575,499,201 (2007: RMB 1,997,801,467), RMB 18,165,099,748 (2007: RMB 29,358,111,972) and RMB 143,378,699 (2007: RMB 250,176,638), respectively, at market prices.
- (3) Labor provided to related parties
- (a) The Group provided transportation services for Baosteel Group, BNA, Meshan 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 BGC, BNA and Xinjiang Bai Steel and its subsidiaries with research projects, quality examination and testing and other technical services at contracted prices.
- (4) Labor received from related parties
- (a) Examination & Maintenance, Examination Co., Meshan 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.
- (b) No. 5 Steel and its subsidiaries have served as a provider of spare parts processing for the Group at negotiated prices. Baosteel-NSC/Anceel, Meshan Steel and its subsidiaries, and No. 1 Steel and its subsidiaries have provided supplementary material processing for the Group at negotiated prices.
- (c) Baosteel Group provided training to staff of the Group at negotiated prices.
- (d) Baosteel Development, Meshan 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.
- (e) Bao-Island Enterprise, Meshan Steel and its subsidiaries, No. 1 Steel and its subsidiaries, Baosteel Development and its subsidiaries, and No. 5 Steel and its subsidiaries are paid by the Group at contracted prices for transportation services.



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- (f) 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.
- (g) Examination & Testing and Baosteel Development, along with their subsidiaries, provided material warehousing and transportation at negotiated prices.
- (5) Other related party transactions
- (a) When founded, the Company signed a twenty-year agreement with Baosteel Group for the lease of the plant site land. In September 2001, the Company signed a further twenty-year lease agreement with Baosteel Group 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 Baosteel Group for the land use of the plant site for assets in custody due to acquisitions. In the past year, the Company made an actual rental payment for RMB 364,412,336 (2008: RMB 125,010,000) to Baosteel Group.
- The Group leased houses to such related parties as Baoshan Hotel and Baosteel Development and its subsidiaries at negotiated prices. Meanwhile, Baosteel Group, Baosteel Resources Co., Ltd. and its subsidiaries also leased houses to the Group at negotiated prices.
- (b) 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.
- (c) 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.
- (d) In accordance with the Supplementary Agreement of the Acquisition of Assets for Baosteel Phase 3 Projects, the deferred interest related to acquisition payments by the Group to Baosteel Group shall be paid in the last five working days of December each year from 2002 to 2009. The amount of interests in the period was RMB 16,000,000 (2008: RMB 48,000,000).
- (e) 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.



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Notes to the Financial Statements (Continued)

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## (6) Balance of receivables and payables of related parties

Notes receivable	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Development and its subsidiaries	385,786	105,452
No 2 Steel and its subsidiaries	84,056	97,674
Meshan Steel and its subsidiaries	475,641	386,790
No 5 Steel and its subsidiaries	2,852	-
Baosteel Resources	878,672	-
Tianjin BCM	44,732	23,846
BNA	248,659	-
Others	4,768	2,374
Total	2,125,166	616,136

Trade receivable	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group	16,225	8,433
Baosteel Development and its subsidiaries	67,294	64,972
Meshan Steel and its subsidiaries	93,947	72,266
Pudong Steel and its subsidiaries	5,061	23,787
No 5 Steel and its subsidiaries	5,720	3,989
Xinjiang Bay Steel and its subsidiaries	32,774	-
Baosteel Resources and its subsidiaries	28,481	8,466
Fortune Trust	10,734	453
Baosteel Metal and its subsidiaries	18,838	14,872
Engineering & Technology and its subsidiaries	86,889	105,869
Examination Co. and its subsidiaries	102,762	117,237
Examination & Maintenance Co. and its subsidiaries	25,194	30,859
Zhanjiang Longteng	158,149	-
BNA	606,109	728,165
Welding Co.	22,347	2,140
Others	27,289	21,228
Total	1,307,813	1,202,736



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Advance payment	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Development and its subsidiaries	14,796	14,831
Meishan Steel and its subsidiaries	3,055	57,435
Xinjiang Bayi Steel and its subsidiaries	146,159	148,237
Baosteel Resources and its subsidiaries	182,016	668
Engineering & Technology and its subsidiaries	264,948	511,891
Examination Co.	4,192	5,586
BNA	762,470	469,359
Ningbo Steel	200,668	-
Others	2,473	4,660
Total	1,580,777	1,212,667

Other receivables	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Meishan Steel and its subsidiaries	161,545	114,925
Engineering & Technology Co. and its subsidiaries	1,058	931
Welding Co.	1,610	-
Others	2,217	1,779
Total	166,430	117,635

Loans granted and cash advances	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Pudong Steel and its subsidiaries	1,200,000	-
Xinjiang Bayi Steel and its subsidiaries	1,000,000	1,000,000
Baosteel Resources and its subsidiaries	1,007,939	292,487
Baosteel Metal and its subsidiaries	32,622	118,346
Engineering & Technology and its subsidiaries	226,000	273,185
Examination & Maintenance Co.	60,000	90,000
Ningbo Steel	76,800	-
Henan Pingbao	180,000	36,000
Others	17,000	73,400
Total	3,800,361	1,883,418



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Notes to the Financial Statements (Continued)

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Receipt of deposits and deposits from other banks	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group	5,787,826	8,816,641
No. 5 Steel and its subsidiaries	153,159	58,265
Fortune Investment	300,096	-
Fortune Trust	610,309	197
Engineering & Technology and its subsidiaries	46,148	717
Baosteel Institute	31,263	13,572
Others	81,518	359,079
Total	7,010,319	9,248,471

Notes payable	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Development and its subsidiaries	16,656	60,432
Meshan Steel and its subsidiaries	109,246	14,531
Xinjiang Bai Steel and its subsidiaries	269,930	225,598
Baosteel Resources and its subsidiaries	471,534	992,747
Engineering & Technology and its subsidiaries	2,519	100,795
Examination & Maintenance Co.	64,816	36,337
BNA	227,993	158,539
Others	11,209	17,228
Total	1,173,903	1,606,207

Notes payable	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group	290,698	9,735
Baosteel Development and its subsidiaries	476,444	423,698
No. 1 Steel and its subsidiaries	43,841	25,023
Meshan Steel and its subsidiaries	515,383	323,088
Pudong Steel and its subsidiaries	6,899	70,209
No. 5 Steel and its subsidiaries	26,715	37,830
Baosteel Resources and its subsidiaries	438,341	352,316
Engineering & Technology Co. and its subsidiaries	430,100	281,347
Examination Co. and its subsidiaries	114,449	139,518
Examination & Maintenance Co.	97,135	115,160
Bao-Island Enterprises	6,171	92,236
BNA	188,258	146,030
Baojiang Shipping	24,134	27,581
Bao-Island Trading	391,420	367,387
Others	67,460	76,778
Total	3,117,448	2,487,936



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## Notes to the Financial Statements (Continued)

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Advance receipt	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group	7,008	623
Baosteel Development and its subsidiaries	313,717	44,345
No.2 Steel and its subsidiaries	14,781	12,929
No. 1 Steel and its subsidiaries	18,409	37,555
Meshan Steel and its subsidiaries	137,166	103,590
Pudong Steel and its subsidiaries	153	5,573
No. 5 Steel and its subsidiaries	1,419	1,324
Baosteel Resources and its subsidiaries	5,181	1,124
Baosteel Metal and its subsidiaries	195,543	65,279
Tianjin BCM	32,082	12,115
Others	13,315	8,921
Total	738,774	293,378

Other payables	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Development and its subsidiaries	3,375	2,327
Meshan Steel and its subsidiaries	2,301	1,755
Baosteel Metal and its subsidiaries	1,202	-
No. 5 Steel and its subsidiaries	-	1,388
Baosteel Resources and its subsidiaries	-	5,000
Engineering & Technology and its subsidiaries	5,771	5,004
Baosteel Institute	-	1,107
Others	144	145
Total	12,793	16,726

Interests payable	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group	26,752	40,280
No. 5 Steel and its subsidiaries	1,093	570
Others	1,319	728
Total	29,164	41,578

Long-term borrowings	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Baosteel Group (via Finance Co.)	-	3,500,000

Receivables from and payables to related parties concerning related party transactions other than those under notes receivable, loans granted and cash advances, notes payable, deposits from or to other financial institutions, and long-term borrowings are free from interests, pledges, and maturity. Refer to Note 5 (37) for information about long-term payables to the controller.



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## 7. Contingencies

Up to the balance sheet date, the Group had no contingencies that need to be disclosed

## 8. Commitments

Capital commitments	31 December 2009	31 December 2008
Contracted but not provided	8933,081,115.15	17,368,880,532.53
Approved by the Board but not contracted	9,264,779,473.43	16,768,706,817.98
	18,197,860,588.58	34,137,587,350.51

The capital commitments by the Group up to 31 December 2008 has been fulfilled as promised

## 9. Events Occurring After the Balance Sheet Date

As approved by the fourth meeting of the fourth Board of Directors held on 31 March 2009, the Board of Directors proposed a cash dividend payout of RMB 2.0 per 10 shares (pre-tax), with total of dividend payable of RMB 3,502,400,000.00. The proposal has been submitted to the 2009 General Shareholders' Meeting for approval.



Baoshan Iron & Steel Co., Ltd.  
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10. Other Significant Events

(1) Leases

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Significant operating leases

Minimum rents for unchangeable leases as specified in lease agreements with leases:

	31 December 2009	31 December 2008
1 year and within 1 year	263,920,854.27	183,880,408.33
2 years and 1-2 years	243,470,253.59	140,307,759.42
3 years and 2-3 years	238,226,865.00	131,675,445.70
Over 3 years	1,923,924,622.00	1,131,675,742.00
Total	2,669,542,594.86	1,587,539,355.45

(2) Assets/liabilities measured at fair value

2009

	Beginning balance	Gains and losses from change in fair value	Accumulated fair value recorded in equity	Impairment in the period	Closing balance
Financial assets					
Financial assets measured at fair values with its variation recorded into the profits and losses of the current period	1,141,165,158.85	(112,619,133.19)	-	-	546,377,068.35
Including Derivative financial assets	114,598,750.75	(114,598,750.75)	-	-	-
Financial assets available for sale	860,182,984.66	-	316,525,949.03	-	1,056,020,521.34
Total	2,001,348,143.51	(112,619,133.19)	316,525,949.03	-	1,602,397,589.69
Financial liabilities	11,500,444.73	(5,215,419.78)	-	-	6,285,024.95

(3) Financial assets and liabilities in foreign currency

	Beginning balance	Gains and losses from change in fair value	Accumulated fair value recorded in equity	Impairment in the period	Closing balance
Financial assets					
Financial assets measured at fair values with its variation recorded into the profits and losses of the current period	114,598,750.75	(114,598,750.75)	-	-	-
Including Derivative financial assets	114,598,750.75	(114,598,750.75)	-	-	-
Loans and receivables	3,206,719,426.08	-	-	-	3,540,930,681.03
Total	3,321,318,176.83	(114,598,750.75)	-	-	3,540,930,681.03
Financial liabilities	1,038,029,832.31	-	-	-	1,098,405,532.65

(4) Annuity plan and its major change

In accordance with the "Reply to Baosteel Group's Application for Trial Enterprise Annuity Plan" (SASAC [2008] 1268), by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), and the "Announcement of Proportion in Enterprise Annuity Plan" by the Human Resource Department of Baosteel Group, the system of annuity plan was practised in the Company from 1 January 2008. The portion responsible by the employer is 4% of the base amount of the individual (salary in the previous year with limits of the lowest and the highest), while the portion by the individual is 1%-7% of the base amount; (1% of primary portion and no more than 6% of additional portion). The said annuity is managed by Baosteel Group's subsidiary Fortune Trust Co. Ltd. in 2009.



Baoshan Iron &amp; Steel Co., Ltd.

## Notes to the Financial Statements (Continued)

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## (5) Segment reporting

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 and iron, trade and others according to the industry where the Company and its subsidiaries belong. The steel and iron 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:

Segment	Branches and subsidiaries included
Iron & steel manufacturing	The Company, Meshan Steel, Ningbo Baixin, Yantai Lubao, Huangshi Coating & Galvanizing, Yantai Baosteel, Baoyin Special Steel, Nantong Steel and other steel and iron producing units.
Iron & steel trade	Baosteel International and its subsidiaries, Special Metal, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-Island Enterprises, Baosteel Brazil Trading and other trading subsidiaries.
Others	Finance Co., Chemical Co., Baosight Software, No.5 Steel Gas and others.

The sales to no individual customer of the Group has accounted for 10% or more of the Group's revenue.

For disclosure of the Group's operating data, the revenues are classified and disclosed in the region where the customers are situated, and the assets are classified and disclosed in the region 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.



Baoshan Iron &amp; Steel Co., Ltd.

## Notes to the Financial Statements (Continued)

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## (a) Business segment

2009	Iron & Steel RMB thousand	Trade RMB thousand	Others RMB thousand	Offset RMB thousand	Total RMB thousand
Business revenue	126,524,817	129,823,714	9,723,985	(117,489,704)	148,582,812
Including External transaction income	20,680,540	123,987,123	3,915,149	-	148,582,812
Transaction income among segments	105,844,277	5,836,591	5,808,836	(117,489,704)	-
Business cost	119,842,627	138,212,402	8,991,159	(115,969,036)	141,077,152
Business profit	6,682,190	1,611,312	732,826	(1,520,668)	7,505,660
Total assets	188,621,277	34,746,541	15,870,738	(39,150,443)	200,088,113
Total liabilities	63,044,195	22,752,535	9,792,401	(25,614,611)	69,974,520

## Complementary information:

Capital expenses	18,140,371	523,361	911,923	-	19,575,655
Depreciation or amortization expenses	12,686,617	288,512	305,488	-	13,280,617
Loss from asset impairment	683,297	(268,844)	(10,069)	(1,039,488)	(635,104)

2008	Iron & 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

## Complementary 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



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## (b) Information of the Group

2009

	Domestic market RMB thousand	International market RMB thousand	Offset RMB thousand	Total RMB thousand
External transactions income	134,627,412	13,955,400	-	148,582,812
Total of non-current assets (Note)	138,780,838	221,223	(975,649)	138,026,412

Note: Non-current assets belong to the region they are situated, excluding financial assets and deferred income tax assets.

2008

	Domestic market RMB thousand	International market RMB thousand	Offset RMB thousand	Total RMB thousand
External transactions income	176,462,509	24,542,423	-	201,004,932
Total of non-current assets (Note)	133,618,285	237,385	(990,899)	132,864,771

Note: Non-current assets belong to the region they are situated, excluding financial assets and deferred income tax assets.

Income from external transactions includes

	2009 RMB thousand	2008 RMB thousand
Investment income of Finance Co.	57,543	366,923

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

Items not contained in segment business income:

	2009 RMB thousand	2008 RMB thousand
Financial expenses	1,675,503	2,095,741
Losses from assets impairment/(reversal)	(635,104)	5,893,868
Losses and profits from changes in fair value	107,404	(3,421)
Investment income (excluding Finance Co.)	(895,909)	(310,243)
Total	251,894	7,675,945

Items not contained in segment assets:

	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Deferred income tax assets	1,054,670	1,779,480

Items not contained in segment liabilities:

	31 December 2009 RMB thousand	31 December 2008 RMB thousand
Short term borrowings	24,274,430	24,104,127
Current portion of non-current liabilities (excluding long-term payables)	114,126	1,181,587
Long-term borrowings	5,294,932	14,201,885
Deferred income tax liabilities	265,472	431,658
Total	29,948,960	39,919,257



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(6) 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 2 (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.

(a) Foreign-exchange risk

The term "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 is primarily settled in USD, which results in a relatively great deficit in USD income and expense. In view of the practical situation of more bilateral fluctuations in the exchange rate of RMB against USD and changes in the trend of unilateral appreciation, with a view to evade the risk of exchange rate fluctuation of liabilities in USD, the Company conducts financing activities in USD matched with forward exchange contracts, prioritizes and selects financing activities in USD and financing activities in RMB according to the comprehensive financing cost ratio with the most preferential financing cost ratio in RMB currently available as the benchmark. At the same time, the Company practices dynamic research on the exchange trend of RMB against USD, the financing activities in USD will be ceased if the comprehensive financing cost ratio of USD is higher than control target of interest rate.

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.



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(b) 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.

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 2009, the Group was exposed to equity price risks from individual equity investments which belong to transactional equity investment (Note 5(3)) and investment available for sale (Note 5(11)). The exchange traded investment of the Group is at Shanghai Stock Exchange and Shenzhen 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 2009	Highest/Lowest 2009	31 December 2008	Highest/Lowest 2008
Shanghai—A share indexes of Shanghai Stock Exchange	3,437	3,651/1,936	1,912	5,771/1,793
Shenzhen—A share indexes of Shenzhen Stock Exchange	1,261	1,296/600	582	1,660/490

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. From the perspective of sensitivity analysis, the impact upon equity instrument investment available for sale can be regarded as one upon the change in fair value of the investment, without taking into consideration of possible deduction in profit statements

	Book value of equity investment RMB thousand	Increase/decrease of pre-tax profit RMB thousand	Increase/decrease in equity* RMB thousand
2009			
Investments at following stock exchanges:			
Shanghai—Investment available for sale	890,891	-	44,545
—Investment held for sale	41,473	2,074	-
Shenzhen—Investment available for sale	124,776	-	6,239
2008			
Investments at following stock exchanges:			
Shanghai—Investment available for sale	394,381	-	19,719
—Investment held for sale	-	-	-
Shenzhen—Investment available for sale	6,082	-	304

\* The retained earning was not included.



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## (c) 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 locks 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 2009		31 December 2008	
	Transactional financial assets	Financial assets for sale	Transactional financial assets	Financial assets for sale
Within 1 year	-	-	208,183,567.20	-
Over 1 year	-	10,353,920.00	-	439,720,000.00
Total	-	10,353,920.00	208,183,567.20	439,720,000.00
Actual rate (annual)	-	4.80%	1%-6.28%	3.51%-5.6%

## Other financial assets

	31 December 2009			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset
Within 1 year	-	-	-	-
Over 1 year	-	-	4,132,276,993.30	-
Total	-	-	4,132,276,993.30	-
Actual rate (annual)	-	-	1.26%-5.76%	-

	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%	-



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Financial liabilities

	31 December 2009				
	Borrowings	Assets sold under agreements to repurchase	Acceptance of deposits	Bond payable	Long-term payable
Within 1 year	24,388,556,120.29	-	7,018,610,678.45	-	2,868,833,680.10
Over 1 year	5,294,932,134.33	-	-	18,067,156,259.62	5,092,440,941.36
Total	29,683,488,254.62	-	7,018,610,678.45	18,067,156,259.62	7,961,274,621.46
Actual rate (annual)	1.706%-5.913%	-	0.36%-2.25%	2.99%-5.62%	4%

	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%

Financial risks

(a) 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. 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 provided any form of guarantee which may put it in a situation of risks. As at 31 December 2009 only 24% of the receivables were due from the top five debtors, the Group is not found to be exposed to significant intensive credit risks.

(b) 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

### (7) Other events bearing upon investors

The Company acquired from Pudong Steel, a wholly owned subsidiary of the Group, Luojing assets and related businesses in 2008. Luojing assets cover an area of 3,228 million m<sup>2</sup>, for which Pudong Steel has paid some initial expenses, but not the land transfer expense, for which the Company needs to pay RMB 2.8 billion as preliminarily estimated. Baosteel Group promises:

- (a) Baosteel Group and/or Pudong Steel will help the Company to go through the transfer procedures and other matters as required by the Company reasonably.
- (b) In the event of the total actual expense exceeding RMB 2.8 billion for the procedures, Baosteel Group or Pudong Steel shall fully cover the exceeding amount in time, by means of paying the Company or government (as is required).



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## 11. Notes to the Company's Financial Statements

## (1) Trade receivable

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

Ageing analysis of the trade receivable as follows:

	31 December 2009	31 December 2008
Within 1 year	5,936,609,199.92	5,866,218,889.01
1-2 years	82,299,835.37	9,516,578.82
2-3 years	833,675.28	-
More than 3 years	76,877,597.78	81,414,153.06
	6,096,620,308.35	5,957,149,620.89
Less bad debt provision for notes receivable	366,247,211.14	368,314,691.55
Total	5,730,373,097.21	5,588,834,929.34

Changes in bad debt provision for receivables:

	31 December 2009	31 December 2008
Opening balance	368,314,691.55	401,170,410.29
Provision for the year	159,220,351.79	4,868,263.86
Reversal for the year	(160,696,315.03)	(37,668,875.96)
Bad debt writing-off for the year	(591,517.17)	(55,106.64)
Total	366,247,211.14	368,314,691.55

	31 December 2009			31 December 2008		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	3,546,323,946.45	58%	250,349,915.21	3,543,956,827.81	59%	249,157,626.34
Receivable with insignificant single amounts but with considerable credit risk features in combination	2,550,296,361.90	42%	115,897,295.93	2,413,192,793.08	41%	119,157,065.21
	6,096,620,308.35	100%	366,247,211.14	5,957,149,620.89	100%	368,314,691.55



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Provisions for bad debts for receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2009:

	Carrying amount	Bad debt provision	Provision rate	Reasons
Trade receivable with large sums	3,469,446,348.67	173,472,317.43	5%	Note 1
Trade receivable with longer ages	76,877,597.78	76,877,597.78	100%	Note 2
	3,546,323,946.45	250,349,915.21		

Notes: 1. The provision rate for trade receivable with an age no more than one year, for which no evidence is found for possible difficulty in recovering, is 5%.

2. A 100% provision is prepared for trade receivable with longer ages and difficulties in recovering.

Provisions for bad debts for receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2008:

	Carrying amount	Bad debt provision	Provision rate	Reasons
Notes receivable with large sums	3,468,209,685.76	173,410,484.29	5%	Note 1
Notes receivable with longer ages	75,747,142.05	75,747,142.05	100%	Note 2
	3,543,956,827.81	249,157,626.34		

Notes: 1. The provision rate for trade receivable with an age no more than one year, for which no evidence is found for possible difficulty in recovering, is 5%.

2. A 100% provision is prepared for trade receivable with longer ages and difficulties in recovering.

	31 December 2009	31 December 2008
Total of top five debts	3,469,446,348.67	3,468,209,685.76
Ratio against total receivable	57%	58%
Debt duration	Within 1 year	Within 1 year



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(2) Other receivables

Ages of other receivables

	31 December 2009	31 December 2008
Within 1 year	188,966,003.71	49,491,210.46
1-2 years	13,780,460.07	78,770,978.69
2-3 years	45,355,280.42	-
	248,101,744.20	128,262,189.15
Less: bad debt provision for other receivables	9,240,915.13	3,470,493.32
Total	238,860,829.07	124,791,695.83

Changes in bad debt provision for other receivables:

	31 December 2009	31 December 2008
Opening balance	3,470,493.32	3,980,689.37
Provision for the year	11,587,686.02	2,081,902.51
Reversal for the year	(5,817,264.21)	(2,591,312.77)
Bad debt writing-off for the year	-	(785.79)
Total	9,240,915.13	3,470,493.32

	31 December 2009			31 December 2008		
	Book value	Percentage	Bad debt provision	Book value	Percentage	Bad debt provision
Receivable with significant single amounts	204,410,276.37	82%	-	79,835,194.23	62%	-
Receivable with insignificant single amounts but with considerable credit risk features in combination	43,691,467.83	18%	9,240,915.13	48,426,994.92	38%	3,470,493.32
	248,101,744.20	100%	9,240,915.13	128,262,189.15	100%	3,470,493.32

Provisions for bad debts for other receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2009

	Carrying amount	Bad debt provision	Provision rate	Reasons
Other receivables with no risks in recovering	204,410,276.37	-	0%	Note 1

Note 1: Provisions were not prepared for bad debts due to the fact these estimates were for customs deposits and input VATs of affiliated transactions, which have very low risk in recovering.

Provisions for bad debts for other receivables with significant single amounts and those with insignificant amounts but subjected to independent impairment tests as at 31 December 2008:

	Carrying amount	Bad debt provision	Provision rate	Reasons
Other receivables with no risks in recovering	79,835,194.23	-	0%	Note 1

Note 1: Provisions were not prepared for bad debts due to the fact these estimates were for customs deposits and input VATs of affiliated transactions, which have very low risk in recovering.

	31 December 2009	31 December 2008
Total of top five debts	217,222,107.62	103,025,652.55
Ratio against total receivable	88%	80%
Debt duration	Within 2 years	Within 2 years



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## (3) Long-term equity investment

	31 December 2008	Increase in the year	Decrease in the year	Including: Cash dividend received	31 December 2009
Cost method	21,548,232,391.14	1,390,000,000.00	(15,250,081.87)	-	22,922,982,309.27
Equity method	2,365,396,161.14	243,245,599.62	(5,465,920.00)	(5,465,920.00)	2,603,175,840.76
	23,913,628,552.28	1,633,245,599.62	(20,716,001.87)	-	25,526,158,150.03
Less: Impairment provisions for long-term equity investment	-	-	-	-	-
	23,913,628,552.28	-	-	-	25,526,158,150.03

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

Invested entity	Percentage of equity (%)	31 December 2009	31 December 2008	Dividend received
Yantai Lubao	79.82	361,404,905.16	361,404,905.16	-
Huangshi Coating & Galvanizing	39.37	40,658,477.39	40,658,477.39	-
Baosteel International	100	6,013,886,552.67	6,013,886,552.67	574,761,350.07
Meishan Steel	74.0	7,438,982,988.14	7,438,982,988.14	19,229,226.81
Ningbo Baoxin	54	1,199,965,377.57	1,199,965,377.57	-
Baosheng Software	55.5	275,664,363.08	275,664,363.08	29,111,214.00
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	81,867,650.27	97,117,732.14	-
Baosteel 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	-
Baosteel Chemical	100	3,006,227,819.74	3,006,227,819.74	285,892,490.73
Finance Co	62.1	568,270,003.65	568,270,003.65	124,200,000.00
Baoyin Tubes	65	130,000,000.00	130,000,000.00	-
Yantai Tubes	80	1,600,000,000.00	640,000,000.00	-
Nantong Steel	95.82	948,520,310.51	518,520,310.51	-
Total		22,729,986,000.27	21,355,236,082.14	1,033,194,281.61

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

Invested entity	Percentage of equity (%)	31 December 2009	31 December 2008	Dividend received
Baovale Mining Co., Ltd.	Note 1	103,282,213.00	103,282,213.00	19,341,712.45
Shanghai Luoying Mining Port Co., Ltd.	12	88,734,096.00	88,734,096.00	8,056,841.32
Others		980,000.00	980,000.00	21,000.00
Total		192,996,309.00	192,996,309.00	27,419,553.77

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.



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## (iii) Investments on joint ventures measured on basis of equity method

Invested entity	Duration	Ratio against registered capital of invested	Initial amount of investment RMB	Investment cost increase/(decrease)/ Transfer-out due to disposal	Investment cost 31 December 2009
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 entity	Duration	Ratio against registered capital of invested	Initial amount of investment RMB	Total addition of investment	Investment cost increase/(decrease)/ Transfer-out due to disposal	Investment cost 31 December 2009
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

Type	Place of registration	Legal person	Businesses	Currency	Registered capital RMB thousand	Percentage of equity held	Voting power of the Group	
Joint ventures								
BNA	LLC	Shanghai	Dai Zhihao	Manufacturing	RMB	3,000,000	50%	50%
Bao-Island Enterprise	LLC	Hong Kong	Not applicable	Ship chartering	HKD	3,300	50%	50%
Associates								
STAL Precision	LLC	Shanghai	Xie Wei	Manufacturing	USD	96,560	40%	40%
		Total assets as at end of 2009		Total liabilities as at end of 2009		Business revenue in 2009		Net profit in 2009
Joint ventures								
Bao-Island Enterprise						682,314,713.20		154,569,963.40
BNA						8,938,973,842.26		179,332,753.14
Total						9,621,288,555.46		333,902,716.54
Associates								
STAL Precision						710,458,291.68		106,763,833.83



Baoshan Iron &amp; Steel Co., Ltd.

Notes to the Financial Statements (Continued)

31 December 2009

PUBLIC FILE

RMB

Change in profit and loss in the year	Cash dividend received	Adjustment in equity			Investment in joint ventures 31 December 2009
		Total change in gain and loss 31 December 2009	Investment preparation		
			Increase/(decrease) in the year	Total increase/(decrease)	
123,561,749.91	-	143,612,427.19	70,750.00	(2,956,392.34)	1,640,656,034.85
77,284,981.70	-	385,410,456.35	(381,164.80)	(44,542,499.25)	483,952,089.10
200,846,731.61	-	529,022,883.54	(310,414.80)	(47,498,891.59)	2,124,608,123.95

Change in profit and loss in the year	Cash dividend received	Adjustment in equity			Investment in associates 31 December 2009
		Total change in gain and loss 31 December 2009	Investment preparation		
			Transfer-out due to disposal	Total increase/(decrease)	
42,705,533.53	(5,465,920.00)	227,069,385.18	3,749.28	40,909.70	478,567,716.81

## (4) Business revenue and business cost

## Business revenue

	2009	2008
Revenue from principal businesses	115,611,725,520.67	149,895,884,030.27
Revenue from other businesses	676,647,985.07	633,219,350.69
Total	116,288,373,505.74	150,529,103,380.96
Total revenue from top five customers	60,975,114,781.80	75,747,694,228.67
Ratio in total business revenue	52%	50%

## Revenue and cost from principal businesses:

	2009		2008	
	Revenue	Cost	Revenue	Cost
Sales of goods	115,611,725,520.67	105,083,929,432.66	149,895,884,030.27	133,491,131,075.71

## Principal businesses by industry:

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Iron & steel manufacturing	115,611,726	105,083,929	149,895,884	133,491,131



Baoshan Iron & Steel Co., Ltd.  
Notes to the Financial Statements (Continued)  
31 December 2009

REVENUE [11.7]

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RMB

Principal businesses by product

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Iron & steel products	115,611,726	105,083,929	149,895,884	133,491,131

Principal businesses by region

	2009		2008	
	Revenue RMB thousand	Cost RMB thousand	Revenue RMB thousand	Cost RMB thousand
Domestic market	107,078,822	97,402,155	134,228,565	119,957,268
Overseas market	8,532,904	7,681,774	15,667,319	13,533,863
Total	115,611,726	105,083,929	149,895,884	133,491,131

(5) Investment gains

	2009	2008
Loss from derivative instruments in risk prevention	(4,764,392.18)	(114,507,444.75)
Recognized net profit and loss from joint ventures and associates	243,552,265.14	312,986,784.42
Profit and loss from transfer of equities	-	903,591.57
Income from equity investments	1,060,613,835.38	198,581,646.14
Total	1,299,401,708.34	397,964,577.38

Top five investors whose investment gains from long-term equity investment on the basis of the cost method accounted for more than five percent or highest portion of the pre-tax profit:

Investor	2009	2008	Reason for change
Baosteel International	574,761,350.07	-	Cash dividend
Baosteel Chemical	285,892,490.73	173,062,971.77	Cash dividend
Finance Co.	124,200,000.00	-	Cash dividend
Baoshan Software	29,111,214.00	21,833,410.50	Cash dividend
Messan Steel	19,229,226.81	63,275,000.00	Cash dividend
	1,033,194,281.61	258,171,382.27	

Top five investors whose investment gains from long-term equity investment on the basis of the equity method accounted for more than five percent or highest portion of the pre-tax profit:

	2009	2008	Reason for change
BNA	123,561,749.91	144,026,124.52	Investment gains on equity basis
Bao-Island Enterprise	77,284,981.70	114,770,020.50	Investment gains on equity basis
STAL Precision	42,705,533.53	54,190,639.40	Investment gains on equity basis
	243,552,265.14	312,986,784.42	

As at 31 December 2009, no significant limits existed regarding investment income repatriation.



Baoshan Iron & Steel Co., Ltd.  
Notes to the Financial Statements (Continued)  
31 December 2009

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RMB

(6) Bank credit-granting quota

As at 31 December 2009, the remaining bank credit-granting quota of the Company was RMB 88.966 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.

(7) Cash flows from operating activities

	2009	2008
Reconciliation of net profits to cash flows arising from operating activities		
Net profit	5,076,871,428.16	5,077,478,565.37
Add: Provision for impairment losses of assets	495,685,046.06	4,102,421,414.83
Depreciation of fixed assets and real estate investments	10,905,019,030.32	12,182,207,698.51
Amortization of intangible assets	94,516,892.43	81,782,894.69
Amortization of long-term deferred expenses	13,675,804.20	12,452,441.75
Profit or losses on the disposal of fixed assets, intangible assets and other long-term assets	85,948,606.84	149,075,976.34
Income from changes in fair value	114,598,750.74	(283,678,477.45)
Financial expense	1,647,263,364.48	1,748,955,920.26
Investment income	(1,299,401,708.34)	(397,964,577.38)
Increase in deferred income tax	762,246,576.91	(964,902,026.56)
Increase in inventories	2,569,363,730.78	2,284,562,060.76
Increase in operating receivables	(7,662,197,908.67)	(3,716,551,585.29)
Increase in operating payables	4,963,779,983.74	1,339,860,008.32
Net cash flows from operating activities	17,767,369,597.65	21,615,700,314.15

(8) Cash and cash equivalents

	2009	2008
Cash	1,767,579,044.85	3,182,690,342.86
Including: Cash on hand	115,024.89	103,077.68
Deposit available for payment at any time	1,766,161,041.16	3,180,767,020.98
Other monetary assets available for payment	1,302,978.80	1,820,244.20
Balance of cash and cash equivalents at the end of period	1,767,579,044.85	3,182,690,342.86



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 (72008) No.43).



FOR DISC FILE

RMB

## 2. Analysis of Changes in Financial Data in the Statements

- (1) The bond payable was RMB 10.282 billion more than that of the previous year, a rise of 132%, mainly due to the effort made by the Company to optimize the debt structure and to lower financing cost. In addition, medium term note worth RMB 10 billion was issued in the period.
- (2) As compared with that of the previous year, the operating revenue decreased by 26%, or RMB 52.005 billion, fiscally as a result of more than 20% drop in comprehensive sales price of steel products. The sales of steel products also experienced certain decrease in the period.
- (3) The operating cost went down by 24%, or RMB 41.562 billion, as compared with that of the previous year. This was mainly due to the price drop in fuel and raw materials such as ore, coke and stainless materials as well as the measures taken by the Company to reduce consumption and lower costs. In addition, the sales of steel products also experienced certain decrease in the period.
- (4) The administrative expense dropped by 19%, or RMB 1.084 billion, as the result of the effort made by the Company to better control the costs.
- (5) The loss from impairment of assets was RMB 6.529 billion less than that of the previous year, a decrease of 110%. This was mainly due to the reversal or recovery of major part of provision for inventory loss as a result of recovered shipments and prices of steel products, and lower prices of raw materials purchase.



**XI. Documents on Record for Reference**

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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

Chairman Xu Lejiang  
31 March 2010



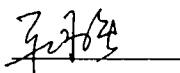
**Confirmation in Writing by the Senior Management of  
Baoshan Iron & Steel Co., Ltd. for the Company's 2009 Annual Report**

In accordance with article 68 of "Securities Law" and the requirements in "Circular on Properly Handling the 2009 Annual Reports of Listed Companies" of Shanghai Stock Exchange, we, as the senior management, believe the Company's 2009 Annual Report has truthfully reflected the Company's financial status and operating results after comprehensively understanding and reviewing the Company's 2009 Annual Report.

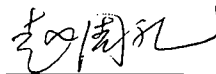
We hereby guarantee that the 2009 Annual Report is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the Annual Report.

Signatures by the Senior Management of the Company:

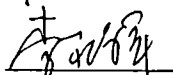
Ma Guoqiang



Zhao Zhouli



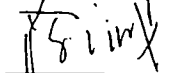
Li Yongqiang



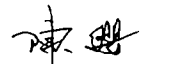
Zhu Junsheng



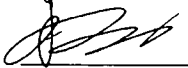
Jiang Lucheng



Chen Ying



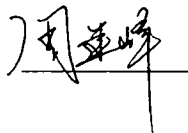
Lou Dingbo



Pang Yuanlin



Zhou Jianfeng



9 March 2010

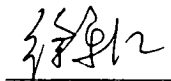


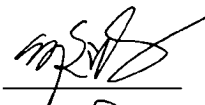
**Confirmation in Writing by the Directors of the Board of  
Baoshan Iron & Steel Co., Ltd. for the Company's 2009 Annual Report**

In accordance with article 68 of "Securities Law" and the requirements in "Circular on Properly Handling the 2009 Annual Reports of Listed Companies" of Shanghai Stock Exchange, we, as the Directors of the Board, believe the Company's 2009 Annual Report has truthfully reflected the Company's financial status and operating results after comprehensively understanding and reviewing the Company's 2009 Annual Report.


We hereby guarantee that the 2009 Annual 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 Annual Report.

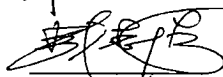
Signatures by the Directors of the Board of the Company:

Xu Lejiang 


He Wenbo 

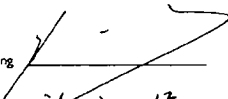
Ma Guoqiang 

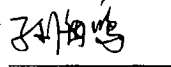
Fu Zhongzhe 

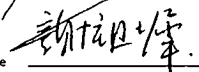
Dai Zhihao 

Wu Yaowen 

Buck Pei 

Katherine T'sang 

Sun Haiming 

Edward C. Tse 

31 March 2010





POTENTIAL