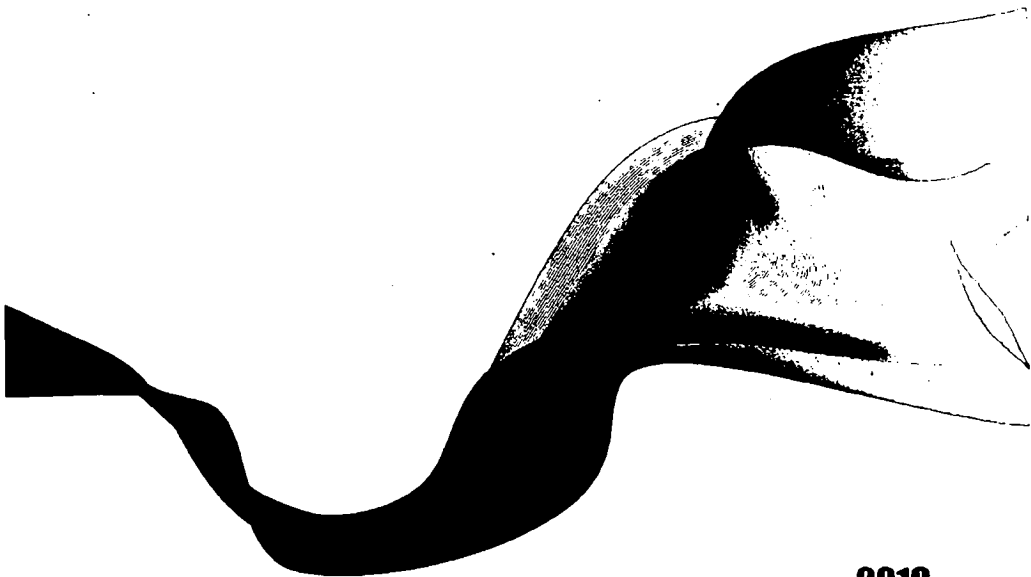


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**2010
Annual Report**

BAOSHAN IRON & STEEL CO., LTD.

Disclaimer:

The information contained in this English version of 2010 Annual Report is provided as a reference only with the understanding that Baoshan Iron & Steel Co., Ltd. makes no warranties, either expressed or implied, concerning the accuracy of the translation. For full information, please refer to Baosteel's Chinese version of 2010 Annual Report.

To Our Investors

2010 marks the end of China's 11th Five-Year Plan period, the inaugural year of Baosteel's 2010-2015 Development Plan, as well as the 25th year since Baosteel was put into production. In 2010, inheriting and enhancing valuable practice and measures adopted during the financial crisis, all the employees made concerted effort in carrying out the key tasks of "product management, cost improvement, management reform, environmental management, and basic management". As a result, the Company maintained the status of "the best performing steelmaker in China" against the backdrop of very complicated and volatile market. The sales of steel products totaled 25.261 million tons, a 12.6% growth from the previous year, and the business income reached RMB 202.43 billion and the pre-tax profit reached RMB 17.03 billion, which were 36.3% and 133.4% higher year on year respectively. And the net profit attributable to the Company's stockholders was RMB 12.81 billion, with the EPS reaching RMB 0.74 per share.

The outstanding business performance in 2010 was achieved through product differentiation strategy, namely providing high quality, value-added products and service. However, affected by the overall poor sector fundamentals, the stock performance was not satisfactory, with valuation even lower than the industry average. The Company strengthened communication with the capital market, participated in many IR activities. Senior management including the chairman and the president, and BOD Secretary increased their shareholding in the Company, to show their confidence in the business outlook and in the Company's value.

It appears that the 2011 global economy continues to recover slowly in the wake of 2010. Some countries are burdened with heavy debts and great amount of non-performing assets. The side-effects of economic stimulus policies starts to emerge. The QE monetary policy adopted by the U.S. government has fueled commodity prices with flood of liquidity. Regional instability has made the road of recovery even more bumpy. Asset bubble and inflationary pressure have grown in emerging markets. Trade protectionism is still very rampant, and competition in the international market is becoming more intense.

China's steel industry is still characterized by periodic over-capacity, low speed of growth, more fierce homogeneous competition, and margin squeeze. The central government will encourage more M&A activities in the sector to optimize the structure, to increase the concentration rate, to reduce energy consumption and pollution in a pursuit of more sustainable development.

The wide-ranging changes in 2011 present both challenges and opportunities. Baosteel will focus on the new round of strategic plan, promote the product management, consolidate the best practice in cost-saving, increase management efficiency through organizational reform, launch environmental management on a full scope so as to achieve sustainable development. To this end, the Company puts forward the new operational guideline of "Adapting itself to changing environment through product management and cost improvement; forging new competitive edges by enhancing soft power and conducting environmental operation". The Company aims to realize a total operating income of RMB 710 billion, with its "only one" products reaching 11% of all products, the contract fulfillment rate reaching 100% and its comprehensive energy consumption per ton of steel less than 738 kilograms of standard coal.

As the conditions for the economic recovery at home and abroad remain complicated, and the Company is still faced with many uncertainties in the internal and external business environment, the management of the Company will meet these challenges through efficient execution of key operational plan, striving to outperform the sector in a fiercely competitive market.

Important Notice

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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 2010 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 Director Dai Zhihao was absent from the board meeting due to occupation of other work, Director Ma Guoqiang was entrusted by Mr. Dai himself, to vote on his behalf.

Deloitte Touche Tohmatsu Certified Public Accountants Limited gave standard unqualified audit report for the Company.

Mr. He Wenbo, 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

1. Chinese Name: 宝山钢铁股份有限公司
Chinese Abbreviation: 宝钢股份
English Name: Baoshan Iron & Steel Company Limited
English Abbreviation: Baosteel
2. Legal Representative: He Wenbo
3. Secretary to Board of Directors: Chen Ying
Investor Relations Officer: Yu Hong
Address: Secretariat to Board of Directors, 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: Baosteel Administrative Center, 885 Fujin Rd. Baoshan District, Shanghai
Zip Code: 201900
Office Address: Baosteel Administrative 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: 14 October 2010
Address of Change of Registration: Baosteel Administrative Center, 885 Fujin Rd. Baoshan District, Shanghai.
Corporate Business License Number: 310000000074519
Tax Identification Number: 310046631696382
Organization Code: 63169638-2
Accounting Firm: Deloitte Touche Tohmatsu Certified Public Accountants Limited
Office Address of Accounting Firm: 30th Floor, Bund Center, 222 Yan An Rd. East, Shanghai, China (200002)
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, 22 June 2009, 23 April 2010, 23 August 2010 and 14 October 2010.

II. Accounting and Financial Highlights

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1. Major Financial Data

(RMB million)	
Item	Amount
Operating profits	16,666
Pre-tax profit	17,076
Net profit attributable to shareholders of listed company	12,889
Net profit attributable to shareholders of listed company less non-recurring gains and losses	12,585
Net cash flow from operating activities	18,856

Non-recurring gains and losses

(RMB million)	
Item	Amount
Loss from disposal of non-current assets	-123
Investment income from disposal of financial assets available for sale	8
Net increase from other non-operating activities	534
Impact from income taxes	98
Impact from minority shareholders	-17
Total of non-recurring gains and losses	304

11 Accounting and Financial Highlights

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2 Summary of Three-year Financial and Operating Data

(RMB million)				
Item	2010	2009	Increase (%)	2008
Operating revenue	202,149	148,326	36.29	200,332
Pre-tax profit	17,076	7,295	134.10	8,154
Net profit attributable to shareholders of listed company	12,889	5,816	121.61	6,459
Net profit attributable to shareholders of listed company less non-recurring gains and losses	12,585	5,465	130.29	6,958
Net cash flow from operating activities	18,856	23,993	-21.41	16,244

(RMB million)				
Item	As at end of 2010	As at end of 2009	Increase (%)	As at end of 2008
Total assets	216,065	201,143	7.42	200,021
Shareholders' equity (interest) attributable to listed company	104,746	95,137	10.10	91,957

(RMB million)				
Item	2010	2009	Increase (%)	2008
Basic earnings per share (RMB)	0.74	0.33	121.61	0.37
Diluted earnings per share (RMB)	0.74	0.33	121.61	0.37
Basic earnings per share less non-recurring gains and losses (RMB)	0.72	0.31	130.29	0.40
Fully-diluted average return-on-equity (%)	12.95	6.27	6.68 percentage points up	6.99
Fully-diluted average return-on-equity less non-recurring gains and losses (%)	12.64	5.89	6.75 percentage points up	7.53
Net cash flow from operating activities (RMB)	1.08	1.37	-21.41	0.93

(RMB million)				
Item	As at end of 2010	As at end of 2009	Increase (%)	As at end of 2008
Book value per share attributable to listed company (RMB)	5.98	5.43	10.10	5.25

III. Capital and Shareholders

1. 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	%
I. Shares subject to conditional sales									
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									
II. Shares not subject to conditional sales	17,512,000,000	100				48,088	48,088	17,512,048,088	100
1 RMB ordinary shares	7,512,000,000	100				48,088	48,088	17,512,048,088	100
2 Domestic listed international investment shares									
3 Overseas listed international investment shares									
4 Others									
III. Total	17,512,000,000	100				48,088	48,088	17,512,048,088	100

Authorization of the changes in share

Approved by China Securities Regulatory Commission (CSRC) in the document of [2008] 739, the Company issued, on 20 June 2008, RMB10 billion convertible bonds with attached warrants with par value of RMB100 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 RMB10 billion) and 1,600,000,000 warrants were separated.

Approved by Shanghai Stock Exchange in the document numbered [2008] 81, a total of RMB 0 billion of corporate bond after separation were listed in Shanghai Stock Exchange on 4 July 2008. The bond was abbreviated as "08 Baosteel Bond" with the code of 126016. The duration is from 4 July 2008 to 19 June 2014 and they will be repaid in the five trading days after the maturity date.

Approved by Shanghai Stock Exchange in the document numbered [2008] 11, a total of 1,600,000,000 warrants after separation were listed in Shanghai Stock Exchange on 4 July 2008. The bond was abbreviated as "Baosteel CWB11" 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 2 July 2010, during which the warrants are to cease trading.

As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CWB11" was ended with 113,785 equity warrants exercised, and an increase of 48,088 shares of the Company A total capital of RMB567,438,404 was raised, which will be used as stated in the prospectus. On 7 July 2010, the "Baosteel CWB11" warrants were delisted in Shanghai Stock Exchange.

Status of Transfer for Shareholdings' Movements

The new shares of the shareholders have all been registered in Shanghai Branch of China Securities Depository and Clearing Corporation Limited after the "Baosteel CWB11" warrants were exercised.

(2) Change in restricted shares

The Company has no restricted shares in the reported period.

III. Capital and Shareholders

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2. Issuance of Securities

(1) Issuance of securities in the previous three years

(RMB)

Stock and derivative securities	Issuing date	Issuing price	Issuing volume	Listing date	Approved amount of stock and derivative securities listed for transactions	Transaction termination date
Warrant Bonds						
Warrant Bonds	20 June 2008	100	3.1 billion			
08Baosteel Bond				4 July 2008	10 billion	19 June 2014
Baosteel CWB1				4 July 2008	1.6 billion	2 July 2010

(2) Refer to "1. Changes in Share Capital": "Authorization of the changes in share" for the details about the issuance of securities in the previous three years.

(3) status of existing employee stocks

During the reported period, no shares for employees of the Company were in issue.

3. Shareholders

(1) Shareholders and their shares

	(Share)
Number of shareholders	606,180

Top 10 shareholders

Name	Type of Investor	Percentage (%)	Total shares	Increase during the period	Shares subjected 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	0.86	151,111,102	15,461,313		None
BANK OF COMMUNICATION E FUND 50 INDEX SECURITIES INVESTMENT FUND	Others	0.41	71,275,729	69,896,929		None
UBS AG (Bank, Switzerland)	Others	0.41	70,928,393	1,968,828		None
NATIONAL COUNCIL FOR SOCIAL SECURITY FUND — 0 COMBO	Others	0.37	65,090,535	48,090,535		None
RUGAO CHANGRONG ORE STORAGE LIMITED	Others	0.33	57,229,512	57,229,512		None
INDUSTRIAL AND COMMERCIAL BANK OF CHINA — SHANGHAI STOCK EXCHANGE 50 ETF FUND	Others	0.31	53,497,602	-2,137,976		None
CHINA RESOURCES SZITIC TRUST CO. LTD. — CHONGYANG NO. 3 SECURITIES INVESTMENT COLLECTION FUND TRUST PROGRAM	Others	0.28	49,392,628	49,392,628		None
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO. LTD.	Others	0.21	36,631,921	30,167,732		None
GUOTAI JUNAN SECURITIES CO. LTD. — CLIENT CREDIT TRANSACTION SECURITY ACCOUNT	Others	0.20	35,486,560	35,486,560		None

Top 10 traceable share holders

Shareholders	Shareholdings of unconditional share	Share type
BAOSTEEL GROUP CORP	2,953,517,441	RMB common share
CHINA CONSTRUCTION BANK — YINHUA CORE VALUE SELECTED STOCK FUND	151,111,102	RMB common share
BANK OF COMMUNICATION — E FUND 50 INDEX SECURITIES INVESTMENT FUND	71,275,729	RMB common share
UBS AG (Bank, Switzerland)	70,928,393	RMB common share
NATIONAL COUNCIL FOR SOCIAL SECURITY FUND — 0 COMBO	65,090,535	RMB common share
RUGAO CHANGRONG ORE STORAGE LIMITED	57,229,512	RMB common share
INDUSTRIAL AND COMMERCIAL BANK OF CHINA — SHANGHAI STOCK EXCHANGE 50 ETF FUND	53,497,602	RMB common share
CHINA RESOURCES SZITIC TRUST CO. LTD. — CHONGYANG NO. 3 SECURITIES INVESTMENT COLLECTION FUND TRUST PROGRAM	49,392,628	RMB common share
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO. LTD.	36,631,921	RMB common share
GUOTAI JUNAN SECURITIES CO. LTD. — CLIENT CREDIT TRANSACTION SECURITY ACCOUNT	35,486,560	RMB common share

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

The Company is not aware of any connection among or between the top ten shareholders or that they are persons acting in concert as provided for in the Measures for the Administration of Acquisitions by Listed Companies.

III. Capital and Shareholders

3. Shareholders (continued)

(2) Holding company and actual controller

1) Holding company

Name	Shanghai Baosteel Group Corporation
Legal representative	Xu Leping
Date of incorporation	17 November 1998
Authorized capital	RMB51,082,670,998.89
Principal businesses and operations	As a governmental authorized investment vehicle and a state-owned holding company, Baosteel Group Corporation mainly deals with state-owned assets within the authorized scope set by the State Council. The Corporation has also been involved in investments in areas of iron & steel manufacturing, metallurgy and mineral products, non-toxic chemicals, electricity, piers, warehousing, transportation, and steel-related business, technological development, technology transfer, technical supporting and technical management consulting, as well as in areas of import and export businesses approved by the Ministry of Foreign Trade & Economic Cooperation (MOFTEC), domestic and international trading where allowed, and import and export services of products and technology.

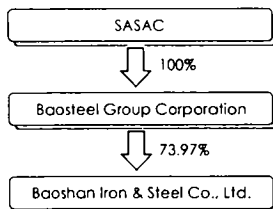
2) Actual controller

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

3) Changes of the holding company and actual controller

The holding company and actual controller remained unchanged in the reported period.

4) Relationship between the Company and its controller



3.3.3 Other corporate shareholders holding over 10% shares

As at the end of the reported period, the Company has no other corporate shareholders holding over 10% shares.

4. Information of Convertible Corporate Bonds

(1) Issuance of convertible bonds

Refer to "Authorization of the changes in share", in "1. Changes in Share Capital" for additional information.

(2) Status of holders of convertible bonds and underwriters of the Company's convertible bonds during the reported period

Number of convertible bond holders at the end of the reported period	11,047
Underwriter of The Company's Convertible Bonds	Baosteel Group Corp

Top 10 holders of convertible bonds

Holders	Bonds held at the end of the period (RMB)	Rate (%)
China Pacific Life Insurance Co., Ltd	1,690,577,000	16.91
New China Insurance Co., Ltd	1,449,378,000	14.49
Bank of Communications Co., Ltd. -- Gongyin Ruixin bond security investment fund	617,573,000	6.18
National Council for Social Security Fund -- 305 Combo	499,158,000	4.99
Takung Life Insurance Co., Ltd. -- Unit-linked product	460,592,000	4.61
Huatai Life Insurance Company Ltd. -- Dividend-unit-linked product	388,732,000	3.89
New China Life Insurance Co., Ltd. -- Wanning-Deyi financial bond fund account	384,108,000	3.84
China Petroleum Finance Co., Ltd	377,073,000	3.77
CNPC's Corporate Pension Plan -- ICBC	321,190,000	3.21
China Petroleum Finance Co., Ltd	316,977,000	3.17

(3) Changes of the Convertible Bond Price

(RMB)				
Date of Adjustment	Price after Adjustment	Disclosure Date	Disclosure Media	Notes
15 June 2009	12.16	15 June 2009	China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn)	Dividend distribution
24 May 2010	11.80	24 May 2010	China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn)	Dividend distribution
Closing price for the convertible bond of the period		The exercise for "Baosteel CWB1" was ended		

(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) At the end of the reported period, the asset-liability ratio of the Company was 45.8%, an indication of a stable capital structure. In the coming years, the Company will repay its due bonds with its own capital and debt financing.

1. Current Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Term of office
He Wenbo	Chairman of Board of Directors	M	55	2010.03-2012.04
Ma Guoqiang	Director, President	M	47	2009.04-2012.04
Liu Zhanying	Director	F	55	2010.04-2012.04
Fu Zhongzhe	Director	M	50	2009.04-2012.04
Dai Zhihao	Director	M	47	2009.04-2012.04
Wu Yaowen	Director	M	67	2009.04-2012.04
Buck Pei	Independent Director	M	53	2009.04-2012.04
Katherine Tsang	Independent Director	F	53	2009.04-2012.04
Sun Haining	Independent Director	M	54	2009.04-2012.04
Edward C.Tse	Independent Director	M	54	2009.04-2012.04
Li Li	Chairwoman of Board of Supervisors	F	57	2009.04-2012.04
Lun An	Supervisor	M	54	2010.04-2012.04
Zhou Guoquan	Supervisor	M	55	2009.04-2012.04
Zhang Pajun	Supervisor	M	51	2009.04-2012.04
Zhu Keqiang	Supervisor	M	36	2009.04-2012.04
Li Yongxiang	Vice President	M	50	2009.04-2012.04
Zhu Jusheng	Deputy secretary of CPC committee	M	50	2010.03-
Jiang Licheng	Vice President	M	52	2009.04-2012.04
Chen Ying	Vice President, Secretary to Board	F	39	2009.04-2012.04
Lou Dingbo	Vice President	M	48	2009.04-2012.04
Pang Yuanlin	Vice President	M	47	2009.04-2012.04
Zhou Jianfeng	Vice President	M	47	2009.04-2012.04
Wang Jing	Vice President	F	47	2010.08-2012.04

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, Mr. He Wenbo, Mr. Ma Guoqiang, and Mrs. Chen Ying purchased some shares of the Company at the secondary market during the period, and respectively owned 80,000 shares, 60,000 shares, and 60,000 shares of the Company. Mrs. Li Li owned 30,000 shares of the Company, without any change in amount in the period.
- (3) Mr. Lou Dingbo purchased 30,000 shares of the Company at the secondary market on 24 February 2011 at the average price of 6.88 RMB/share.

2 Profile of Directors, Supervisors, and Senior Executives in Last Five Years

He Wenbo (born in June 1955). Senior Engineer, Director and President of Baosteel Group Corporation (hereinafter as BGC), and Chairman of the Board of Directors of Baoshan Iron & Steel Co. Ltd.

Mr. He is highly experienced in manufacturing, marketing, management and human resources in the field of iron and 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, chairman and president of Baosteel International, director and vice president of Shanghai Baosteel Group Corporation (hereinafter as 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 & Steel (Group) Corporation since June 2008, Vice chairman of the fourth Board of Directors of the Company since April 2009, Chairman of the fourth Board of Directors of Baoshan Iron & Steel Co. Ltd. since March 2010.

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

Ma Guoqiang (born in November 1963). Senior Accountant, is currently Director, the Board of Directors and president of the Company.

Mr. Ma is highly experienced in industrial accounting, finance, investment, marketing, management in the field of iron and 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, and vice president of SBGC, Vice president as well as general accountant of BGC, Director of Guangdong Iron and Steel (Group) Corporation since June 2008, Mr. Ma also serves as independent director of the Board of Directors of Ever Bright Securities Company Limited, and independent director of the Board of Directors of Societe General (China) Limited, Director of the fourth Board of Directors and president of Baoshan Iron & Steel Co. Ltd. since April 2009.

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

Liu Zhanying (born in October 1955). Senior Political Officer, is currently Secretary of CPC Committee for Disciplinary Inspection of BGC, as well as Secretary of CPC committee for Disciplinary Inspection, and the Chairperson of Board of Supervisors of Guangdong Iron & Steel Group, and member of the Board of Directors of Baoshan Iron & Steel Co. Ltd.

Ms. Liu has rich experience of working in the domain of disciplinary inspection. She worked for the Central Commission for Discipline Inspections of the CPC, Ministry of Supervision, Central Work Committee for Enterprises. Before joining Baosteel, Ms. Liu was the deputy secretary of the CPC committee and the secretary of the committee for disciplinary inspection of the State-owned Assets Supervision and Administration Commission of the State Council. In October 2005, she assumed the secretary of the committee for disciplinary inspection and standing member of CPC committee of BGC. She once assumed the secretary of the committee for disciplinary inspection of Baoshan Iron & Steel Co. Ltd. concurrently. In August 2008, she assumed the chairperson of the Board of Supervisors and the secretary of the committee for disciplinary inspection of Guangdong Iron & Steel Group concurrently. In April 2010, she assumed the director of the fourth Board of Directors of Baoshan Iron & Steel Co. Ltd. concurrently.

Ms. Liu graduated from Shandong College of Oceanography in 1979, and got her master degree on Sociology from the Party School of the Central Committee CPC in January 2004.

Fu Zhongzhe (born in June 1960). Senior Engineer at Professor Level, Vice President of BGC, member of the Board of Directors of Baoshan Iron & Steel Co. Ltd.

Mr. Fu is highly experienced in production and technique management in the field of iron and 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 the 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 Institute of Metallurgy in July 1982 and he 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.

Mr. Dai graduated from Shanghai Jiaotong University in August 1983 and he obtained his master degree from West Virginia University in August 1996.

IV Directors, Supervisors, Senior Management and Employees

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2. Profile of Directors, Supervisors, and Senior Executives in Last Five Years

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 Southern Huanghai Company of China Offshore Petroleum, director of Oil Administration of Qinghai Province, general engineer in petroleum of Ministry of Energy of China, director of the energy 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 BOD of PetroChina Company Limited. Mr. Wu is currently the chairman (external director) of China National Coal Group Corporation and the external director of BGC. He has been on the fourth board of the directors of the Company since April 2009.

Mr. Wu graduated from Beijing Institute of Petroleum 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 master's degree 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 worked for Kowloon-Canton Railway and Hong Kong Government, among others. In 1992, Ms. Tsang started to work for Standard Chartered Bank, first as HR Inspector General of Equitor Group (the later Standard Chartered Bond Trusteeship Business Department), inspector of the department of human resource, inspector of human resource in Asia-Pacific area, and group head of organization learning. She served later on as president, chief acting president and vice chairperson of the BOD of Standard Chartered Bank (China) Ltd. Ms. Tsang is currently chairperson of Greater China, Standard Chartered Bank, chairperson of the BOD of Standard Chartered Bank (China) Ltd. and Standard Chartered Bank (Taiwan) Ltd. Ms. Tsang is also the independent director of Gap Inc. USA, member of the City of London Advisory Council for China and member of International Centre for Financial Regulation International Advisory Council. She has been an independent director 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 he 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/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 Beijing Office Director of Cleary Gottlieb Steen & Hamilton LLP. Prior to joining Cleary Gottlieb, Ms. Li was a Partner of Debevoise & Plimpton LLP (2002-2011) and Chief Representative of Debevoise & Plimpton LLP (Shanghai), before which she was partner and lawyer of a well-known international law firm in New York and Hong Kong (1991-2002). Ms. Li is highly experienced in management in areas of investment, financing and business combination. In New York, Ms. Li specializes in asset-based lending, airplane 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 on the third Board of Supervisors and has been on the fourth Board of Supervisors since April 2009.

Ms. Li obtained her master's degree in Economics from Duke University and her JD in law from Columbia University.

Lin An (born in April 1956), Senior Engineer, member of Board of Supervisors of the Company, and Chairman of the Labor Union of the Company

Mr Lin is experienced in iron and steel manufacturing, energy and environmental protection, and management of the Labor Union. Since he started to work for Baosteel in August 1982, Mr Lin held various positions with the Company, including assistant to manager and vice manager of Baosteel Blooming Mill, vice manager of Cold Rolling Mill, vice group leader of the cold rolling team of Baosteel Project Command, vice manager, and then manager of Baosteel Blooming Mill, director of Bar Steel Department, director of the Steelmaking Department, manager of the Steelmaking plant, assistant to the president of the Company, vice president of Baosteel branch, the person in charge and chairperson of the Labor Union of the Company. He has been the Supervisor of Board of Supervisors of the Company and Chairman of its Labor Union since April 2010.

Mr Lin graduated from Wuhan Institute of Iron & Steel in July 1982.

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 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, the 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. He has been on the fourth Board of Supervisors of the Company since April 2009.

Mr Zhou Guiquan holds a Bachelor degree.

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 Institute (Technical Center) of the Company.

Mr Zhang is experienced in technical research and production management in the field of iron and 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 Institute, assistant to president (director) and, later, vice president of Baosteel 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 Institute (Technical Center). He has been on the fourth Board of Supervisors of the Company since April 2009.

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

Zhu Kebing (born in October 1974), Senior Accountant, is currently on the Board of Supervisors of the Company and general manager of department of operation and finance of BGC.

Mr Zhu is experienced in enterprise finance and investment management. Since he started to work for the Company 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 operation and finance of BGC since May 2009 and on the fourth Board of Supervisors since April 2009.

Mr Zhu graduated from Northeast University in 1997.

Li Yongxiang (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 with the company, including vice manager and, later, manager 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 Co., Ltd. as well as member of Board of Directors, vice president, and president of Baosteel Group Shanghai Meishan Iron and Steel Co., Ltd., assistant to president of Baoshan Iron & Steel Co. Ltd. He has been vice president of Baoshan Iron & Steel Co. Ltd. since March 2008.

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

Zhu Junsheng (born in November 1960), Senior Engineer, is currently Deputy Secretary of CPC committee 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, and vice president of the Company. He has been deputy secretary of CPC committee of the Company since March 2010.

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.

IV Directors, Supervisors, Senior Management, and Employees

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2. Profile of Directors, Supervisors, and Senior Executives in Last Five Years (continued)

Jiang Licheng (born in July 1958), Engineer, is currently Vice President 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.

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 iron and 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 Baoshan Iron & Steel Co. Ltd. and director of the cost management department of the company. She became secretary to the Board of Directors and financial controller of the company in October 2003. She has been Vice President and secretary to the Board of Directors of Baoshan Iron & Steel Co. Ltd. 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 the management department of stainless steel products 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 held various positions with the company, including vice director of marketing section cold-rolled products in department of marketing, general manager of Baosteel Southern Company, manager of the Sales Center of the Company, Assistant to President as well as Manager of the department of stainless steel products 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.

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.

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 iron and 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 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 Beijing Institute of Iron and Steel in July 1984 and he obtained his EMBA from China Europe International Business School in April 2002.

Wang Jing (born in October 1963), Senior Economist, is currently Vice President of the Company.

Ms. Wang has rich experience in marketing and business management. She joined Baosteel in 1985 and has successively held positions of Vice President and President of Tianjin Baosteel Northern Trading Co. Ltd., Assistant to President of Baosteel International Trading Co. Ltd., President of Bsteel Online Co. Ltd., COO of Baosteel International, President and Chief Representative of Baosteel America Inc., President of Baosteel International. She has been working as Vice President of the Company since August 2010.

Ms. Wang graduated from Wuhan Institute of Iron and Steel in 1985. She received her EMBA degree from Guanghua School of Management, Beijing University in 2000 and her PhD degree in management from Northeastern University in 2009.

Posts in shareholding company:

Name	Shareholding company	Post held	Start of term	End of term	Remuneration from the Company
He Wenbo	Baosteel Group Corp.	Director of Board of Directors, President	April 2008		Yes
Liu Zhanying	Baosteel Group Corp.	Secretary of Committee for Disciplinary Inspection	October 2005		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.	Outside Director	October 2005		Yes
Zhou Guocun	Baosteel Group Corp.	Vice Secretary of Committee for Disciplinary Inspection & Director of Supervision	May 2006		Yes
Zhu Kebing	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 Guocang	Ever Bright Securities Company Limited	Independent Director	February 2008		Yes
Ma Guocang	Societe General (China) Limited	Independent Director	February 2008		Yes
Liu Zhanying	Guangdong Iron & Steel Group Corporation	Chairperson of the Board of Supervisors, Secretary of CPC Committee for Disciplinary Inspection	August 2008		No
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
Katherine Tsang	Gap Inc.	Independent Director	August 2010		Yes
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	July 2005	February 2011	Yes
Li Li	Shanghai Office, Debevoise & Plimpton LLP	Head	September 2002	February 2011	No
Li Li	Cleary Gottlieb Steen & Hamilton LLP Beijing Office (USA)	Director	February 2011		Yes

IV. Directors, Supervisors, Senior Management, and Employees

3. Annual Remunerations

The annual remunerations of directors and supervisors will be set and approved by Board of Directors in accordance with their annual performance and with the "Remuneration Management for Senior Managerial Staff" and the "Rules for Rewarding the Special Contributions by Senior Managerial Staff".

The compensation of the Directors, Supervisors and Senior Executives for the year 2010 totaled RMB20,218,000 (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
He Wenbo	Chair of Board of Directors	Yes	-	-
Ma Guoqiang	Director, President	No	195.5	-
Liu Zhanyang	Director	Yes	-	-
Fu Zhongzhe	Director	Yes	-	-
Dai Zhihao	Director	Yes	-	-
Wu Yaowen	Director	No	240 (Note 1)	-
Buck Fei	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	Chairperson of Board of Supervisors	No	25.00	-
Lei An	Supervisor	No	152.2	-
Zhou Guizhan	Supervisor	Yes	-	-
Zhang Pijun	Supervisor	No	129.1	-
Zhu Keqiang	Supervisor	Yes	-	-
Li Yongzhang	Vice President	No	167.9	-
Zhu Junsheng	Deputy secretary of CPC committee	No	173.9	-
Jiang Licheng	Vice President	No	169.4	-
Chen Ying	Vice President, Secretary of the Board of Directors	No	175.0	-
Lou Dingbo	Vice President	No	196.5	-
Pang Yuanlin	Vice President	No	168.9	-
Zhou Jianfeng	Vice President	No	168.5	-
Wang Jing	Vice President	No	168.8	-
Xu Leiyang	Retired Chair of Board of Directors	Yes	-	-
Han Guojun	Retired Supervisor	Yes	-	-
Zhao Zhou	Retired Vice President	Yes (Note 2)	28.33	201001-2010.05
Total			2021.83	

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.

Note 1: According to "Interim Measures for the Remuneration and Treatment of the Board of Directors of a Central Enterprise in the Pilot Program on Board of Directors", Director Wu Yaowen stopped to get his yearly remuneration from Baoshan Iron & Steel Co., Ltd. from January 2010. Instead, he will be paid meeting allowance according to the standard set by the State-owned Assets Supervision and Administration Commission of the State Council.

Note 2: Mr Zhao Zhou receives his remuneration from BGC since he left the position of Vice President of the Company.

4. Recruitment and Termination of Directors, Supervisors and Senior Executives

As approved by the fourth meeting of the fourth Board of Directors held during 29-30 March 2010, Mr. He Wenbo was elected and appointed Chair of the Board of Directors of the Company to replace Mr. Xu Lejiang, who had requested to resign from the position of Chair of the Board, while remaining Chair of BGC. Mr. Zhao Zhou's resigned from the position of Vice President.

As approved by the fifth meeting of the Third Employee Representative Congress held from April 6 to 12, 2010, Mr. Lin An was elected as an supervisor of the Fourth Board of Supervisors. Mr. Han Guojun, for the reason that he has been transferred to be the vice chairman of the Labor Union of Baosteel Group, stopped to hold the position in Baoshan Iron & Steel Co., Ltd., and resigned from the position of the supervisor.

As approved by the 2009 General Shareholders' Meeting held on 29 April 2010, Ms. Liu Zhanying was elected as an additional member of the fourth Board of Directors.

As approved by the eighth meeting of the Fourth Board of Directors held on 27 August 2010, Ms. Wang Jing was hired as the vice president of the Company. Mr. Zhu Junsheng has resigned from the position of vice president due to the reason of work, but he continues to be the deputy secretary of CPC committee of the Company.

5. 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 42,308, including 25,804 who were involved in production, 12,522 in technical functions, and 3,982 in administration and management departments. Among them, 27,692 held three-year college or higher degrees. The staff members of the Company totaled 26,966, including 18,101 that were involved in production, 6,575 in technical functions, and 2,290 in administration and management departments. Among them, those held three-year college degrees or higher ones numbered 16,661. The company did not incur any expense for the retired employees in the period.

1. 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 the duties and responsibilities.

(2) Independent and efficient Board of Directors

The Company 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 "Gold Prize of Round Table" of the Board of Listed Companies in China hosted by the magazine "Directors & Boards", "Directors & Boards", "Best Board of Directors" at "Top 20 Board of Directors of the Central-enterprises-hosted listed companies", "Best Board of Directors in Assuming Social Responsibilities", and "Best Board of Directors in Management", hosted by "Moneyweek". The Board of Directors consists of 10 directors, including four independent ones, which 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 more 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.

(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 devoted, 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 He Wenbo 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 three 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 and best practice 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 interactive 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 complete 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. In the period, the Company issued one Resolution of the Shareholders' Meeting and 4 Resolutions of the Board of Directors addressing altogether 9 issues. The Company has also followed up and sought feedbacks regarding these issues.

The Company focused on the link between theory and practice. It highly emphasized and constantly improved corporate management and the construction of the Board of Directors, and applied the notion of its corporate management to the practice of its operation. During the period of the report, the Company had conducted the management research program of "the corporate management and the operation of the Board of Directors of listed companies", exploring into the theory and the best practice of corporate management and management by the Board of Directors and put forward suggestions of optimization that combined theory and performativity.

(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.

During the reported period, the Internet platform was effectively used to enhance the fair disclosure of information. Browsing by sub-categories has been added and mail subscription took place of the short message subscription. During the period, the Company video-taped the analysts' meeting for the first time, uploaded the video with slide to the IR column of the Company's website. This has facilitated the fair information disclosure because those who could not attend the meeting for various reasons could watch the video.

(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 Company had received a total of 632 domestic fund managers and securities analysts in 135 batches who came to the Company for investigation and research; the Company had also arranged for 43 batches of investors to visit the factory areas, hosted teleconferences for 36 times. Meanwhile, the Company had attended 15 large-scale investor exchanging meetings upon invitation hosted by such international investment banks as UBS AG, CREDIT SUISSE, and MERRILL LYNCH. Led by vice president and Secretary to Board of Directors, the IR team had visited 8 fund investors in Beijing, Shanghai, Guangzhou, and Shenzhen. 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. The meetings were attended by Chair of the Board of Directors, president, and Secretary to Board of Directors, who made frank and sincere communication with domestic and overseas institutional investors on such issues of concern as the industrial development, corporate management, and future planning.

The Company was awarded "2010 Best Listed Company in IR Creativity" by China IR Association.

(7) Special activities on corporate governance

As early as August 2007, the Company had completed the relevant work on the three stages of corporate governance, namely, self-check, public assessment, and rectification and improvement, as required in Notice on the Relevant Items on Strengthening the Special Activities of Corporate Governance of Listed Companies, winning the acknowledgement of Shanghai Securities Regulatory Bureau and Shanghai Stock Exchange. In addition, the Company had published Report on the Rectification and Improvement of the Special Activities of Corporate Governance of Baosteel and would continue to improve its independent director system and internal control system in the period of the report. It would also establish and improve a mid- and long-term incentive mechanism that combined incentive and restriction.

(8) Awards

Date	Awards	Issued by
May 2010	Gold Prize of Round Table of the Board of Listed Companies in China	Directors & Boards
June 2010	Chen Yong, "Top 100 Secretary to Board of Directors 2009"	Securities Time
July 2010	2010 Excellent Company in Legal Risk Management among Chinese Listed Companies	Organizer of 2010 Summit of Legal Risk Management of Chinese Listed Companies
September 2010	"Best Board of Directors" at "Top 20 Board of Directors of the Central enterprises-holding listed companies" "Best Board of Directors in Assuming Social Responsibilities" (top 20) "Best Board of Directors in Management" (top 20)	Moneyweek
October 2010	"Best Social Responsibility Report 2010" among Metal and Non-metal A Share Listed Company	Organizer of 2010 Summit of Social Responsibility Report of A Share Listed Companies, Ruiguo Global Responsibility Rating
November 2010	No. 9 of the Fifth Competition of Top 100 Chinese Companies Excelling in IR Management "2010 Best Listed Company in IR Creativity"	School of Management and Engineering, Nanjing University, Financial Engineering Research Center, Nanjing University, Research Center on the IR of Listed Companies in China

A. Corporate Governance

1. Progress in Corporate Governance (continued)

(9) Horizontal competition & related transactions

1) Horizontal competition

During the reported period, the Company's controlling shareholder Baosteel Group also has 69.56% shareholding of Baosteel Group Bayi Iron & Steel Co., Ltd., and 56.15% shareholding of Ningbo Iron & Steel Co., Ltd., two of which are also involved in the iron and steel manufacturing and transaction.

Bayi Iron & Steel Co., Ltd. mainly produces bar steel and section steel, and a certain amount of hot-rolled steel and plates. As for the product structure, the major products of the Company are steel sheets and tubes, while the major products of Bayi Iron & Steel are long steel products. In light of region, Bayi Iron & Steel located in Xinjiang has distinctive features of a regional market, and its client market is quite far away from that of the Company. There is almost no overlapping in their end users. Therefore, the two companies are not in substantial horizontal competition. As for Ningbo Iron & Steel, compared with the "Premium Product" strategy of the Company, it has limited products of hot-rolled coil aimed for the medium and low-end market. Therefore, there is no substantial horizontal competition between Ningbo Iron & Steel and the Company.

The fourteenth meeting of the second Board of Directors held on March 28, 2006 approved the "Proposal about the subject implementing domestic reorganization of iron and steel industry and build new steel plants", and selected Baosteel Group as a pilot to carry out domestic reorganization of iron and steel industry. The Company reserves the right to acquire the related assets from Baosteel Group, and may choose to do so at any time it thinks appropriate.

Commitments made in Issuance Prospectus by Baosteel Group

- a) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses which may be in competition with the Company;
- b) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until the Company gives up the commercial opportunities;

As one of the engines of domestic iron and steel industry, Baosteel has been taking an active part in the reorganization of the industry in accordance with the national policies on iron and steel industry. By way of various capital operation including acquisition, merging, and transfer for free, Baosteel has quickly enlarged its production scale, and strengthened its comprehensive power, enhancing its core competitive power.

In the long run, the Company will choose to acquire, at appropriate time, high-quality iron and steel assets that are under the control of Baosteel Group and have undergone reorganization and cultivation. By the end of 2005, all iron and steel assets originally belonging to Baosteel Group have been fully integrated into the Company. Baosteel will continue to carry out reorganization of domestic iron and steel assets according to this principle, so as to reduce horizontal competition in the same business and increase operation efficiency. It is under the guidance of this principle that Baosteel has been appropriately handling the temporary non-substantial competition with the Company, through following standard procedures, protecting the interest of medium and small investors, and ensuring full disclosure of information. The specific measures taken for this purpose include that the controlling shareholders consults with the related parties and makes commitments of non-competition, and allows the listed company to reserve the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and business which may be in competition with the Company.

In order to avoid any possible substantial horizontal competition, the Company will keep in line with the commitments made by Baosteel Group and continue to carry out the following measures to avoid horizontal competition:

- a) After obtaining business opportunities such as investment and M&A in the iron and steel industry, the Company will submit the issue to the Board of Directors for deliberation. The directors with conflicting interests will withdraw from the voting process.
- b) The Company will continue to closely observe the investment by Baosteel Group that is similar to the business of the Company. When potential substantial competition arises, and when the business in competition coincides with the objectives and interest of the Company, the Company will acquire this business or assets from Baosteel Group at a fair price according to the standard procedures stipulated by the Articles of Association. The directors/shareholders with conflicting interests will withdraw from the voting process of the proposal in the Board meeting/shareholder's general meeting.

2) Related transactions

Refer to (IX) "Significant Events (6 Significant Related Party Transactions)" for additional information about the related transactions in the reported period.

The party that has related transactions with the Company is Baosteel Group and legal entities directly or indirectly under control of it. Baosteel Group is the parent company of the Company and is the substantial controller of the Company.

Related transactions with the related parties are conducted under the market principle with maximum benefit and operation efficiency. They are reflecting professional cooperation and double win situation.

The related transactions of the Company are carried out according to the open, fair, and just principles and do not harm the interests of the two parties concerned. For review of the related transactions at the Board meetings, all the related directors waived from voting, and all independent directors provided independent opinions.

2. Performance of Directors' Duties

(1) Directors' attendance of the board meetings

Name	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
He Wenbo	No	7	7	3	0	0	No
Ma Guoqiang	No	7	7	3	0	0	No
Liu Zhanyang	No	5	4	3	1	0	No
Fu Zhongzhe	No	7	6	3	1	0	No
Dai Zhihao	No	7	7	3	0	0	No
Wu Taowen	No	7	6	3	1	0	No
Buck Pei	Yes	7	7	3	0	0	No
Katherine Tsang	Yes	7	7	3	0	0	No
Sun Haiming	Yes	7	7	3	0	0	No
Edward C Tse	Yes	7	7	3	0	0	No
Notes: Directors Liu Zhanyang is a new director of the Fourth Board of Directors and her attendance was based on the number of five board meetings.							
Total number of board meetings				7			
Including on the spot regular meetings				4			
interim board meeting by correspondence				3			

(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 *Articles of Association* 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 board meeting of the 3rd session, 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.

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-the-spot investigation of Baosteel 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 efficiency of decision-making.

V. Corporate Governance

3. 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.

4. Establishment and Improvement of the Corporate Internal Control System

In 2010, the Company further improved its internal control system and system construction, strengthened work on internal control and management and continued to elevate its internal management level.

In the construction of internal control system, the Company has successfully completed the revision of its management documents and standards. As a result, the business procedures are streamlined, interface and division of responsibilities are specified, making the design of the corporate internal control more scientific, rational and standard, and promoting the healthy development of the Company's internal control system.

In the enhancement of the employees' skills and awareness of internal control, the Company organized special trainings with the implementation of *Basic Standard for Enterprise Internal Control* as the guideline and the Company's internal control brochure and typical cases of internal control as the main content. In addition, it intensified its guidance to the internal control work in its subsidiaries, which promoted the popularization of the standard of internal control.

In the construction of the internal control evaluation system, the Company, following the requirements of *Methods of Internal Control Management*, completed the disclosure of the internal control self-evaluation report in 2009. In order to further improve the internal control self-evaluation system, the Company completed 218 internal control self-evaluation programs in line with the pattern of managing by program. Semi-annual re-evaluation mechanism was also implemented to ensure the quality and effects of the self-evaluation, resulting in a continued improvement of the mechanism of internal control in the Company.

In respect of incorporating the internal control into the performance management, in 2010 the Company continued to optimize the follow-up and evaluation of the problems found in internal control. According to the Company's requirement on performance management, the Company completed the internal control appraisal on the quarterly basis. This has promoted the formation of a close loop of the internal control management in the Company.

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5. Appraisal and Incentive Mechanism 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 dependent 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.

6. Disclosures of Board's Self-evaluation Report on the Internal Control and Sustainability Report

- (1) The 11th meeting of the 4th Board of Directors of the Company examined and passed the *Self-Evaluation Report of the Board of Directors of Baosteel on the Company's Internal Control*. Deloitte Touche Tohmatsu Certified Public Accountants Limited issued its evaluation, which was disclosed at www.sse.com.cn.
- (2) The 11th meeting of the 4th Board of Directors of the Company examined and passed the *2010 Sustainability Report*, which was disclosed at <http://www.sse.com.cn>.

7. The Company's Accountability System for Major Errors in Information Disclosure in Annual Reports

The 4th meeting of the 4th Board of the Company held on March 30-31, 2010 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.

No correction of major accounting errors, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reported period.

VI. Shareholders' Meetings

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Shareholders' General Meeting

Session	Date convened	Disclosure Media	Disclosure Date
2009 Shareholders' General Meeting of the Company	April 29, 2010	China Securities News, Shanghai Securities News and Securities Times	April 30, 2010

The 2009 Shareholders' General Meeting of the Company was held at 2 pm on 29 April 2010, in Baosteel Cultural Center at 1569 Mudanjiang Rd., Baoshan District, Shanghai, and the Public Notice of the Resolutions of the 2009 General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd. was posted in the next day's *China Securities News*, *Shanghai Securities News*, and *Securities Times*.

1. Review of the Company's Operation

In 2010, China had furthered its efforts in reducing the energy consumption and emission, and eliminating outdated capacity of its steel industry with a view to boost the industrial restructuring and transformation of economic development mode. The steel industry was somewhat more centralized through the merger and restructuring among the enterprises. Propped up by the stable national macro economy and downstream demand, the output of the steel industry increased steadily, accompanied with a gradual recovery of exportation. The crude steel output reached 627 million tones, a 9.3% year-on-year increase, and the steel export totaled 42.56 million tons, a 73% year-on-year growth. However, the general overcapacity and low degree of industrial centralization remained unchanged.

In 2010, the prices of both iron ore and steel showed a sustained volatile trend. Due to the major change in the pricing mechanism of imported iron ore, prices of iron ore fluctuated more frequently and drastically. The iron ore saw a sharp rise in price and an apparent financial attribute. Raw materials including coke and coal remained at a high price level. All of these have driven up the cost of iron and steel enterprises. The rise in cost and the gradual recovery of downstream demand have directly led to the rise of steel prices in the period. Also visible in this period is that the cycle of steel price became shorter, with wider fluctuation.

Confronted with the ever-changing market, the Company has overcome the negative factors such as soaring cost and so on, and has seized the opportunity to carry out its "client-centered" operation, in an effort to maximize the productivity, improve the product mix, optimize the resource allocation, and solidify the achievements of cost reduction. In the period, the sales of automotive sheet recorded an unprecedented figure in history, and the economic efficiency of the Company improved greatly compared with same period last year: in 2010, the Company sold 25.261 million tons of steel and realized a total operating revenue of RMB202.41 billion and a pre-tax profit of RMB17.08 billion, maintaining the best performance among its domestic peers.

(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 steel-related 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 & HPFW 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 a competition strategy guided by value creation for customers, based on manufacture of premium products with cost improvement, with product and service differentiation as the major advantages and approaches.

(2) Company priorities

1) Enhancing the Company's product management capability to better satisfy the customers' demand

Increasing the sales ratio of profitable products and exploring the market for its exclusive and leading products. In the reported period, the Company sold 11.9 million tons of exclusive and leading products, 22.9% higher than last year, 4.5 million tons of cold-rolled automotive sheets, a 35.8% increase from last year. The sales ratios of deep punching automotive sheets and high strength steel products had increased steadily. Guided by the strategy of "customer-oriented, breaking through on key points, and realizing batch production", the Company will continue to improve its capability to provide packaged solutions for the light-weight design of the special purpose vehicle.

Producing green and efficient products to match up the market demand. Hi-B grain-oriented silicon steel and high grade non grain-oriented silicon steel had been approved by the Review Panel of Key Equipment Manufacture Inspection team for the Three Gorges Project, and were used to substitute the imported products, putting an end to no domestic production of silicon steel. The Company issued the environmental-friendly green product declaration about the silicon steel products to the global suppliers. The sales volume of non grain-oriented and chromium-free coated products exceeded 50 thousand tons. The Company realized batch supply of high conductivity anti-fingerprint electro-galvanized products, breaking the monopoly of this product by Japanese steelmakers. The output of secondary cold-rolled (DR) products doubled, exceeding 100 thousand tons, 60% of which was exported.

Optimizing the balance between production and sales by establishing the iron and steel resources management mode with profit as the priority. When the production capacity was unable to meet the customers' demands completely, the Company allocated the resource of hot metal to more profitable products. The internal mutual material supply plan was adjusted dynamically based on the principle of efficiency priority with a view to maintain the balance of production and sales.

The new production lines reached the required standard and capacity, and the division of work among production lines was further optimized. Through resolving the bottleneck procedures, the production of high-quality oriented silicon steel has successfully met the annual "Four Requirements". The electrolytic tinning line and the pickling line of Meshan Steel fulfilled their rated monthly capacity in March and December 2010 respectively. The operating rate of the cold rolling lines has been maintaining over 90% since August, 2010.

Building a quick-response overseas technical service team, and initiated the product claim and complaint management mechanism based on the unified platform of the call center so as to realize an integrated resource allocation and improve its customer service.

VII. Board of Directors' Report

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1. Review of the Company's Operation (continued)

2) Furthering the efforts to lower costs and enhance the comprehensive cost competitiveness

Responding rapidly to the changes in the market and the production site to reduce purchase cost. Confronted with the ever-changing raw materials and fuel market, the Company strengthened the market analysis and purchase proposal, followed the price and quality change of raw materials and fuel closely and laid more emphasis on the development and substitution of new resources, with a purpose to optimize the structure and the supply mode of raw materials and fuel. The Company has also optimized the purchase mode and the inventory structure of the materials and spare materials by promoting the localization rate of these materials and enhancing the utilization of the previously unused spare materials.

Focusing on quality improvement and economical operation by practicing low-cost manufacturing. Various measures were taken to reduce the cost, such as: reducing the ratio of merchandise on hand, reducing the defect downgrade rate, expanding the varieties of roll warm-up material, optimizing the cold rolling mill production, increasing the amount of secondary resources recycled in steelmaking and so on.

Focusing on the key indicators that can reflect the levels of production, technology, equipment, and management. The company carried out cost benchmarking of iron-making, steel-making, hot rolling, and cold rolling processes, promoting the rapid improvement of key technical and economic indicators of each unit and the benign interaction of internal cost reduction. The Company strengthened the efforts for the hot delivery of slab production and promoted the hot delivery and hot charging in the hot rolling line.

The Company implemented strict control over the period expense. Seizing the opportunity at the turning point of rapid RMB appreciation against US dollars, the Company optimized its debt structure, realizing an annual gain of RMB0.78 billion from exchange. In the meantime, the Company's financial expenses reduced by RMB0.67 billion and its comprehensive financing cost was remarkably lower than the market level. By solidifying the achievements of cost control, holding different units responsible for the cost reduction, and following the results closely every quarter, the Company has successfully controlled the expenditures within the set objective.

3) Optimizing the business process and enhancing the overall capacity of the system

In order to bring the advantage of the plants under the director control of the Company into full play in terms of management and technology, and to speed up the progress of Luojing area, the Company canceled the organizational system of Medium and Heavy Plate Branch and integrated the management of the Luojing area with the principle of "overall fusion and integration". During the process of integration, the business was in orderly and steady operation. After the integration, the key technical indicators of Luojing area showed obvious improvement.

The Company optimized the grass-roots labor organization, and adjusted the functional management. By focusing on the synergy effect of the working areas, the Company improved the efficiency of site management and labor work. Through optimizing the organizational structures of branches, the Company also integrated and optimized the internal resources.

The Company innovated the R&D system and enhanced its capability of independent innovation. It strove to develop its own innovative technologies and cultivate a group of world-class leading talents after a few years of continued efforts.

4) Investment programs in key fixed assets under proper control

The Company set strict limit on the number of new projects and the scale of investment. Its fixed assets investment was RMB13.99 billion in 2010.

A batch of key projects was completed one after another. For example, the cold-rolled stainless steel strip follow-up 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, the were successfully completed either on or ahead of the schedule.

The progress of a series of projects was under proper control, such as Luojing Step 2 project, the relocation and product mix adjustment project of Lubao Steel Tube Co. Ltd., the product mix and process equipment upgrading and technical revamping project of Meshan Steel, and grain-oriented silicon steel follow-up project of the directly administered department.

5) Adapting itself to the strategy of environment management and fulfilling the targets of energy saving and emission reduction set in "11th 5-year planning"

The Company ensured safe production and stable energy supply while enhancing the environmental-friendly management of energy. Through systematical planning, the corporate units of the Company realized the energy saving of 346 thousand tons of standard coal and fulfilled the objective of saving 1 million tons of standard coal stipulated in the "11th 5-year planning" two months ahead of the schedule. The Company's comprehensive energy consumption of per ton steel reduced by 8kg standard coal compared with last year.

The Company's research on Life Cycle Assessment has reached a leading level in the world steel industry. It has strengthened the research on the technology of energy saving and environmental protection, and has made progress in the key subjects such as: sintering waste gas heat recovery, control of dioxin emission in sintering process, processing high temperature blast furnace slag into mineral wool, and the treatment of hot steel slag. In the meantime, the Company has been promoting green purchase by making green purchase plans and guiding the suppliers to participate in the green manufacture.

The Company has improved its utilization of the solid waste and the secondary resource recycling, and thus improved the environment of the plants. The solid waste utilization rate increased by 0.66% compared with last year. The Company has also initiated the special environmental program in preparation for the World Expo in Shanghai, promoted the application of such key technologies as desulfurization and noise reduction. As a result, the emission of sulfur dioxide, nitrogen oxide and powder dust has been further reduced.

2. Overall Performance in the Reported Period

(1) Operating results

In 2010, faced with the ever-changing market, the Company followed closely the overall target of operation and spared no efforts in promoting product management, lowering costs from all aspects, giving priority to environment-friendly operation, and raising the capacity of the overall system. With the joint efforts of the whole staff, it sold 25.261 million tons of steel products, 12.6% higher than the previous year, realized a total business revenue of RMB202.41 billion and a pre-tax profit of RMB17.08 billion, which were 36.3% and 134.1% higher than the previous year respectively. And the net profit attributable to the Company's shareholders was RMB12.89 billion.

Compared with the Company's annual operating plan 2010, the total operating revenue and the operating cost in 2010 were completed by 119.1% and 120.1% respectively.

(2) Distribution of operating revenue and cost of principal business segments

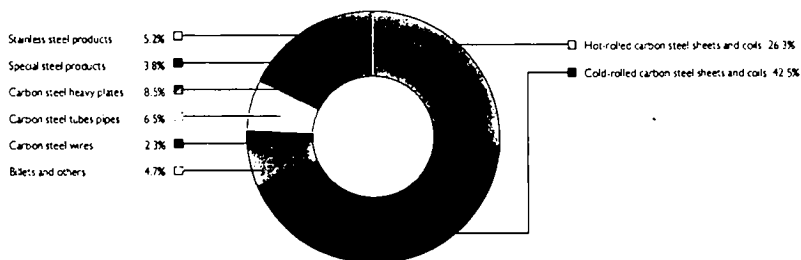
Unit: RMB Million

Segments	Operating Revenue	Operating Cost	Gross Margin	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin
Iron & steel manufacturing	174,437	155,579	10.84%	37.87%	34.75%	2.06 percentage points up
Iron & Steel Sales	171,134	166,985	2.47%	31.82%	31.88%	0.04 percentage points down
Others	12,705	10,918	14.07%	30.66%	30.68%	0.01 percentage points down
Deduction between segments	-155,858	-155,454	0.26%	32.66%	34.08%	1.06 percentage points down
Total	202,418	177,978	12.07%	36.23%	32.37%	2.57 percentage points up

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 sales 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 in 2010

Distribution of sales of steel products:



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2. Overall Performance in the Reported Period (continued):

1) Carbon steel

The Company's carbon steel products mainly included hot-rolled products and pickled products, 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 heavy plates, steel pipes and tubes, wires and rods, and billets.

Hot-rolled products

Hot-rolled products include automotive steel, pipeline steel, steel for cold forming, 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 automobile, petroleum and natural gas transmission, engineering machinery, bridge, building, ship, pressure vessel and hardware and tools. In 2010, the 700MPa hot-rolled high-strength steel replaced the same imported products and was widely used by major domestic engineering machinery clients. The Company continued to tap the needs of the market for hot-rolled pickled steel for automobiles and as a result, its sales increased by 29% compared with that of the previous year.

In 2010, the shipments of hot-rolled products (including pickled products, but excluding heavy plates) was 6,757 million tons, making up 28.9% of the Company's shipments of carbon steel products. The shipments of pipeline steel (including hot-rolled, heavy plate, steel tubes and pipes) was 0.814 million tons, taking up a 30.0% share in the domestic market. The shipments of high strength steel for engineering machinery was 0.105 million tons, accounting for 37.5% of the domestic market.

Heavy plates

Heavy plates mainly include plates for ships and ocean engineering equipment, building structure, energy and pipelines, etc., which are mainly used in industries of ship building, ocean engineering, machinery, bridge, building, pressure vessels, oil and natural gas transmission, nuclear power, etc. The year of 2010 witnessed 38 items of product variety and specification expansion completed and breakthroughs in the development of high end product varieties.

In 2010, the shipments of heavy plates was 2,191 million tons, making up 9.4% of the total shipments of the Company's carbon steel products. Among it, the shipments of ship plates was 1,382 million tons, taking up a 6.0% 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. The steel for home appliance has been widely used in the industries of air conditioner, refrigerator, washing machine, microwave oven, color TV, DVD player and computer. In 2010, the Company began to supply high conductivity anti-fingerprint electro-galvanized products to major Japanese copy machine manufacturers in small batches, which is a key breakthrough for the Company. The galvalume products were promoted and applied in LCD modules, thicker galvalume products for electrical cabinets were developed. The electric steel products were mainly used in the electric motor, compressor and transformer industries. In 2010, the high grade non-grain oriented silicon steel was accepted by the Three Gorges Project for large-scale generators. By way of "Proactive involvement," the Company promoted its high performance non-grain oriented silicon steel for drive motor of new energy automobile. Grain oriented electrical steel products had been supplied in batches stably to well-known domestic transformer manufacturers.

The shipments of cold-rolled products in 2010 was 10,916 million tons, making up 46.7% 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 4,503 million tons, 2,564 million tons, 43,000 tons, and 1.19 million tons respectively, taking up 50.5%, 3.0%, 57.5%, and 70.7% 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 gas pipes, line pipes and structural tubes. These products are used in petrochemical industry, boiler building, mechanical processing, geology, transportation, and coal mining industry. In 2010, despite the severe market situation for steel tubes and pipe products, the Company made good progress in the following areas: shipments of premium connection doubled on top of that in 2009, the anti-HIC line pipes debuted domestic market of hydrogen sulphide-proof line pipes as a successful substitution for hydrogen sulphide-proof seamless pipes; and UOE products won the bid of Australia's Queensland Curtis LNG pipeline project.

In 2010, the shipments of steel tubes and pipes reached 1,676 million tons, making up 7.2% of the total shipments of carbon steel products. Among them, the high-pressure boiler pipes, oil well pipes, and welded line pipes had a domestic market share of 21.8%, 21.2% and 19.1% 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 2010, the shipments of wires and rods was 601 thousand tons, making up 2.6% of the total shipments of carbon steel products. Products mainly included steel cord, spring steel, automotive cold heading steel. Among them, the shipments of steel cords was 118 thousand tons, taking up 10.8% of the domestic market.

Steel billets

The Company's major products of steel billets included auto axle steel, oxygen bottle steel, de steel and other high value-added products. In 2010, the Company went a lot to promote the sales of exclusive and leading billet products and increased the shipment of high-end products such as the hot-working de steel and the plastic mould steel.

In 2010, the shipments of steel billets was 795 thousand tons, making up 3.4% of the Company's total shipment of carbon steel products.

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2) Stainless steel

The stainless steel products covered 300, 400, and 9N series hot-rolled and cold-rolled product series, including austenite, ferrite, martensite, ultra martensite, ultrapur ferrite, dual phase steel, ultra low carbon steel, nitrogen stainless steel, etc., which were widely used in such industries as automobiles, home appliances, solar energy, construction and decoration, pressure vessels, containers, elevators, rail transportation, and metal products. In 2010, guided by the "customer-need oriented" requirement, the Company continued to develop new products to satisfy the demands of the clients, and lower the use-cost of the customers. During the year, it had mainly developed the steel grade groups for application in automotive exhaust system represented by 409L and 409M, rail transportation represented by 301L and T4003, and container manufacture represented by 410L and BN4. A group of new products had been successfully used in the downstream industries and had the capacity of batch supply. These products included B445R for construction, B430K antibacterial steel, B430L for household electrical appliances, and B445J1M for solar energy products.

In 2010, the shipments of stainless steel products was 1.343 million tons, making up 5.2% of the total shipments of the Company's steel products and occupying 14.0% of the domestic market.

3) Special steel

The special steel collection includes special metallurgical series, stainless steel series, and construction steel series. After years of R&D and technology innovation, the Company had developed a series of products competitive in the international market with independent intellectual property rights, including steel rods, seamless pipes, steel wires, steel discs, steel rings, steel discs and shaped steel, which were widely used in aviation, aerospace, energy, automobile, railway ship building, machinery, power station, electronic instrument and petrochemical industries. The Company is national key R&D base for high and new metal materials.

In 2010, the shipments of special steel was 989 thousand tons, making up 3.8% of the total shipments of the Company's steel products.

The Company's income from and costs of major iron and steel products are as follows:

Unit: RMB Million

Product	Operating revenue	Operating cost	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (%)
Cold-rolled carbon steel	56,597	45,368	22.16%	54.84%	46.60%	4.39 percentage points up
Hot-rolled carbon steel	34,856	29,162	16.34%	23.2%	18.53%	3.24 percentage points up
Heavy plates	10,090	10,563	-4.70%	4.82%	3.56%	2.7 percentage points up
Steel tubes and pipes	10,167	9,715	4.60%	-1.97%	8.64%	9.34 percentage points down
Stainless steel	17,687	17,525	0.66%	24.06%	28.6%	3.51 percentage points down
Special steel	9,801	10,100	-3.05%	50.89%	37.51%	10.03 percentage points up
Other steel products	7,748	7,682	0.86%	45.38%	41.52%	2.70 percentage points up
Total	147,342	129,126	12.36%	32.51%	28.59%	2.67 percentage points up

Note: The shipments of steel products of the Company in 2010 included the 1.39% million tons of hot-rolled carbon steel products sold to BNA, but did not include the 1.823 million tons of cold-rolled products sold to BNA.

(4) Major markets

Sales revenues and cost by geographical regions

Unit: RMB Million

Regions	Operating revenue	Operating cost	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (%)
Domestic Market	182,397	161,531	11.44%	35.46%	31.59%	2.62 percentage points up
Foreign Market	20,321	18,447	17.85%	43.47%	40.58%	1.68 percentage points up

In 2010, the Company exported 2.334 million tons of steel products, 607 thousand tons more than the previous year, and the regional distribution of steel products is as follows:

Regions	2010	2009
East Asia	49.4%	47.2%
Southeast Asia	19.2%	21.0%
America	13.4%	12.3%
Europe and Africa	19.0%	19.3%
Total	100.0%	100.0%

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2. Overall Performance in the Reported Period (continued)

(5) Major suppliers and customers

In 2010, the Company's procurement amount from the top five suppliers made up 27.3% of its total annual procurement.

In 2010, the Company's sales income from the top five customers made up 12.7% of its total operating revenue.

(6) Changes of assets structure

As at the end of the reported period, the total of the consolidated assets of the Company reached RMB 216.07 billion, with an increase of RMB 14.92 billion as compared with that at the beginning of the year. The total liability was RMB 104.72 billion, RMB 4.8 billion more than that at the beginning of the year. The shareholder's equity reached RMB 111.34 billion, with an increase of RMB 10.12 billion as compared with that at the beginning of the year. The debt-to-asset ratio of the Company was 48.5%, a drop of 1.2 percentage points as compared with that at the beginning of the year.

Unit: RMB Million

Assets	At the end of 2010	Rate against the total assets	At the end of 2009	Rate against the total assets	Change of the rate
Current assets	68,864	31.9%	52,666	26.2%	5.7 percentage points up
Including Inventory	38,027	17.6%	29,462	14.6%	3.0 percentage points up
Receivables	15,697	7.3%	12,994	6.5%	0.8 percentage points up
Non-current assets	147,201	68.1%	148,476	73.8%	5.7 percentage points down
Including Fixed assets	117,737	54.5%	115,466	57.4%	2.9 percentage points down
Construction in-progress	9,763	4.5%	13,747	6.8%	2.3 percentage points down
TOTAL ASSETS	216,065	100%	201,143	100%	-
Liabilities and shareholders' equity	At the end of 2010	Rate against the total assets	At the end of 2009	Rate against the total assets	Change of the rate
Current liabilities	73,176	33.9%	70,727	35.2%	1.3 percentage points down
Non-current liabilities	31,547	14.6%	29,202	14.5%	0.1 percentage points up
Long-term borrowings	8,587	4.0%	5,295	2.6%	1.3 percentage points up
Long-term payables	2,542	1.2%	5,092	2.5%	1.4 percentage points down
Total liabilities	104,723	48.5%	99,923	49.7%	1.2 percentage points down
Shareholders' equity	111,342	51.5%	101,219	50.3%	1.2 percentage points up
Total Liabilities and shareholders' equity	216,065	100%	201,143	100%	-

- The Company's inventory was RMB 8.57 billion more than that at the beginning of the year, mainly due to price hike of such raw materials and fuel as iron ore, coal and scrap steel, the growth of the Company's scale in purchase, production and sales, and the strategic storage of some raw materials. The Company paid great attention to inventory management, and took measures to dynamically optimize the inventory structure. As a result, the annual inventory turnover was faster.
- As the market was recovering gradually, the shipments and prices had been increasing. The Company's receivables had also risen by RMB2.7 billion than that at the beginning of the year.
- Compared with the beginning of the year, the fixed assets had risen by RMB2.27 billion, including RMB15.52 billion composed of yearly purchase and the assets transferred from construction-in-progress to fixed assets, minus the amount of RMB13.02 billion for depreciation.
- Assets of construction-in-progress were RMB3.98 billion less than that at the beginning of the year. The Construction-in-progress this year increased by RMB11.58 billion, while the construction-in-progress transferred to fixed assets was RMB15.56 billion.
- In order to seize the opportunity of RMB appreciation, the Company increased its long-term USD borrowings. Its long-term borrowings increased by RMB3.29 billion.
- The long-term payables reduced by RMB2.55 billion. This was mainly because that the Company paid for the acquisition of Pudong Steel Luojing Project.

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(7) 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.

Unit: RMB Million				
Items	As at the end of 2010	As at the end of 2009	Change	Impact upon profit of the period
Trading financial assets	297	546	-249	9
Transactional financial asset	1,404	1,056	348	0
Financial assets available for sale	3	6	-3	3
Total	-	-	-	12

(8) Expenses and income tax changes during the report period

1) Sales and administrative expenses

Unit: RMB Million				
Items	2010	2009	Variance	Variance ratio
Sales expense	1,785	1,459	326	22.3%
Administrative expense	5,304	4,592	712	15.5%

In 2010, the Company made great efforts in solidifying the achievements in cost control. The sales expense increased by RMB 330 million due to the larger sales scale, and the increase in the expenses for transportation and storage, insurance, and sales commission. The administrative expense increased by RMB 710 million because of the increase of R&D expense.

2) Financial expenses

Unit: RMB Million				
Items	2010	2009	Difference	Difference ratio
Interest income	-51	34	-17	-49.9%
Interest expense	1,598	1,665	-67	-4.0%
Exchange gains or losses	-788	-4	-784	21472.0%
Others	47	48	-1	-1.8%
Total	807	1,676	-869	-51.9%

The Company's financial expenses were reduced by RMB 870 million compared with the previous year. This was mainly because RMB appreciated against USD by 3% over the year. The Company gained RMB 780 million more compared with that of the previous year from the exchange of its USD debt. The Company also adopted the strategy of USD financing at low interest rates. As a result, its interest expense was RMB 50 million lower than the previous year.

3) Income tax expense

Unit: RMB Million				
Items	2010	2009	Difference	Difference ratio
Consolidated pre-tax profit	17,076	7,794	9,282	134.1%
Consolidated income tax expense	3,715	1,199	2,516	209.8%
Effective tax rate	21.8%	16.4%	5.4 percentage points up	

In 2010, since the Company's tax privilege kept balance basically but its total profit was much higher than the previous year, so the actual income tax rate of the Company was higher than 2009.

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2. Overall Performance in the Reported Period (continued)

(9) Cash flow analysis

In 2010, the Company realized a net profit of RMB13.36 billion, the depreciation and amortization of fixed assets was RMB13.27 billion. The cash inflow from operating activities was RMB26.91 billion. However, the inventory costs increased by RMB8.71 billion and the receivables and payables from operating activities reduced by RMB0.68 billion. As a result, the Company realized a net cash inflow from operating activities of RMB18.86 billion.

The inventory expense increase was mainly due to price hike of such raw materials and fuel as iron ore, coal and scrap steel, the growth of the Company's scale in purchase, production and sales, and the strategic storage of some raw materials. The Company paid great attention to inventory management, and took measures to dynamically optimize the inventory structure. As a result, the annual inventory turnover was faster.

The net cash inflow from operating activities was RMB5.14 billion lower than the previous year. Without considering the impact of Finance Co., the net cash inflow from operating activities of the Company was RMB17.24 billion, a drop of RMB11.13 billion from RMB28.37 billion in the previous year. This was mainly because:

- The increase of net profit added RMB7.34 billion net cash inflow from operating activities.
- The Company's inventory was RMB 8.71 billion more than that at the beginning of the year, mainly due to price hike of raw materials and fuel, the growth of the Company's scale in purchase, production and sales, and the strategic storage of some raw materials. While in 2009, affected by the financial crisis, the Company's inventory reduced by RMB11.03 billion, making the year-on-year cash flow reduced by RMB19.74 billion.
- The receivables and payables from operating activities and other terms in 2010 contributed a cash flow of RMB312.6 billion, an increase of RMB127 billion than RMB11.33 billion in the previous year.

The general cash flow from operating activities was at the normal level.

The net cash outflow resulting from investment activities was RMB12.61 billion, RMB4.88 billion less than 2009. Eliminating the influence of the business of the financial company, the net outflow resulting from investment activities in 2010 was RMB12.85 billion, RMB4.63 billion less than the RMB17.48 billion in 2009. This was mainly due to the principle adopted by the Company in 2010, characterized by living within its means and compressing investment on fixed assets. As a result, the cash paid to purchase fixed assets, intangible assets, and other long-term assets was reduced by RMB4.88 billion than the previous year.

The net cash outflow resulting from financing activities was RMB3.17 billion, RMB4.78 billion less than that of 2009. Eliminating the influence of the business of the financial company, the net outflow resulting from financing activities in 2010 was RMB2.46 billion, RMB9.22 billion less than the RMB11.68 billion in 2009. In 2010, in order to optimize the debt structure, the Company substituted the USD financing for the RMB interest buyer-bearing notes in financing. As a result, the net borrowing increased by RMB4.73 billion, the amount of RMB interest buyer-bearing notes in financing reduced by RMB3.2 billion. The Company paid long-term payables of RMB2.87 billion. The Company's general interest-bearing liabilities reduced by RMB1.34 billion.

(10) Technology innovation and R&D investment

The Company's R&D investment rate in 2010 was 2.1%, the selling rate of new products was 18.7%. In addition, the Company had applied for 1068 patents (among which 427 were invention patents) and licensed 890 patents. In the selection of the 2010 national metalurgy science and technology award winners, 4 technological innovation achievements of the Company had won prizes. Among them, the *Independent Development and Integration of Key Process and Model Technologies for Baosteel's 1880mm Hot Strip Mill* won the first prize. Also, four innovative achievements including *Research and Manufacture of Wire Rod and Galvanized Wire for Bridge Cable* won the prizes of Shanghai Award For Science And Technology Progress.

The Company conducted research in automotive sheet products and the user technologies. It made a breakthrough in advanced high strength steel development, developed a packaged technical solution for hydroforming and hot stamping technologies, realized batch supply in Hi-B grain-oriented silicon steel for large-scale transformers, and improved the comprehensive yield greatly. The highly corrosion resistant weathering steel for railway freight car including S550HW and S450HW were the first to pass the review by the Ministry of Railways and can be supplied in batches.

The Company had successfully developed the Inconel690 alloy U-shaped heat transfer tube for the evaporators of nuclear power plants, and obtained License of PRC for the Manufacture of Civil Nuclear Security Machinery and Equipment issued by National Nuclear Safety Administration. Production of the first batch of finished tubes was completed, marking the Company as the first in China, and the fourth in the world that can produce such product. The steel plates SA533/16MND5 for regulators and safety injection tanks of the nuclear power plants witnessed a success in trial production and were used in AP1000 unit.

The Company took the lead in China to carry out the life cycle assessment (LCA) research, and hence promoted the green manufacturing and sustainable development of the Company greatly. The Company was successful in developing the new generation environmental-friendly MSA tinning system and had put it into commercial operation, resulting in a new electrolytic tinning control technology aimed at low-carbon operation. Critical breakthrough was made in technology for emission reduction of dioxin and nitride. The technologies of sintering waste gas heat recovery, and recycling of dry method desulfurization by-product achieved positive effects.

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(11) Performance of controlled subsidiaries and invested entities

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

In 2010, the Company made a unilateral contribution of RMB1.5 billion to the registered capital of Shanghai Meishan Iron & Steel Co., Ltd. As at the end of 2010 the Company had 77.04% shareholding of Shanghai Meishan Iron & Steel Co., Ltd. With a registered capital of RMB7.081 billion, Meishan Steel specializes in the production and sales of black metal metallurgy, rolling processing and sales. By the end of 2010, Meishan had a total asset size of RMB26.32 billion, a net asset of RMB12.63 and a net yearly profit of RMB80.605 million.

2) Ningbo Baoxin Stainless Steel Co., Ltd.

In 2010, the shareholders made contributions of RMB340 million, including RMB160 million from the Company to the registered capital of Ningbo Baoxin Stainless Steel Co., Ltd. As at the end of 2010, the Company had 54% shareholding of Ningbo Baoxin Stainless Steel Co., Ltd. With a registered capital of RMB3.19 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 2010, Ningbo Baoxin had a total asset size of RMB6.31 billion and a net asset of RMB2.75 billion and reported a net profit of RMB0.23 billion in the year.

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

As at the end of 2010, the Company owned 50% of Baosteel-NSC/Arcelor 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 RMB5.48 billion and a net asset of RMB3.64 billion and realized a net profit of RMB0.57 billion as at the end of 2010.

4) Yantai Lubao Steel Tubes Co., Ltd.

As at the end of 2010, 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 RMB1.25 billion and a net asset of RMB0.78 billion and reported a net profit of RMB9.861 million at the end of the reported period.

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

As at the end of 2010, the Company had 39.37% shareholding of Baosteel Huangshi Coating and Galvanizing. With a registered capital of USD8 million, Huangshi specializes in the production and sales of cold-rolled sheets, aluminum coated steel sheets, color-coated steel sheets and related coated steel products. Huangshi had a total asset size of RMB500 million, with a net asset of RMB130 million and reported a net profit of RMB23.03 million as at the end of 2010.

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

As at the end of 2010, 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 RMB33.91 billion, with a net asset of RMB10.26 billion and reported a net profit of RMB1.86 billion in 2010.

7) Shanghai Baosight Software Co., Ltd.

As at the end of 2010, the Company had 55.5% of shareholding of Shanghai Baosight Software Co., Ltd. With a registered capital of RMB260 million, Shanghai Baosight is mainly engaged in computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. Shanghai Baosight had a total asset size of RMB2.49 billion, with a net asset of RMB1.14 billion, and reported a net profit of RMB230 million as at the end of 2010.

8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2010, 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. Shanghai Baosteel Chemical had a total asset size of RMB5.11 billion, with a net asset of RMB3.83 billion, and reported a net profit of RMB540 million as at the end of 2010.

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2. Overall Performance in the Reported Period (continued)

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

As at the end of 2010, the Company had 95.82% of shareholding of Nantong Baosteel Iron & Steel Co., Ltd. With a registered capital of RMB0.621 billion, Nantong Steel is mainly engaged in production and sales of deformed steel bars, round steel bars, steel sections, and semi-finished products (billet steel and steel ingots) as well as other steel products and by-products. Nantong Baosteel Iron & Steel had a total asset size of RMB2.54 billion, with a net asset of RMB0.82 billion and reported a net profit of RMB4.58 million as at the end of 2010.

10) Baosteel Group Finance Co., Ltd.

As at the end of 2010, the Company had 62.1% of shareholding of Baosteel Group Finance Co., Ltd. With a registered capital of RMB0.5 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 2010, the scale of the company reached RMB11.1 billion with a total net asset of RMB1.54 billion and a reported net profit of RMB0.12 billion.

11) Yantai Baosteel Steel Tubes Co., Ltd.

As at the end of 2010, the Company owned 80% 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 tubes, their matching products and by-products. It also provides technical consultation services on steel tube rolling technology, storage, shipping and exporting services. The project at present is still under construction. Yantai Baosteel Steel Tubes had total asset of RMB2.6 billion and a net asset of RMB1.76 billion and reported a net loss of RMB160 million at the end of 2010.

12) Overseas subsidiaries

By the end of 2010, the Company had overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, and Hong Kong. These overseas subsidiaries extended the Company's sales and purchase networks, and played a critical role in enhancing the Company's international competitiveness.

(12) Special purpose entities controlled

None.

3. Company's Development in Prospect

(1) Trend of development of the iron and steel industry and the competitive market the Company faces

1) Trend of development of the steel industry

In 2011, the world's economy will maintain a slow growth as the developed economies have walked out of the shadow of the crisis and the emerging economies will slow down in economic growth. The year 2011 will witness the start of China's "12th 5-year Planning". The Chinese government will further strengthen the control of macro-economy and intensify economic structural adjustment, with a view to improve the quality and efficiency of economic development and to maintain steady growth of domestic economy.

The year 2011 will see a slowdown in the growth of steel demand worldwide. China's steel industry will still grow at a low speed in the context of temporal overcapacity and imbalance between demand and supply. China will step up efforts in promoting the merger and restructuring of iron and steel enterprises so as to optimize the industrial structure and enhance the level of industry concentration. The country will also spare no efforts in advocating environmental-friendly operation, emphasizing energy saving and emission reduction, so as to realize sustainable development. The prices of steel products and raw materials may fluctuate more frequently and more dramatically. The inflationary pressure, together with the cost increases of iron ore, and coking coal, will put the industry under higher pressure in terms of cost.

However in the long run, since industrialization and urbanization will support the continuous growth of China's demand for iron and steel, China's steel industry still has space for development.

2) The competitive market the Company faces

Competition in China's steel industry manifests the following characteristics: (a) The regional consolidation and restructuring of the domestic steel industry is being accelerated remarkably, 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 has been exacerbated; (c) The cost pressure of the enterprises becomes increasingly heavier; (d) Domestic iron and steel enterprises have intensified their efforts to invest in resources overseas and enhancing resource supply guarantee will become normal in the industry; and (e) Domestic iron and steel enterprises will focus more on the organic combination of scale, technology, cost, and service, seeking sustainable and comprehensive competitive advantages.

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3. Company's Development in Prospect (continued)

(2) Future opportunities and challenges

1) Opportunities

From 2011 on, China will continue to step up its efforts to change the mode of economic growth and adjust the economic structure. China's independent economic recovery will continue to be strengthened, which will actively drive the domestic steel enterprises to change the mode of development, enhance their capacities in independent integration and innovation, and follow the route of sustainable development featuring energy saving and environmental-friendly operation, so as to create the conditions for the steel enterprises to establish new sustainable competitive edges and point out the direction for the development of the steel enterprises.

The low-carbon economy provides a new opportunity for the development of steel enterprises. Developing environmental-friendly industries has been written into China's strategic emerging industry planning. Therefore, the steel industry will stand at an advantageous position in the general trend of adjustment and revolution by fulfilling the energy saving and emission reduction tasks, industrializing the environmental-friendly technologies and grasping the rule of industrial development.

China is still in the course of industrialization. Urbanization and industrialization will still provide growth opportunities for the steel industry. During the "12th 5-year Planning" period, China will speed up the process of urbanization, and the process of industrialization will enter its mid-late stage. Urbanization and industrialization will continue to give the main impetus to the consumption and demand of iron and steel products.

2) Future challenges

As China upgrades its national industrial structure, expands its internal demand, and increases the requirements for energy saving and environmental protection, higher requirements are imposed on the product mix upgrading of the steel industry to meet the demands of downstream customers. Under such circumstances, whether a steel enterprise can meet the new requirements in terms of product performance, quality, cost, and service is decisive to its success in the competition.

Cost competitiveness is critical to the survival of steel enterprises. Affected by the price rise in resources, inflation, and domestic income distribution adjustment, China's steel industry will withstand ever-increasing pressure of cost increase.

As the world economic recovery has a long and tough way to go, and the international trade protectionism is stepping up, the international competition of steel industry is becoming fiercer. In the meantime, the domestic steel industry shows an obvious tendency of gradually opening for foreign capitals, the competition among enterprises in future will become more intensified. The Company faces severe challenges in exploring internationalized operation.

3) Strategy for future development

To adapt itself to the rapid changes in domestic and overseas environment for economic development and the development of steel industry, the Company will continue to take as its mission "becoming a world-class steelmaker and committing itself to providing extra-value 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. The Company will take the scientific outlook on development and environmental management as the guide, implement the international 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 management, cost control, talent development, and risk management as its major measures.

The Company will combine such methods as product development, 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 RMB16.8 billion fixed assets investment in 2011, which will mainly be used for a batch of projects to be continued, such as the construction of the oriented silicon steel follow-up project, the project of product mix and process equipment upgrading and technical revamping project of Meshan Steel, Luojing Step 2 project and the relocation project of Lubao Steel Tubes Co. Ltd and adjustment of its product mix. It will also invest in projects of technical revamping.

After purchasing the relevant assets of Luojing project from Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd., the Company will, according to the agreement, pay RMB2.87 billion in 2011 to Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. for the purchase.

2) Sources of capital

The above investment capitals come from the Company's own capital and financing.

(4) Risks and counter-measures

1) Major risks

Due to the lack of constraining force in global coordination mechanism, the recovery of world economy will be complicated and devious. As it becomes more difficult to coordinate the macro economic policies of major economic entities, prices of primary products such as petroleum and the US dollar exchange rate may fluctuate more. China's economic development continues to be faced with many uncertainties and its internal growth power has yet to be fully recovered. The marginal effect of the incentive policy continue to see degeneration, and the macro economic policies of the country show tendency of becoming stricter. At the same time, the exchange rate is fluctuating more strongly and the imported inflation and the factor price show a tendency to intensify. These have posed great difficulties for the country in controlling inflation while ensuring economic growth, adjusting the industry structure while maintaining a good balance.

The domestic steel market continues to be burdened by the imbalance between demand and supply. On one hand, prices of the upstream resources have increased, putting the steel enterprises under more pressure of high cost; on the other hand, the price bargaining ability of the downstream industries have been improved, squeezing the domestic steel industry from both ends. In the meantime, prices of steel products and raw materials fluctuate more frequently and more drastically, and exportation becomes more difficult. Consequently domestic steel enterprises suffer more constraint in maintaining stable operation and increasing economic efficiency.

The pressure and risk of energy saving and environmental protection remain high. During the "12th 5-year Planning" period, China will implement stricter policies regarding energy saving and emission reduction and the central and local governments will impose higher requirements of environmental protection on the steel industry. Furthermore, the stricter environmental policies will also affect the stable supply from the upstream resources and the demands from the downstream users.

2) Counter-measures

Facing the changes at home and abroad, 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 management. It will adhere to the road of connotation development, focusing on technology innovation, leading service, environmental management, digitized Baosteel, and harmonious enterprise construction. The Company will increase its overall core competitiveness through its systematic capability upgrading.

Continuing to improve the risk management and enhance the comprehensive risk resistance capacity. On the basis of its construction of the risk management system in recent years, the Company will improve its system of noticing 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 its strategic planning and following its operational guidelines, the Company will conduct work centering around five themes: optimizing production structure oriented by profitability; furthering cost improvement by enhancing cost control; enhancing customer management through improving the customer-centered operation mechanism; promoting environmental management by coordinating energy saving and emission reduction on one hand and the production on the other hand; and cultivating harmonious corporate culture to enable common development of the enterprise and the employees.

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4. Operational Plan for 2011

(1) Target and plan

The year 2011 is a year of both opportunities and challenges. In this year the Company, centering on a new round of strategic planning, will continue to promote product management, consolidate the achievements made through reversed transmission of the pressure, upgrade system competitiveness through management reform, fully launch work on environmental management 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 management and forging new competitive advantages". It aims to realize a total operating revenue of RMB210 billion, make the proportion of its exclusive products reach 11%, fully complete its contracts, and make its comprehensive energy consumption per ton of steel less than 738 kilogram of standard coal.

In 2011, the iron and steel production is planned to reach 23.98 and 27.47 million tons respectively; the sale of products is planned to reach 26.12 million tons; the total operating revenue and the operating cost is planned to reach RMB210 and 184.7 billion respectively. As the conditions for the economic recovery at home and abroad remain complicated, and the Company is still faced with many uncertainties, for example, the "double pressures" from both the upstream and downstream industries are bringing about higher risk and more pressure on making profit, the management of the Company will handle this situation positively and implement the measures in great detail so as to strive to maintain the best performance in China against a fiercely competitive market environment.

(2) Priority work to be done

In line with the overall operational target and plan, and according to a new round of strategic planning, the Company will promote 15 key programs in 3 aspects centering on product management, cost improvement, management reform and system capacity in 2011. It will strive to maintain and enhance its comprehensive competitive advantages. The programs are as follows:

- Improving the coordination of production and sales and the product delivery precision;
 - Optimizing the inventory management of iron and steel products, and enhancing the inventory turnover efficiency;
- Enhancing the production capacity of key products to meet the needs of the market;
- Furthering the coordination of production and sales and strengthen the competitiveness of key major products;
- Optimizing production organization and reducing the cost of steel;
- Intensifying quality management to reduce quality loss and hence reducing the quality cost;
- Enforcing energy management and control to step up the efforts of energy saving and emission reduction;
- Optimizing the mode of purchase, and reducing the purchase expense of bulk raw materials and fuel;
- Enforcing the centralized management of sales expenses and administration expenses, optimizing liability structure, and implementing strict expenses control;
- Improving the efficiency of examination and maintenance, reducing the load of examination and maintenance, and promoting reasonable input in examination and maintenance expenses;
- Promoting the carbon steel cost benchmarking, and boosting the continued improvement of benchmarking process cost;
- Optimizing the mode of purchase, and reducing the purchase expense of materials and spare materials;
- Enforcing investment control on key engineering programs and enhancing the control over the whole process of investment;
- Optimizing the sales and services systems, and improving the customer-centered operation mechanism;
- Improving the management at the grass-root level and enhancing the site management;

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5. Investments

(1) Investment in fixed assets

In 2010, the Company invested RMB13.99 billion in fixed assets.

1) Fund-raising projects

The project of stainless steel cold-rolled strip was completed and put into operation in December 2010, adding the capacity of 330 thousand tons of stainless steel cold-rolled coil, 330 thousand tons of stainless steel pickled coil, and 1400 thousand tons of carbon steel cold-rolled coil every year.

2) Non-fund raising projects

(a) Completed projects having been put into operation

Special steel Steckel hot rolling mill project. Completed and put into operation in May 2010, adding a capacity to produce 282 thousand tons of hot-rolled alloyed steel sheet and coil annually.

The project of hot-extruded steel tube production line was completed and put into operation in May 2010, adding a capacity to produce 23 thousand tons of seamless steel tubes of N-base alloy, titanium and titanium alloy duplex stainless steel every year.

The project of the technical revamping of titanium-nickel special metal sheet was completed and put into operation in December 2010, adding a capacity to produce about 100 thousand tons of special metal cold-rolled sheets and coils and hot-rolled pickled coils every year.

(b) Continued projects

Luoyang Step 2 project: it aims to build the Correx process of iron-making, converter steel-making, slab-casting, oxygen production, CCBP power generation, etc. The CCBP power generation project was synchronized and started to generate electricity in April 2010, and passed the 168-hour test in September 2010. No. 3 continuous caster project was completed in October 2010; all the projects are planned to be completed by March 2011.

The relocation and product mix adjustment project of Lubao Steel Tube Co., Ltd.: it aims to build a production line for hot continuous rolling tubes and for tube processing, and a temper recoiling line for high-pressure boiler tubes, which will produce 500 thousand tons 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 continuous tube rolling is under construction and planned to be completed in April, 2011.

The product mix and process equipment upgrading and technical revamping project of Meishan Steel: it aims to build a sintering machine, coke oven, blast furnace, converter, continuous casting, hot strip mill and the corresponding utilities. The project is planned to be fully completed in June, 2012.

(c) Newly-started projects

The construction of the oriented silicon steel follow-up project: it aims to build the single stand reversing mill, the decarburizing annealing line, the high temperature rotary hearth furnace, and the flattening & coating line. The project is planned to produce 200 thousand tons of oriented silicon steel annually.

(2) Other investments

The Company completed RMB2.01 billion worth of equity investment programs in 2010.

(3) Management and use of funds raised

1) Funds raised

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. As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CVB1" was ended with 113,785 equity warrants exercised, and an increase of 48,088 shares of the Company. A total capital of RMB567,438.40 was raised.

VII Board of Directors' Report

5. Investments (continued)

2) Management of funds raised

- (a) Use of the funds raised As was disclosed in the application document issued by the Company, the funds raised were paid by the Company through the special account for raised funds in July 2010.
- (b) Funds raised are paid through a special account. According to the relevant stipulations in the Company's *Method of Raised Funds Management*, after going through the standard procedure of examination and approval, the amount will be paid through the special account.

3) Use of funds raised

(RMB million)						
Total fund raised	0.57	Total raised funds used in the present year	0.57			
		Total raised funds used	0.57			
Project of commitment	Changes made	Fund to be invested	Fund invested	As scheduled	Expected profit	Actual profit
Cold-rolled stainless steel strip project	No	About 0.57	0.57	Yes	IRR: 11.2%	Not applicable
Statement of projects not meeting the planned progress and expected profit				Not applicable		

According to the the Company's Prospectus of Convertible Bonds with Call Warrants, among the funds raised by exercising equity warrants, the amount of no more than RMB4.2 billion should be used for this project. As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CWB1" was ended with 113,785 equity warrants exercised, gaining a fund of only RMB570 thousand. Since it is a small amount, its business benefit can not be calculated separately.

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

In August 2010, the Company passed *Method of Raised Funds Management* in an effort to regulate the storage, use, management and supervision of the raised funds.

The 11th meeting of the Fourth Board of Directors approved the *Special Report on the Deposit and Actual Use of the Fund Raised*, which gave detailed information about the deposit and use of the fund raised.

Citic Securities Co., Ltd. issued its opinion on this fund-raising. Its conclusion is: "Baoshan Iron & Steel Co., Ltd. acted in line with the disclosed information regarding the public offering of convertible corporate bonds in making investment in the cold-rolled stainless steel strip project with the fund raised by exercising equity warrants. This operation was also in line with the *Rules on the Administration of Proceeds of Listed Companies* by Shanghai Stock Exchange, and the *Rules on the Administration of Proceeds* by Baoshan Iron & Steel Co., Ltd.". The Company had opened up a special account for the fund raised and was free from mistakes of misusing the fund and harming the shareholders' interest.

6. Explanatory Notes from Auditing Firm

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

7. Significant Change in Policies or Accounting Estimation

No significant change in accounting policies or accounting estimation, no correction of accounting errors, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reported period.

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8. Routine Work of Board of Directors

(1) Meetings and resolutions in the period reported

Name of the meeting	Date	Disclosure media	Disclosure date
The fourth meeting of the Fourth Board of Directors	30-31 March 2010	China Securities News, Shanghai Securities News and Securities Times	1 April 2010
The fifth meeting of the Fourth Board of Directors	29 April 2010	China Securities News, Shanghai Securities News and Securities Times	30 April 2010
The sixth meeting of the Fourth Board of Directors	July 2010	China Securities News, Shanghai Securities News and Securities Times	5 July 2010
The seventh meeting of the Fourth Board of Directors	July 2010	China Securities News, Shanghai Securities News and Securities Times	20 July 2010
The eighth meeting of the Fourth Board of Directors	27 August 2010	China Securities News, Shanghai Securities News and Securities Times	28 August 2010
The ninth meeting of the Fourth Board of Directors	29 October 2010	China Securities News, Shanghai Securities News and Securities Times	30 October 2010
The tenth meeting of the Fourth Board of Directors	December 2010	China Securities News, Shanghai Securities News and Securities Times	23 December 2010

Notes: (a) Refer to relevant resolution announcement for the content of the resolution approved at the meetings.
 (b) These meetings adopted the form of written voting: the sixth meeting of the Fourth Board of Directors, the seventh meeting of the Fourth Board of Directors and the tenth meeting of the Fourth Board of Directors.

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

1) Implementation of profit appropriation

According to the resolutions approved at the 2009 shareholders' General Meeting held on 29 April 2009 the proposed profit appropriation for 2009 was as follows: All shareholders were entitled to a cash dividend of RMB2.00 per 10 share (taxes included), for a total dividend payout of RMB33,502.4 billion. Details of the dividend distribution were published in the China Securities News, Shanghai Securities News and Securities Times of 18 May 2010. The final share registration date for the dividend entitlement was 21 May 2010, with the ex-dividend date set at 24 May 2010 and dividend payout date on 28 May 2010. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd.'s Shanghai Branch after the market closed on 21 May 2010, would be entitled to such cash dividends.

2) Increase in the registered capital owing to the equity warrants & corresponding revisions of Articles of Association:

The first interim General Shareholders' Meeting of the Company convened on December 27, 2007 approved the Proposal of Issuing Convertible Bond with Warrants. Article 16 of this proposal says, "To ensure the success of the issuance, it is proposed that the Shareholders' Meeting authorize the Board of Directors and one or several executive directors to assume full responsibility in handling matters related with this issuance. The matters include but not limited to revising the Articles of Association accordingly and completing changes of business registration such as the change of registered capital when the equity warrant exercise is ended".

As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CWB11" was ended with 113,785 equity warrants exercised, and an increase of 48,088 shares of the Company. A total capital of RMB567,438.40 was raised.

On July 21, 2010, authorized by the Shareholders' General Meeting, executive directors He Wenbo and Ma Guoqiang signed for the following changes:

Article 5 of Articles of Association: "The registered capital of the Company is RMB17,512,000,000" was changed to "The registered capital of the Company is RMB17,512,048,088".

Article 17 of Articles of Association one addition as follows: "Approved by the CSRC on May 23, 2008, the Company issued RMB10 billion of convertible bonds and 1,600,000,000 warrants were separated. During the five days of transaction from June 28, 2010 to July 3, 2010, the Company gained an increase of 48,088 shares".

Article 18 of Articles of Association: "The Company has a total of 17,512,000,000 shares" was changed to "The Company has a total of 17,512,048,088 shares". Changes of business registration had been made accordingly.

VII Board of Directors' Report

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8. Routine Work of Board of Directors (continued)

(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, to improve it.

The "Procedure Rules of Auditing Committee of the Board of Directors" was approved on the eleventh meeting of the third Board on 26 March 2008, to improve it.

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

The "Procedure Rules of Auditing Committee of the Board of Directors" was strictly followed by the Committee in reviewing the 2010 Annual Report, acting as an inspector to the Company's financial information, internal control and other performance.

The Auditing Committee had examined the 2010 auditing plan and the financial statements compiled by the Company and issued its written suggestions for the documents before Deloitte Touche Tohmatsu Certified Public Accountants Limited, the accounting firm, started the auditing work. The Auditing Committee noticed the changes in the terms of the report as against the previous year and required that the Company to interpret the drastic changes of significant events in the 2010 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 Deloitte Touche Tohmatsu, urging the firm to complete the auditing according to the time limit stipulated in the 2010 annual auditing plan; the committee examined the accounting report again and offered their opinions in written form, after they reviewed Deloitte Touche Tohmatsu'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 BGC to standardize its operation.

The auditing members reviewed the proposal to hire Deloitte Touche Tohmatsu CPA Ltd. as the independent auditor for the period of 2011 and agreed to submit it to the Board of Directors.

(4) Performance of Remuneration & Appraisal Committee under Board of Directors

The Committee met two times in the period, during which the details of "Special Contribution Reward" in "Methods of Performance Evaluation of Senior Management of Baoshan Iron & Steel Co., Ltd." and the evaluation indicators and operation target for the President in 2010 were discussed profoundly with the outcome of constructive suggestions and opinions.

The Committee met on March 24, 2011, reviewed the "Evaluation Indicators and Targets for Senior Management in 2010," "Report on Annual Remunerations of Directors, Supervisors, and Other Senior Management in 2010," and "Evaluation indicators and operation target for the President in 2011," and agreed to submit these proposals to the Board of Directors.

(5) 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 for outside users.

In case that information should be submitted to the outside in accordance of related regulations, an earlier reminder shall be submitted regarding the filing of the knower and the obligation to keep confidential the information.

(6) Statement by the Board of Directors on internal control responsibilities

The Company's Board of Directors are responsible for establishing and maintaining an adequate internal control system.

(7) Insider Information management

According to the Company's self-examination, no inside trading of the Company's shares occurred before major sensitive information disclosure made in the period.

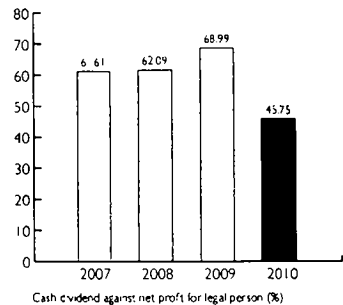
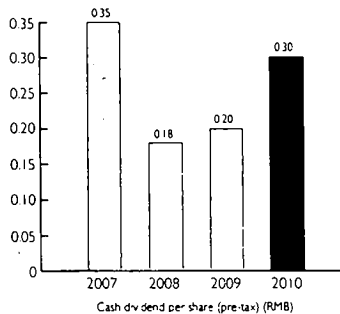
9. Proposed Profit Appropriation

The net profit of the Company in 2010 totaled RMB11,483,156,644.17. With the addition of the RMB18,306,381,348.84 of undistributed profit at the beginning of the period and deduction of the RMB3,502,400,000.00 of cash dividend payment for 2009, the distributable profit at the end of 2010 was RMB926,287,137,993.01. The Board of Directors proposes the following profit appropriating scheme for the year of 2010:

- 1) Ten per cent of the net profit, or RMB1,148,315,664.42, shall be allocated as statutory earnings reserves;
- 2) Ten per cent of the net profit, or RMB1,148,315,664.42, shall be allocated as discretionary earnings reserves;
- 3) In accordance with the demand for fund of the Company in 2011, the Board of Directors has proposed a cash dividend payout of RMB3.0 per 10 shares (pre-tax), with total of dividend payable of RMB5,253.6442640.
- 4) Other models of distribution, such as capitalizing of common reserves, would not be adopted.
- 5) Dividend-net profit ratios from 2007 to 2010

Item	2010	2009	2008	2007
Cash dividend per share (pre-tax) (RMB)*	0.30	0.20	0.18	0.35
Total cash dividend (RMB100 million)	52.54	35.02	31.52	61.29
Net profit for legal person presented in financial statements (RMB100 million)	114.83	50.77	50.77	99.48
Net profit attributable to parent company in consolidated statements (RMB100 million)	128.69	58.16	68.49	127.02
Cash dividend against net profit for legal person	45.75%	68.99%	62.09%	61.61%
Cash dividend against net profit attributable to parent company in consolidated statements	40.76%	60.22%	46.02%	48.25%

Note: The cash dividend for 2010 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2010 Shareholder's General Meeting.



10. Others

None.

1. 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 *Articles of Association*. The Board of Supervisors attended the fourth, fifth, eighth, and ninth 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 *Articles of Association*.
- (2) The Board of Supervisors was convened for seven meetings (three of which were interim sessions) in the reported period and the resolutions were published in time. The details of the meetings by the boards of supervisors are listed as follows:
 - 1) On 31 March 2010, the fourth Board of Supervisors held its fourth meeting in Shanghai and approved the following proposals:
 - Board of Supervisors' Report
 - 2009 Report on Performance of Directors
 - 2009 Report of the Examination and Supervision on Internal Control and Risk Management
 - Notes to the changes of accounting estimation by the Board of Supervisors
 - Board of Directors' Proposal for Provisions for Impairment Losses of Assets of the Company as at the end of 2009;
 - Review of the "2009 Annual Report";
 - Review of the "Report of the Final Annual Accounts of the Company at the End of 2009";
 - Review of the "2009 Annual Profit Appropriation Proposal 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 "Increase RMB1.5 billion of investment for Meshan Steel";
 - Review of the proposal of *Sustainability Report (2009)* of the Company;
 - Review of the Board of Directors' Proposal to hire Deloitte Touche Tohmatsu CPA Ltd. as the auditor of the Company;
 - Board of Directors' Proposal of "Related Transactions of the Company in 2010";
 - Board of Directors' Proposal of the "2010 Budget of the Company";
 - Review of the proposal of "2009 Report on Overall Risk Management";
 - Review of the proposal of "Revising the *Methods of Information Disclosure Management*".
 - 2) On 29 April 2010, the fourth Board of Supervisors held its fifth meeting in Shanghai and approved the following proposals:
 - Board of Directors' Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the First Quarter of 2010;
 - Review of the "2010 Report of the First Quarter";
 - Review of the "2010-2015 Development Planning";
 - 3) On 5 July 2010, the fourth Board of Supervisors held its sixth meeting by correspondence and approved the following proposals:
 - Board of Directors' proposal of "Opening special account for funds raised";
 - 4) On 26 July 2010, the fourth Board of Supervisors held its seventh meeting by correspondence and approved the following proposals:
 - Review of the rules for "Special Contribution Rewards" in *Remuneration Management Methods for the Senior Management of the Company*
 - 5) On 27 August 2010, the fourth Board of Supervisors held its eighth meeting and approved the following proposals:
 - Board of Directors' Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the Second Quarter of 2010;
 - Review of the "2010 Semi-annual Report";
 - Review of the proposal of revising "Management Methods of Funds Raised";
 - Review of the "Proposal of Carrying Out Equity Investment";
 - 6) On 29 October 2010, the fourth Board of Supervisors held its ninth meeting and approved the following proposals:
 - Board of Directors' Proposal for Provisions for Impairment Losses of Assets of the Company as at the End of the Third Quarter of 2010;
 - Review of the "2010 Report of the Third Quarter";
 - Board of Directors' Proposal of "Adjusting Volume of Related Transactions of the Company in 2010";
 - 7) On 17 December 2010, the fourth Board of Supervisors held its tenth meeting by correspondence and approved the following proposals:
 - Board of Directors' Proposal of "Consent to Baosteel Group's Investment in the Stainless Steel Project of Desheng Nickel".

CONTENTS III

2. 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 of 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 Articles of Association 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.

3. Opinions on the Company's Financial Operations

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 2010 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 Deloitte Touche Tohmatsu in the auditors' report is fair and objective. No malpractices were discovered with regard to their professional duties.

4. 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.

5. 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.

6. Opinions on Related Party Transactions of the Company

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

7. Opinions on the Company's Internal Control Self-evaluation Report

The Board of Supervisors had reviewed and passed the Company's "2010 Report on Internal Control Evaluation" without any dissent.

IX. Significant Events

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1. Legal Proceedings

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

2. Bankruptcies and Restructuring

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

3. Shares Held of other Listed Companies and Financial Enterprises

(1) Investment in securities

(Share/RMB million)							
Type	Bond code	Bond name	Initial investment cost	Shareholding	Book value as at end of period	Ratio in total share of bond as at end of period (%)	Profit
1 Bond	1081019	10-Xia Machinery & Electronic-CP01	102.85	1,000,000	103.25	16.93	0.30
2 Trust	2010-126	Zhongrong Changyong Development No.2	100.00	1,000,000	100.00	16.39	-
3 Bond	1081055	10-Jushi-CP01	82.01	800,000	82.26	13.49	0.19
4 Bond	d10113002	10-Qian-Tyre-CP01	50.00	500,000	50.11	8.22	0.08
5 Bond	1081290	10-Da'ang-CP0	49.85	500,000	50.08	8.21	-
6 Fund	482002	Gonggong-Ruxin-Currency	50.00	50,000,000	50.00	8.20	-
7 Trust	20100629	Shangxin-GM-9003-1	44.00	440,000	44.00	7.21	-
8 Bond	1081426	10-Yuncantou-CP01	40.00	400,000	40.06	6.57	-
9 Bond	1081303	10-Hongdou-CP01	30.02	300,000	30.15	4.94	-
10 Bond	1081429	10-Xiwang-CP02	30.00	300,000	30.07	4.93	-
Other bonds held as at the end of period			30.00	-	30.00	4.92	1.31
Profit in bonds sold			-	-	-	-	-0.24
Total			608.73	-	609.98	100.00	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	Lu'an Environmental Energy	5.05	0.51%	352.16	5.90	29.26	Financial assets available for sale	Investment when issued
000983	Xishan coal electricity Group	270.82	0.41%	348.30	-	58.89	Financial assets available for sale	Acquisition
600508	Shanghai Energy	5.55	0.77%	157.65	0.84	10.61	Financial assets available for sale	Investment when issued
600597	Kailuan Corporation	3.51	0.39%	93.81	0.47	-20.27	Financial assets available for sale	Investment when issued
601001	Datong Coal Industry	2.57	0.22%	75.64	0.86	-5.63	Financial assets available for sale	Investment when issued
600000	SPD Bank	62.97	0.04%	49.37	0.12	-8.40	Financial assets available for sale	Acquisition
000928	Sinosteel Jin Carbon	0.30	0.11%	2.68	-	0.77	Financial assets available for sale	Acquisition
Total		350.77	-	1,079.63	8.19	65.23		

(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	4,239.76	-	3,696.24	-	-
Shares bought:		2,048.54	-	716.82	-
Shares sold		2,592.07	-	-	-132.2

4. Significant Acquisitions, Sales and Business Combinations

No significant acquisitions, sales and business combinations occurred in the period.

5. 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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6. Significant Related Party Transactions

(1) Day-to-day related party transactions

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

1) Sales of products and purchases of services

Affiliates	Transactions	Pricing	(RMB million)
			Amount
Baosteel Group Development Corp.	Sales of iron and steel products, supplementary materials, etc.	Market	2,733.16
Baosteel Metal Co., Ltd.	Sales of iron and steel products	Market	1,493.30
Baosteel Resource Co., Ltd.	Sales of raw fuels	Market	8,996.60
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Sales of iron and steel products, raw fuels, supplementary materials, etc.	Market	1,553.61
Zhanjiang Longteng Logistics Co., Ltd.	Sales of raw fuels	Market	1,093.22
Sub-total of sales			15,869.89
Baosteel Group Development Corp.	Purchase of iron and steel products, supplementary materials, etc.	Market	1,957.35
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Purchase of iron and steel products, raw fuels, supplementary materials, etc.	Market	1,177.33
Shanghai Baosteel Engineering & Technological Co., Ltd.	Purchase of equipment and supplementary materials	Market	1,425.68
Baosteel Group Baiyin Iron & Steel Co., Ltd.	Purchase of iron and steel products	Market	1,415.76
Baosteel Resource Co., Ltd.	Purchase of raw fuels	Market	8,318.18
Baosteel Resources (International)	Purchase of raw fuels	Market	2,505.27
Ningbo Iron & Steel Co., Ltd.	Purchase of iron and steel products	Market	1,092.41
Zhanjiang Longteng Logistics Co., Ltd.	Purchase of raw fuels	Market	166.50
Sub-total of purchase			19,058.89
Baosteel Group Development Corp.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services	Negotiation	1,488.94
Baosteel Shanghai Meishan Iron & Steel Co., Ltd.	Comprehensive logistics, project installation services, equipment examination & maintenance service, and transportation services	Negotiation	1,015.37
Baosteel Industrial Examination Corp.	Services in examinations and storage	Negotiation	568.56
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd.	Project installation services and equipment examination & maintenance service	Negotiation	940.40
Sub-total of services			4,013.27

The sales above accounted for 7.9% of the Company's revenue from its principal businesses in the reported period; purchases and services received took up 10.7% and 2.3%, respectively of the Company's cost for its principal businesses in the reported period.

All transactions were settled either by cash or by note.

2) Financial services

Baosteel Group Finance Co. (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 67.1% 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.

In the period reported, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB9.32 billion loan to BGC and its controlled companies, with outstanding loan of RMB3.03 billion and a total interest income of RMB140 million. At the same time, it absorbed a total deposit of RMB8.65 billion of the balance funds at the end of the period of BGC and its controlled companies, paying a total of interest of RMB0.14 billion.

In the period reported, Finance Co. discounted a total of RMB0.6 billion to controlled companies of BGC at the discount rate set by the People's Bank of China, with the closing balance of RMB0.14 billion and a total sum of interests of RMB20 million.

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 mentioned in the above item 1) and 2) between the Company and the related parties are expected to continue.

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3) Collaborative R&D with the related parties

In 2010, Baoshan Iron & Steel Co., Ltd. started two 3-year collaborative R&D projects with Baosteel Group. The projects are "Baosteel COREX-3000 Key Technique Platform Construction and Research" (hereinafter referred to as the COREX project), and "Baosteel Special Steel Research Center (Platform) Process Technology and Product Research" (hereinafter referred to as the Special Steel Project). The technical achievements such as patents, know-how thus obtained will be jointly owned by Baoshan Iron & Steel Co., Ltd. and Baosteel Group.

According to the collaborative R&D agreement, Baosteel Group invested a total of RMB0.72 billion for the research, among which, RMB0.45 billion for the COREX Project, and RMB0.27 billion for the Special Steel Project.

(2) Transfer of assets or equity

No assets and equity were transferred in the period.

(3) Related external investments with related parties

No related external investments with related 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 from BGC.

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

(5) Fund appropriations and their solutions

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

7. 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

In view of the more and more intensified competition in the steel markets at home and abroad, in order to fully seize the market opportunities so that all sales branches at home and abroad can actively participate the bidding projects for supply at home and abroad under the general planning and guidance of the Company, the Company provides the joint liability performance guarantee for Howa Trading Corporation Limited, a wholly-owned subsidiary of the Company with the amount of USD 260 million approximately, accounting for 1.5% of the net assets of the Company at the end of the reported period. The guarantee started from 19 March, 2010, and the duration will not exceed 50 months. The performance guarantee has been approved by the Board of Directors according to relevant stipulations.

As far as the Company is concerned, the above guarantee doesn't pose any substantial increase of risks. Therefore, it is fundamentally different from ordinary guarantees.

(3) Major entrusted cash management

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

IX Significant Events

8. Fulfilment of Commitments

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 shall enjoy the preemptive right 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 September 6, 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) Baosteel Group has the right to acquire the holding assets and businesses which may be in competition with the Company.
- 2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until Baoshan Iron and Steel gives up the commercial opportunities.
- 3) 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 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 m² for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-assessing day (30 September 2007), RMB2.8 billion, as pre-eminently estimated, need to be paid. Baosteel Group promises:

- (a) 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.
- (b) In the event of the total actual expense exceeding RMB2.8 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.

(4) 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 Call Warrants*, publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) in June 18, 2008.

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(5) Commitments the Company undertook about land use right in 2005

- 1) The Company intended to purchase, by the fund from the five billion share issued in 2005, from Baosteel Group 23 pieces of state-allocated land and 14 pieces of empty land. After the transactions completed the Company would go over the procedures of changing the state-allocated land into state-owned transferable land and changing the empty land into state-owned transferable land with no limits in right.
- 2) The Company and related companies that came under control of the Company after the acquisition shall negotiate in an active manner with relevant administrative offices to go over the procedures, within 18 months after the land acquisition, of the certificates for using the state-owned land or for owning the estates of the aforementioned pieces of land. The land users of the aforementioned land shall be registered in the Company or related companies that came under control of the Company after the acquisition.

The transfer procedures for a piece of land in Baoshan District covering an area of 581,000m², which involved in the 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.

(6) Commitments Baosteel Group undertook about Desheng Nickel Project

Baosteel Group sought the Company's opinion of investment in the Desheng Pickle Project on December 16, 2010 in written form of "Solicit Letter about Investment on Desheng Pickle Project"; "Commitments about Desheng Pickle Project". The Company agreed that Baosteel Group could invest in the project, but reserved the right to purchase the equity of the project. Baosteel Group promises: When the Company requests to acquire the equity of the project in future, it will transfer its share of the project at a fair price in line with relative laws, regulations, and other documents and on the basis of assets evaluation made by an independent institution.

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 23 December 2010.

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

9 Engagement and/or Termination of Auditor's Service

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants Limited as the accounting firm in the reported year. The compensation paid to the accounting firm is detailed below.

- (i) 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.
- (ii) As approved by 2009 Annual Shareholders' Meeting, the auditing fees payable to Deloitte Touche Tohmatsu in 2009 was RMB3.25 million. In addition, the Company paid Deloitte Touche Tohmatsu RMB150,000 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.
- (iii) Signatory auditors to the Company's 2010 Financial Statements are Zhu Xiaolan and Zhangjie, while Zhou Youmei and Gu Xiaogang signed on the previous year's audit report.

10. Neither the Company, nor the Board of Directors and any of its director, senior manager, shareholder or actual controller was the subject of an investigation by the China Securities Regulatory Commission in 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

FOOTNOTES 104

11. Index of Important Announcements

Item	Periodicals	Disclosure date	Website
Express Report of 2009 Performance of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	16 January 2010	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year of 2009	China Securities News, Shanghai Securities News and Securities Times	29 March 2010	http://www.sse.com.cn
Announcement of the Resolutions of the fourth Meeting of Fourth Board of Directors and Announcement of the 2009 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	1 April 2010	http://www.sse.com.cn
Special Remarks on Baosteel Funds Occupied by Controlling Shareholders and Related Parties & Guarantees Provided by Baosteel for Controlling Shareholder and Its Enterprises	China Securities News, Shanghai Securities News and Securities Times	1 April 2010	http://www.sse.com.cn
Abstract of the 2009 Annual Report of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	1 April 2010	http://www.sse.com.cn
Announcement of the Resolutions of the fourth meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	1 April 2010	http://www.sse.com.cn
Announcement of Electing Employee Representatives for the Board of Supervisors by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	15 April 2010	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2010	China Securities News, Shanghai Securities News and Securities Times	29 April 2010	http://www.sse.com.cn
Announcement of the Resolutions of the fifth meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 April 2010	http://www.sse.com.cn
First Quarter Report of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 April 2010	http://www.sse.com.cn
Announcement of the Resolutions of the fifth meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 April 2010	http://www.sse.com.cn
Announcement of the Resolutions of the 2009 General Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 April 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	12 May 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise Price Adjustment by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	18 May 2010	http://www.sse.com.cn
Announcement of Implementing 2009 Annual Dividends Appropriation of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	18 May 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	19 May 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise Price Adjustment by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	24 May 2010	http://www.sse.com.cn

Item	Periodicals	Disclosure date	Website
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	26 May 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	2 June 2010	http://www.sse.com.cn
Notice of Dividend Distribution of 08 Baosteel Bond by Baoshan Iron & Steel Co. Ltd. in 2010	China Securities News, Shanghai Securities News and Securities Times	9 June 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	9 June 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	11 June 2010	http://www.sse.com.cn
First Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	17 June 2010	http://www.sse.com.cn
Announcement of the Last Trading Day of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	18 June 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	21 June 2010	http://www.sse.com.cn
Notice of Dividend Distribution of 09 Phase II Mid-term Bond by Baoshan Iron & Steel Co. Ltd. in 2010	China Securities News, Shanghai Securities News and Securities Times	23 June 2010	http://www.sse.com.cn
Second Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	23 June 2010	http://www.sse.com.cn
Announcement of the Last Trading Day of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	24 June 2010	http://www.sse.com.cn
Announcement of the Delist of "Baosteel CWBI" by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	24 June 2010	http://www.sse.com.cn
Third Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	25 June 2010	http://www.sse.com.cn
Announcement of the Last Trading Day of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	25 June 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	28 June 2010	http://www.sse.com.cn
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co. Ltd.	China Securities News, Shanghai Securities News and Securities Times	29 June 2010	http://www.sse.com.cn

IX. Significant Events

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11. Index of important announcements (continued)

Item	Periodicals	Disclosure date	Website
Announcement of the "Baosteel CWBI" Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 June 2010	http://www.sse.com.cn
Special Notice of the "Baosteel CWBI" Equity Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	1 July 2010	http://www.sse.com.cn
Special Notice of the "Baosteel CWBI" Equity Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	2 July 2010	http://www.sse.com.cn
Announcement of the Resolutions of the sixth meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	5 July 2010	http://www.sse.com.cn
Notice of the Results of "Baosteel CWBI" Equity Warrant Exercise by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	5 July 2010	http://www.sse.com.cn
Notice of the Defect of "Baosteel CWBI" by Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	6 July 2010	http://www.sse.com.cn
Notice of Change in the Volume of Share of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	6 July 2010	http://www.sse.com.cn
Announcement of the Resolutions of the sixth meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	8 July 2010	http://www.sse.com.cn
Notice of Signing the Agreement of Special Account and Supervision for Funds Raised of the Company	China Securities News, Shanghai Securities News and Securities Times	17 July 2010	http://www.sse.com.cn
Announcement of the Resolutions of the seventh meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	20 July 2010	http://www.sse.com.cn
Announcement of the Resolutions of the seventh meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	4 August 2010	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Half of 2010	China Securities News, Shanghai Securities News and Securities Times	25 August 2010	http://www.sse.com.cn
Announcement of the Resolutions of the eighth meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	28 August 2010	http://www.sse.com.cn
Announcement of the Resolutions of the eighth meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	28 August 2010	http://www.sse.com.cn
Abstract of the 2010 Interim Report of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	28 August 2010	http://www.sse.com.cn
Notice of prediction of business performance of the first three quarters of the Company in 2010	China Securities News, Shanghai Securities News and Securities Times	11 October 2010	http://www.sse.com.cn
Notice of Online Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Third Quarter of 2010	China Securities News, Shanghai Securities News and Securities Times	27 October 2010	http://www.sse.com.cn

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Item	Periodicals	Disclosure date	Website
Notice of Adjusting Volume of Related Transactions of the Company in 2010	China Securities News, Shanghai Securities News and Securities Times	30 October 2010	http://www.sse.com.cn
Announcement of the Resolutions of the ninth meeting of the Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 October 2010	http://www.sse.com.cn
Announcement of the Resolutions of the ninth meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 October 2010	http://www.sse.com.cn
Third Quarter Report of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	30 October 2010	http://www.sse.com.cn
Announcement of the Resolutions of the tenth meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	China Securities News, Shanghai Securities News and Securities Times	23 December 2010	http://www.sse.com.cn

12. Other Significant Matters

No significant event occurred in 2010.

13. Significant Matters in Controlled Companies

Approved by the fourth meeting of the Fourth Board of Directors, the Company increased the investment of RMB1.5 billion in Meishan Iron & Steel Co., Ltd., a subsidiary of the Company. The investment was completed in the third quarter of 2010. The shares of the investee increased from 6.26 billion shares to 7.08 billion shares. The Company's shareholding of the investee increased from 74.0% to 77.0%.

X. Financial Statements

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Auditor's Report

Deloitte Touche Tohmatsu

(11) Audit No. P0392

To the shareholders of Baoshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Baoshan Iron & Steel Company Limited (the "Company") as of 31 December 2010, including the consolidated and Company Balance Sheet, Profit Statement, Statement of Changes in Shareholders' Equity, Cash Flow Statement, and Notes to Consolidated and Company Financial Statements for the year ended.

1. Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (i) prepare and ensure the fair presentation of the financial statements in accordance with the *Accounting Standards for Business Enterprise*, and (ii) 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.

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 as of 31 December 2010, 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*

Deloitte Touche Tohmatsu Certified Public Accountants Limited

Certified Public Accountants

Registered in P.R. China

Zhu Xiaolan Zhang Jie

Shanghai P.R. China

March 30, 2011

Consolidated Balance Sheet

For the year ended December 31, 2010

RMB

Item	Note (M)	31 December 2010	31 December 2009
CURRENT ASSETS			
Monetary funds	(M)1	9,200,675,786.05	5,558,276,152.91
Funds lent to other financial institutions	(M)2	-	-
Tracing financial asset	(M)3	297,133,851.72	546,377,068.35
Notes receivable	(M)4	7,879,784,804.93	6,674,251,784.05
Trade receivable	(M)5	6,728,952,000.41	5,566,767,379.15
Payment in advance	(M)6	5,464,166,424.66	4,099,365,175.79
Interests receivable	(M)7	8,097,921.09	5,702,069.26
Dividend receivable	(M)8	19,199,112.85	-
Other receivables	(M)9	1,088,689,487.14	753,857,106.28
Inventories	(M)10	38,027,321,873.88	29,462,171,383.42
Current portion of non-current assets	(M)11	150,367,590.00	-
Total current assets		68,864,383,852.73	52,666,388,041.21
NON-CURRENT ASSETS			
Loans granted and cash advances	(M)12	3,931,800,234.92	4,132,276,993.30
Available-for-sale financial assets	(M)13	1,253,630,345.22	1,056,020,521.34
Long-term equity investment	(M)14/15	4,432,305,394.65	4,207,114,195.86
Investment real estates	(M)16	154,564,391.52	130,535,317.25
Fixed assets	(M)17	117,737,019,179.64	115,465,901,991.79
Construction-in-progress	(M)18	9,762,744,217.47	13,746,832,781.17
Project materials	(M)19	504,102,159.55	689,829,883.01
Intangible assets	(M)20	8,149,310,483.44	7,837,110,155.00
Long-term deferred expenses	(M)21	18,828,446.84	34,538,554.27
Deferred income tax assets	(M)22	1,135,371,070.97	1,054,669,754.72
Other non-current assets	(M)24	121,043,972.78	121,664,327.46
Total non-current assets		147,200,719,857.00	148,476,494,475.17
TOTAL ASSETS		216,065,103,749.73	201,142,782,516.38

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Consolidated Balance Sheet (Continued)
For the year ended December 31, 2010

RMB

Item	Note (M)	31 December 2010	31 December 2009
CURRENT LIABILITIES			
Short-term borrowings	(V)25	23,611,246,423.82	24,274,429,785.95
Financial institution deposits and deposits from or to other financial institutions	(V)26	8,908,340,779.32	7,018,610,678.45
Borrowings from banks and other financial institutions	(V)27	-	34,141,000.00
Transaction liabilities	(V)28	3,480,773.10	6,285,024.95
Notes payable	(V)29	2,221,942,799.91	4,855,355,992.37
Trade payable	(V)30	19,164,134,658.37	18,582,613,440.64
Receipts in advance	(V)31	11,755,800,061.97	11,045,412,392.55
Accrued payroll	(V)32	1,641,234,036.31	1,595,130,158.30
Taxes payable	(V)33	1,122,962,791.89	(946,370,733.37)
Interest payable	(V)34	789,681,337.11	240,456,545.77
Dividends payable	(V)35	14,489,839.41	16,663,769.64
Other payables	(V)36	865,954,967.77	1,016,238,301.24
Current portion of non-current liabilities	(V)37	3,536,710,083.31	2,982,960,014.44
Total current liabilities		73,759,978,557.29	70,721,946,400.93
NON-CURRENT LIABILITIES			
Long-term borrowings	(V)38	8,586,976,200.00	5,294,932,134.33
Bonds payable	(V)39	18,474,795,281.20	18,067,156,259.62
Long-term payables	(V)40	2,542,058,246.12	5,092,440,941.36
Special payables	(V)40	458,086,945.11	110,914,331.45
Deferred income tax liabilities	(V)22	396,226,414.46	265,472,181.46
Other non-current liabilities	(V)42	1,068,496,627.56	370,519,491.07
Total non-current liabilities		31,546,629,711.45	29,201,535,339.29
Total liabilities		104,722,608,263.74	99,923,481,740.22
SHAREHOLDERS' EQUITY			
Capital stock	(V)43	17,512,048,088.00	17,512,000,000.00
Capital reserve	(V)44	37,565,832,959.01	37,314,308,498.73
Special reserve	(V)45	15,291,362.80	8,314,857.96
Surplus reserve	(V)46	20,124,401,541.84	17,827,770,213.00
Undistributed profits	(V)47	29,674,047,101.69	22,583,995,111.41
Foreign currency translation difference		(145,142,801.00)	(109,491,178.96)
Equity attributable to the parent company		104,746,478,257.34	95,136,897,502.14
Minority interest		6,596,017,233.65	6,082,403,274.02
Total shareholders' equity		111,342,495,485.99	101,219,300,776.16
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY		216,065,103,749.73	201,142,782,516.38

The accompanying notes constitute an integral part of the Financial Statements.

The financial statements on pages 58 to 153 were signed by

Statutory representative:

Financial controller:

Chief accountant:

Balance Sheet of the Company

For the year ended December 31, 2010

RMB

Item	Note (X)	31 December 2010	31 December 2009
CURRENT ASSETS			
Monetary funds		4,076,704,419.19	1,767,579,044.85
Trading financial assets		11,507,631.72	-
Notes receivable		14,497,570,736.70	15,028,797,350.34
Trade receivables	(XI)1	5,556,627,318.54	5,730,373,097.21
Payment in advance		2,249,650,160.36	1,929,570,050.69
Other receivables	(XI)2	365,050,015.71	238,860,829.07
Inventories		26,457,744,311.20	19,171,004,173.36
Total current assets		53,214,854,593.62	43,866,184,545.52
NON-CURRENT ASSETS			
Long-term equity investment	(X)4	27,461,185,750.91	25,526,158,150.03
Fixed assets		92,026,337,436.76	90,420,193,517.81
Construction in progress		4,643,096,512.30	11,032,272,912.66
Project materials		31,718,186.69	11,097,125.42
Intangible assets		3,992,993,164.00	3,638,558,491.23
Long-term deferred expenses		1,879,453.51	17,085,879.05
Deferred income tax assets		340,675,578.58	316,582,323.96
Other non-current assets		117,905,780.14	117,905,780.14
Total non-current assets		128,615,793,862.89	131,079,834,180.30
TOTAL ASSETS		181,830,648,456.51	174,946,018,725.82

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Balance Sheet of the Company (Continued)
For the year ended December 31, 2010

RMB

Item	Note	31 December 2010	31 December 2009
CURRENT LIABILITY			
Short term borrowings		19,050,862,514.68	20,890,937,335.18
Transaction liabilities		486,088.86	-
Notes payable		201,738,214.18	3,448,640,293.44
Trade payable		15,103,083,147.38	14,053,098,945.89
Receipts in advance		9,809,436,917.48	9,063,340,455.13
Accrued payroll		1,157,157,085.74	1,130,478,960.54
Taxes payable		1,296,576,206.93	(725,350,433.07)
Interests payable		253,018,094.29	203,156,969.24
Other payables		248,782,676.46	316,477,072.22
Current portion of non-current liabilities		3,482,403,943.31	2,925,170,774.44
Other current liabilities		2,442,304,859.09	4,632,746,770.71
Total current liabilities		53,045,649,748.40	55,938,156,687.72
NON-CURRENT LIABILITIES			
Long-term borrowings		7,861,144,900.00	5,109,205,094.33
Bonds payable		16,474,795,283.20	18,067,156,259.62
Long-term payables		7,542,058,246.12	5,092,440,941.36
Special payables		284,006,945.11	104,914,331.45
Deferred income tax liabilities		215,130,870.18	113,926,874.31
Other non-current liabilities		810,339,456.56	92,685,803.47
Total non-current liabilities		30,187,475,701.17	28,580,379,404.54
Total liabilities		83,233,125,449.57	84,518,525,992.26
SHAREHOLDERS' EQUITY			
Capital stock		17,512,048,088.00	17,512,000,000.00
Capital reserve		36,970,366,712.93	36,781,341,171.72
Surplus reserve		20,124,401,541.84	17,827,770,213.00
Undistributed profits		23,950,506,664.17	18,306,381,348.84
Total shareholders' equity		98,557,323,006.94	90,427,492,733.56
TOTAL OF LIABILITIES & SHAREHOLDERS' EQUITY		181,830,648,456.51	174,946,018,725.82

Consolidated Profit Statement

For the year ended December 31, 2010

RMB

Item	Note (V)	2010	2009
I. TOTAL OPERATING REVENUE		202,413,451,160.48	148,525,268,995.44
Including: Business income	(V)48	202,149,152,364.77	148,326,363,909.94
Interest income		260,099,385.43	196,906,237.65
Income from service fees and commissions		4,199,410.28	1,998,851.85
II. TOTAL OPERATING EXPENSE		186,586,431,218.13	142,117,550,906.22
Including: Business cost	(V)48	177,816,743,212.39	134,332,458,305.02
Interest expense		161,154,164.87	123,591,211.26
Expenses on service fees and commissions		228,023.90	211,991.59
Sales tax and surcharge	(V)49	525,055,202.74	569,634,292.13
Sales expense		1,784,620,103.36	1,458,740,948.42
Administrative expense		5,304,370,387.55	4,592,115,090.69
Financial expense	(V)50	806,574,502.66	1,675,503,461.87
Loss on the asset impairment	(V)51	187,685,600.66	(635,104,394.76)
Add: Net (loss)/gain from change in fair value	(V)52	12,063,575.63	(107,403,713.41)
Investment gains	(V)53	826,681,541.14	953,451,861.75
Including: Gains from investments in joint ventures and associated entities		444,906,040.66	264,376,702.98
III. TOTAL OPERATING PROFIT		16,665,765,059.12	7,253,766,241.56
Add: Non-operating revenue	(V)54	589,839,584.17	495,599,260.18
Less: Non-operating expense	(V)55	179,372,012.82	454,810,105.87
Including: Loss from disposal of non-current assets		133,386,264.64	381,438,717.93
IV. PRE-TAX PROFIT		17,076,233,030.47	7,294,555,395.87
Less: income tax expense	(V)56	3,715,345,425.92	1,199,353,677.79
V. NET PROFIT		13,360,887,604.55	6,095,201,718.08
Net profit attributable to the parent company		12,889,083,319.12	5,816,227,393.10
Profit and loss attributable to minority shareholders		471,804,285.43	278,974,324.98
VI. EARNINGS PER SHARE			
Basic EPS	(V)57	0.74	0.33
VII. OTHER CONSOLIDATED INCOME	(V)58	(14,870,783.07)	316,070,757.00
VIII. TOTAL CONSOLIDATED INCOME		3,346,016,821.48	6,411,272,475.08
Consolidated income attributable to parent company		12,889,123,800.22	6,106,329,419.80
Consolidated income attributable to minority shareholders		456,893,021.26	304,943,055.28

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Profit Statement of the Company
For the year ended December 31, 2010

RMB

Item	Note (Xl)	2010	2009
I. TOTAL OPERATING REVENUE	(Xl)5	161,014,710,626.65	116,288,373,505.74
Less Business cost	(Xl)5	143,237,546,345.70	105,771,765,958.70
Sales tax and surcharge		332,043,102.50	355,941,557.66
Sales expense		760,995,231.29	651,433,727.96
Administrative expense		3,398,992,832.68	2,749,218,242.00
Financial expense		532,625,495.52	1,663,038,338.34
Loss on the asset impairment		123,354,017.34	495,685,046.06
Add Net (loss)/gain from change in fair value		11,021,542.86	(114,598,750.74)
Investment gains	(Xl)6	1,511,188,156.09	1,299,401,708.34
Including Gains from investments in joint ventures and associated entities		435,830,274.42	243,552,265.14
II. TOTAL OPERATING PROFIT		14,151,363,300.57	5,786,093,592.62
Add Non-operating revenue		388,297,809.66	240,242,894.30
Less Non operating expense		103,132,247.42	138,499,236.42
Including Net loss from disposal of non-current assets		90,850,154.56	98,930,274.40
III. PRE-TAX PROFIT		14,436,528,862.81	5,887,837,250.50
Less income tax expense		2,953,372,218.64	810,965,822.34
IV. NET PROFIT		11,483,156,644.17	5,076,871,428.16
V. OTHER CONSOLIDATED INCOME		(14,564,915.25)	(381,164.80)
VI. TOTAL CONSOLIDATED INCOME		11,468,591,728.92	5,076,490,263.36

Consolidated Cash Flow Statement

For the year ended December 31, 2010

RMB

Item	Note (V)	2010	2009
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		231,965,535,494.77	170,302,100,610.65
Net increase in deposits from customers and from or to financial institutions		1,889,745,061.66	-
Net decrease in customer loans and cash advances		216,375,495.24	-
Net decrease in deposit reserves in central bank and deposits from or to other financial institutions		-	451,627,613.72
Cash received from interests, service fees, and commissions		260,254,682.91	207,962,478.38
Net increase in borrowing from banks and other financial institutions		-	34,141,000.00
Tax refunds received		120,096,182.75	137,413,351.21
Cash received relating to other operating activities	(V)59.1	2,068,141,410.04	782,365,538.60
Sub-total of cash inflows		236,520,148,127.37	171,915,610,592.56
Cash paid for goods purchased and labor services received		198,696,473,425.56	126,354,894,461.12
Net increase in customer loans and cash advances		-	2,242,453,900.62
Net increase from deposit in central bank and deposits from or to other financial institutions		478,563,937.89	-
Net decrease in deposits from customers and from or to financial institutions		-	2,238,229,508.34
Cash paid for interests, service fees, and commissions		158,641,748.63	124,203,202.85
Net decrease in financial assets sold for repurchase		-	294,000,000.00
Net decrease in borrowing from banks and other financial institutions		33,113,500.00	-
Cash paid to employees and for employees		8,025,470,106.38	7,543,949,345.19
Payment of taxes		7,277,031,657.28	6,213,718,753.80
Cash payments relating to other operating activities	(V)59.2	2,995,327,587.78	2,911,039,439.53
Sub-total of cash outflows		217,664,621,963.52	147,922,488,611.45
Net cash flows from operating activities		18,855,526,363.85	23,993,121,981.11
II. CASH FLOWS ARISING FROM INVESTING ACTIVITIES			
Cash received from returns on investments		5,894,245,599.30	717,384,148.29
Cash received from returns on investments		586,383,359.92	219,309,051.24
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		123,576,548.77	17,311,292.38
Cash received relating to other investing activities	(V)59.3	50,545,045.75	33,729,231.67
Sub-total of cash inflows		6,654,752,553.74	987,733,723.58
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		13,246,396,042.33	8,236,437,204.60
Cash paid for investments		5,977,056,402.29	243,768,735.93
Cash payments relating to other investing activities	(V)59.4	41,713,292.10	-
Sub-total of cash outflows		19,265,165,736.52	18,480,205,940.53
Net cash flows from investing activities		(12,610,413,182.78)	(17,492,472,216.95)

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Consolidated Cash Flow Statement

For the year ended December 31, 2010

RMB

Item	Note (V)	2010	2009
III. CASH FLOWS ARISING FROM FINANCING ACTIVITIES			
Cash received by absorbing investments		223,084,738.40	86,044,008.59
Including: Cash received by subsidiaries from minority shareholders' investments		222,517,300.00	86,044,008.59
Cash received from debts		57,442,584,308.40	65,620,220,747.78
Cash received from issuing medium-term notes		-	9,910,000,000.00
Sub-total of cash inflows		57,666,069,046.80	79,616,264,756.37
Cash paid for repayments of debts		53,440,636,678.25	79,411,342,871.16
Cash paid for distribution of dividends or profits or cash payments for interests		4,523,729,900.65	4,478,175,793.75
Including: Dividends subsidiaries paid to minority shareholders		180,707,675.80	172,425,413.85
Cash paid for buying assets		2,868,800,000.00	2,868,833,680.10
Cash paid for long-term assets and acquisition of parts of assets under custody		-	800,000,000.00
Sub-total of cash outflows		60,833,166,578.90	87,558,352,335.05
Net cash flows from financing activities		(3,167,097,532.10)	(7,942,087,578.68)
IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		35,820,868.28	(7,044,278.17)
V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
		3,113,836,517.25	(1,448,482,052.65)
Add: Balance of cash and cash equivalents at beginning of period	(V)60.2	4,824,082,506.98	6,272,564,599.67
VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
	(V)60.2	7,937,919,024.23	4,824,082,506.98



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PUBLIC FILE 89

Cash Flow Statement of the Company

For the year ended December 31, 2010

RMB

Item	Note (X)	2010	2009
I CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		187,695,571,588.37	129,666,772,978.31
Tax refunds received		-	2,822,007.31
Cash received relating to other operating activities		2,229,915,041.10	789,405,368.30
Sub-total of cash inflows		189,925,486,629.47	130,459,000,353.92
Cash paid for goods purchased and labor services received		161,723,112,453.49	102,112,144,153.58
Cash paid to employees and for employees		5,263,502,570.11	5,068,686,279.59
Payment of taxes		4,760,429,635.06	3,808,969,258.14
Cash payments relating to other operating activities		1,274,076,006.61	1,701,831,064.96
Sub-total of cash outflows		173,021,120,665.27	112,691,630,756.27
Net cash flows from operating activities	(X)B	16,904,365,964.20	17,767,369,597.65
II CASH FLOWS ARISING FROM INVESTING ACTIVITIES			
Cash received from returns of investments		15,250,305.25	-
Cash received from returns on investments		1,282,812,571.46	1,061,315,363.70
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		7,108,991.66	17,122,017.52
Cash received relating to other investing activities		48,190,394.72	24,203,758.46
Sub-total of cash inflows		1,353,362,263.09	1,102,641,149.18
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		7,381,255,667.45	12,786,383,155.89
Cash paid for investments		1,683,589,800.00	1,390,000,000.00
Cash payments relating to other investing activities		37,627,131.50	-
Sub-total of cash outflows		9,102,472,593.95	14,176,383,155.89
Net cash flows from investing activities		(7,749,110,330.86)	(13,073,742,006.71)
III CASH FLOWS ARISING FROM FINANCING ACTIVITIES			
Cash received by absorbing investments		567,438.40	-
Cash received by borrowings		49,675,743,142.33	69,260,679,212.30
Cash received from issuing medium-term notes		-	9,910,000,000.00
Cash received from other financing activities		-	3,213,369,746.74
Sub-total of cash inflows		49,676,310,580.73	82,384,048,459.04
Cash paid for repayments of debts		47,381,526,427.77	80,623,490,734.88
Cash paid for distribution of dividends or profits or cash payments for interests		4,259,090,883.80	4,192,983,885.53
Cash paid for buying assets		2,868,800,000.00	2,868,833,680.10
Cash paid for long-term assets and acquisition of parts of assets under custody		-	800,000,000.00
Cash payments relating to other financing activities		2,059,586,149.29	-
Sub-total of cash outflows		56,569,003,460.86	88,485,305,300.51
Net cash flows from financing activities		(6,892,692,880.13)	(6,101,256,841.47)
IV EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		46,562,621.13	(7,479,047.48)
V NET DECREASE IN CASH AND CASH EQUIVALENTS		2,309,125,374.34	(1,415,111,298.01)
Add: Balance of cash and cash equivalents at beginning of period		1,767,579,044.85	3,182,690,342.86
VI BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		4,076,704,419.19	1,767,579,044.85

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2010

Item	2010				
	Shareholder's interests attributable to parent company				
	Capital stock	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve
I Opening balance in the period	17,512,000,000.00	37,314,308,498.73	-	8,314,857.96	17,827,770,213.00
II Amount of increase or decrease in the year	48,088.00	251,524,460.28	-	6,976,504.94	2,296,631,328.84
(1) Net profit	-	-	-	-	-
(2) Other comprehensive income	-	35,697,103.14	-	-	-
Total consolidated income	-	35,697,103.14	-	-	-
(3) Capital paid in and reduced by shareholders	48,088.00	215,832,357.14	-	-	-
1 Capital paid in and reduced by owners	48,088.00	519,350.40	-	-	-
2 Capital paid in by minorities in subsidiaries	-	10,246,494.74	-	-	-
3 Acquisition of equity from minority shareholders in subsidiaries	-	-	-	-	-
4 Others	-	205,066,512.00	-	-	-
(4) Profit distribution	-	-	-	-	2,296,631,328.84
1 Surplus reserve provision	-	-	-	-	2,296,631,328.84
2 Distribution to shareholders	-	-	-	-	-
3 Dividend paid to minority shareholders	-	-	-	-	-
(5) Special reserve	-	-	-	6,976,504.94	-
1 Provision for the year	-	-	-	27,840,911.13	-
2 Amount used	-	-	-	(20,864,406.29)	-
III Closing balance of the year	17,512,048,088.00	37,565,832,959.01	-	15,291,362.80	20,124,401,541.84

Item	2009				
	Shareholder's interests attributable to parent company				
	Capital stock	Capital reserve	Less: Treasury stock	Special reserve	Surplus reserve
I Closing balance of last year	17,512,000,000.00	36,806,692,595.98	-	-	16,812,395,927.36
II Amount of increase or decrease in the year	-	507,615,902.75	-	8,314,857.96	1,015,374,285.64
(1) Net profit	-	-	-	-	-
(2) Other comprehensive income	-	290,072,425.11	-	-	-
Total consolidated income	-	290,072,425.11	-	-	-
(3) Capital paid in and reduced by shareholders	-	217,543,477.64	-	-	-
1 Capital paid in by minorities in subsidiaries	-	-	-	-	-
2 Acquisition of equity from minority shareholders in subsidiaries	-	(552,650.54)	-	-	-
3 Others	-	218,196,128.18	-	-	-
(4) Profit distribution	-	-	-	-	1,015,374,285.64
1 Surplus reserve provision	-	-	-	-	1,015,374,285.64
2 Distribution to shareholders	-	-	-	-	-
3 Dividend paid to minority shareholders	-	-	-	-	-
(5) Special reserve	-	-	-	8,314,857.96	-
1 Provision for the year	-	-	-	22,585,557.67	-
2 Amount used	-	-	-	(14,270,699.66)	-
IV Closing balance of the year	17,512,000,000.00	37,314,308,498.73	-	8,314,857.96	17,827,770,213.00

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RMB

2010

Shareholder's interests attributable to parent company				Minority interests	Total of shareholder's interests
General preparation for risks	Undistributed profits	Foreign currency translation difference	Sub-total		
-	22,583,995,111.41	(109,491,178.96)	95,136,897,502.14	6,082,403,274.02	101,219,300,776.16
-	7,090,051,990.28	(35,651,622.04)	9,609,580,750.20	5,361,395,963	10,123,194,709.83
-	12,889,033,319.12	-	12,889,083,319.12	471,804,285.43	13,360,887,604.55
-	-	(35,651,622.04)	40,481.10	(14,911,264.7)	(14,870,783.07)
-	12,889,083,319.12	(35,651,622.04)	12,889,123,500.22	456,893,021.26	13,346,016,621.48
-	-	-	2,588,044,514	186,280,927.53	402,161,372.67
-	-	-	567,438.40	-	567,438.40
-	-	-	13,216,494.74	212,270,805.26	222,517,300.00
-	-	-	-	(24,269,956.27)	(24,269,956.27)
-	-	-	705,066,512.00	(1,119,921.46)	203,346,590.54
-	(5,799,031,328.84)	-	(3,502,400,000.00)	(129,559,989.16)	(3,631,959,989.16)
-	(2,296,631,326.84)	-	-	-	-
-	(3,502,400,000.00)	-	(3,502,400,000.00)	-	(3,502,400,000.00)
-	-	-	-	(129,559,989.16)	(129,559,989.16)
-	-	-	6,976,504.64	-	6,976,504.64
-	-	-	27,840,911.13	-	27,840,911.13
-	-	-	(20,864,406.29)	-	(20,864,406.29)
-	29,674,047,101.69	(145,142,801.00)	104,746,478,252.34	6,596,017,233.65	111,342,495,485.99

2009

Shareholder's interests attributable to parent company				Minority interests	Total of shareholder's interest
General preparation for risks	Undistributed profits	Foreign currency translation difference	Sub-total		
-	20,935,302,003.95	(109,520,780.55)	91,956,869,746.74	5,880,817,631.28	97,837,687,378.02
-	1,648,693,107.46	29,601.59	3,180,017,755.40	201,595,642.74	3,381,613,398.14
-	5,816,227,393.10	-	5,816,227,393.10	278,974,324.98	6,095,201,718.08
-	-	29,601.59	29,010,026.70	25,968,730.30	316,070,757.00
-	5,816,227,393.10	29,601.59	6,106,329,419.80	304,943,055.48	6,411,272,475.08
-	-	-	217,543,477.64	65,800,098.33	283,343,575.97
-	-	-	-	86,044,006.59	86,044,006.59
-	-	-	(652,650.54)	(20,277,840.83)	(20,930,491.37)
-	-	-	218,361,128.16	33,930.57	218,395,058.73
-	(4,167,534,285.64)	-	(3,152,160,000.00)	(169,575,087)	(3,321,317,510.87)
-	(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)
-	-	-	83,485.76	-	83,485.76
-	-	-	22,585,557.62	-	22,585,557.62
-	-	-	(14,270,699.66)	-	(14,270,699.66)
-	22,583,955,111.41	(109,491,178.96)	95,136,897,502.14	6,082,403,274.02	101,219,300,776.16

Statement of Changes in Shareholders' Equity of the Company

For the year ended December 31, 2010

Item	2010			
	Capital stock	Capital reserve	Less: Treasury stock	Special reserve
I. Opening balance in the period	17,512,000,000.00	36,781,341,171.72	-	-
II. Amount of increase or decrease in the year	48,088.00	185,025,541.21	-	-
(1) Net profit	-	-	-	-
(2) Other consolidated income	-	(14,564,915.25)	-	-
Total consolidated income	-	(14,564,915.25)	-	-
(3) Capital paid in and reduced by shareholders	48,088.00	203,590,456.46	-	-
1. Capital paid in and reduced by owners	48,088.00	519,350.40	-	-
2. Others	-	203,071,106.06	-	-
(4) Profit distribution	-	-	-	-
1. Surplus reserve provision	-	-	-	-
2. Distribution to shareholders	-	-	-	-
III. Closing balance of the year	17,512,048,088.00	36,970,366,712.93	-	-

Item	2009			
	Capital stock	Capital reserve	Less: Treasury stock	Special reserve
I. Opening balance in the period	17,512,000,000.00	36,581,312,956.65	-	-
II. Amount of increase or decrease in the year	-	200,026,175.07	-	-
(1) Net profit	-	-	-	-
(2) Other consolidated income	-	(381,164.80)	-	-
Total consolidated income	-	(381,164.80)	-	-
(3) Capital paid in and reduced by shareholders	-	200,409,339.87	-	-
1. Others	-	200,409,339.87	-	-
(4) Profit distribution	-	-	-	-
1. Surplus reserve provision	-	-	-	-
2. Distribution to shareholders	-	-	-	-
III. Closing balance of the year	17,512,000,000.00	36,781,341,171.72	-	-

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2010

Surplus reserve	General preparation for risks	Undistributed profits	Total of Shareholder's interests
17,827,770,213.00	-	18,306,381,348.84	90,427,492,733.56
2,296,631,328.84	-	5,684,125,315.33	8,169,830,273.38
-	-	11,483,156,644.17	11,483,156,644.17
-	-	-	(14,564,915.25)
-	-	11,483,156,644.17	11,468,591,728.92
-	-	-	203,638,544.46
-	-	-	567,438.40
-	-	-	203,071,106.06
2,296,631,328.84	-	(5,799,031,328.84)	(3,502,400,000.00)
2,296,631,328.84	-	(2,296,631,328.84)	-
-	-	(3,502,400,000.00)	(3,502,400,000.00)
20,124,401,541.84	-	23,990,506,664.17	98,597,323,006.94

2009

Surplus reserve	General preparation for risks	Undistributed profits	Total of Shareholder's interests
16,812,395,927.36	-	17,397,044,206.32	86,302,753,130.33
1,015,374,285.64	-	909,337,142.52	2,124,739,603.23
-	-	5,076,871,428.16	5,076,871,428.16
-	-	-	(381,164.80)
-	-	5,076,871,428.16	5,076,490,263.36
-	-	-	200,409,339.87
-	-	-	200,409,339.87
1,015,374,285.64	-	(4,167,534,285.64)	(3,152,160,000.00)
1,015,374,285.64	-	(1,015,374,285.64)	-
-	-	(3,152,160,000.00)	(3,152,160,000.00)
17,827,770,213.00	-	18,306,381,348.84	90,427,492,733.56

Notes to the Financial Statements

For the Year Ended 31 December 2010

(I) 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 Baosteel Group Corporation, Ltd (formerly Shanghai Baosteel Group Corporation, hereinafter as "Baosteel Group") as the sole originator, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company took over the related business, relevant assets and liabilities from the Baosteel Group at its foundation. In the meantime, it issued to Baosteel 10,635,000,000 ordinary shares (A shares) with a par value of one RMB each.

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 RMB4.18, 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 RMB1 each and an offer price of RMB5.12 per share, including three billion state-owned shares to Baosteel Group and two billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and online and off-line bidding inquiry.

Approved by the CSRC (No. 739 document in 2008), the Company issued RMB10 billion of convertible bonds featuring the separation between stock rights and bonds on 20 June, 2008. This time, the original circulating shareholders with unlimited sale (of shares) conditions were given the priority of 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 RMB100 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 RMB12.50 per stock. The stock warrant and bond were listed and traded on Shanghai Stock Exchange on 4 July 2008. The exercise price was adjusted to RMB11.80 on 24 May 2010 due to the dividend distribution. The exercise duration was the trading days from 28 June to 3 July 2010. As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CWB1" was ended with 113,785 equity warrants exercised, and an increase of 48,088 shares of the Company.

At present, Baosteel Group holds 12,953,517,441 shares of the total 17,512,048,088.00 non-restricted RMB ordinary stocks, making its shareholding reaching 73.97%.

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's parent company is Baosteel Group, a state-owned enterprise supervised by State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The Company and its subsidiaries are referred to as the Group hereinafter.

(II) Principal Accounting Policies and Accounting Estimates of the Company

1 Basis for the presentation of financial statements

The financial statements were prepared in accordance with the newly revised *Accounting Standards for Business Enterprises* (February 15, 2006) published by the PRC Ministry of Finance. The Group also disclosed related financial information in accordance with the *Compilation Rules for Information Disclosures by Companies That Offer Securities to the Public No. 15 - General Provisions for Financial Reports*.

Bookkeeping Basis and Pricing Principle

The Group adopts the accrual system as the base of bookkeeping. The financial statements have been prepared on the basis of historical cost method, with the exception of certain financial instruments measured at fair value. Where assets impairments occur, provision for the impairments are made according to relevant regulations.

2 Declaration on compliance with *Accounting Standards for Business Enterprises*

The financial statements were prepared in accordance with the *Accounting Standards for Business Enterprise* issued on February 15, 2006 by the Ministry of Finance and give a true and complete view of the financial position of the Company and the consolidated financial position as of 31 December 2010, and of the Company's and the consolidated financial performance and cash flows for the year then ended.

3 Accounting period

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

4 Reporting currency

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 combinations

Business combinations are classified into the business combinations under the same control and the business combinations not under the same control.

5.1 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.

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. For the balance between the carrying amount of the net assets obtained by the acquirer and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital is adjusted to offset the balance. If the additional paid-in capital is not sufficient to 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.

5.2 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.

The consolidated costs are the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquire. The expenses for auditing, legal services and evaluating consultation and other related expenses will be recorded into the profits and losses of the current period of the acquirer. For a business combination not under the same control realized by two or more transactions of exchange, the combination costs shall be the summation of the fees paid on the day of purchase, and the fair value of the acquiree's shares held before the date of the purchase. As for the shares held by the acquirer before the date of purchase, their value should be recalculated according fair value at the date of purchase. The difference between the fair value and the book value will be recorded into the profits and losses of the current period of the acquirer. Other comprehensive benefits pertinent to those shares will be recorded into investment gains of the current period.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(III) Principal Accounting Policies and Accounting Estimates of the Company (continued)

The identifiable assets, liabilities and contingent liabilities acquired in the combination shall be measured in light of their fair values at the date of purchase. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation and the balance shall be recorded into the amount of initial measurement on the basis of its cost. When the combination cost is smaller than the fair value of the identifiable net assets acquired, the acquirer shall carry out reexamination of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. If the situation is confirmed, the balance shall be recorded into the profits and losses of the current period.

6 Consolidated financial statements

The scope of the consolidated financial statements is based on control. The term "control" refers to the right to determine the financial and operating policies of an enterprise and obtain benefits from its operating activities of the enterprise.

For the subsidiary disposed by the Group, since its business profits and cash flow before the date of disposal (the date of loss of control) have been included in the Consolidated Profit Statement and the Consolidated Cash Flow Statement, no adjustment shall be made to the beginning and closing balance in the consolidated financial statements.

For the subsidiary resulting from the business combination not under the same control, since its business profits and cash flow since the date of purchase (the date of acquiring the control) have been included in the Consolidated Profit Statement and the Consolidated Cash Flow Statement, no adjustment shall be made to the beginning and closing balance in the consolidated financial statements.

For the subsidiary resulting from the business combination under the same control occurring at any point of the reported period, it is included in the Group's scope of consolidation since the date of beginning to be controlled by the ultimate controller, and its business profits and cash flow since the beginning of the earliest period of the report period have been appropriately included in the Consolidated Profit Statement and the Consolidated Cash Flow Statement.

The major accounting policy and accounting period of the subsidiaries shall be adjusted in accordance with the Company's policies.

All major accounts and transactions between the Company and the subsidiaries and those between two subsidiaries shall be written off at the time of combination.

The owners' equity of the subsidiary that does not belong to the parent company shall be regarded as the minority shareholders' equity, whose liabilities and net loss of the the current period shall be listed under the column of "Minority Interest" and "Profit and loss attributable to minority shareholders" separately.

When the loss of the subsidiary shared by minority shareholders surpasses the portion of their initial equity, the balance shall be offset by the minority equity.

The transaction to buy the minority equity of or to dispose part of the equity investment in a subsidiary without losing the control in it shall be accounted as equity transaction. The book value of the ownership interests attributable to the parent company and the minority shareholders have been adjusted to reflect the change in their ownership interests to the subsidiary. The difference between the amount by which the minority interest is adjusted and the fair value of the consideration received or paid in the transaction shall offset against the capital reserve. If the capital reserve is insufficient to offset the difference, the retained earnings shall be adjusted.

If the parent company ceases to have control over a subsidiary as a result of disposing part of the equity investment in it or other reasons, the parent company should measure the remaining equity with the fair value at the date of losing the control. The sum of the consideration received from disposal of the equity and the fair value of the remaining equity shall deduct the proportion of net assets of the former subsidiary calculated according to the former shareholding percentage on an on-going basis since the date of purchase, and the difference shall be included in the investment gains of the period during which the control is lost. Any other comprehensive gains related to the equity investment in the former subsidiary shall be recorded into the investment gains of the period during which the control is lost.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(1.) Principles Accounting Policies and Accounting Estimates of the Company (continued)

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.

8. Foreign currency transaction and foreign currency translation

8.1 Foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency is 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 is recorded into the profits and losses at the current period except for:

- (a) The balance of exchange arising from specific-purpose borrowings in foreign currencies that is eligible for capitalization, which is capitalized during the capitalization period and included in the cost of related assets;
- (b) The balance of exchange arising from hedging instruments for foreign currency risk, which is treated under hedge accounting;
- (c) The balance arising from foreign currency non-monetary available-for-sale items, i.e. stocks, and changes in book value of available-for-sale monetary items other than its unamortized cost, which is treated as other comprehensive income in capital reserve.

Foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the date of transaction; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value is determined. Differences between the translated amount and the original amount of functional currency are accounted for as changes in fair value (including changes in foreign exchange rates) and included in profit or loss for the period or capital reserve of shareholders' equity.

8.2 Foreign currency translation

In compiling the financial statements, when there is a net investment in an overseas operation, the balance arising from exchange rate fluctuation should be recorded into the "foreign currency translation difference" in the shareholders' interests. When disposing an overseas business, the exchange differences shall be recorded into the profits and losses of 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 volume of the undistributed profit at year beginning is the volume of undistributed profit from the previous year after translation, and the volume of the undistributed profit at year end shall be translated. The balance arisen from these translations of foreign currency are presented separately under the owner's equity item of the balance sheets.

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 under the title of "Effect of foreign exchange rate changes on cash and cash equivalents".

Beginning balance and actual figure of the previous year are presented as they were translated in financial statements of the previous year.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(III) Principal Accounting Policies and Accounting Estimates of the Company (continued)

9. Financial instruments

When the Group becomes a party to a financial instrument, it recognizes a financial asset or financial liability. Financial assets and liabilities are initially recognized at the fair value. For the financial assets and liabilities calculated at fair value and recorded into the profits or losses of the current period, the related transaction expenses are directly recorded into the profits or losses of the current period. For other financial assets and liabilities, related transaction expenses are recorded into their initial recognition.

9.1 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial instrument by the Group. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency etc. and represent prices of actual market transactions on an arm's length basis. If no active market exists for a financial instrument, the Group establishes fair value by using a valuation technique, which includes using recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

9.2 Actual interest rate method

Actual interest rate method is the method to calculate the post-amortization costs as well as the interest income and expenses based on the actual interest rate of the financial assets or financial liabilities (including a set of financial assets or financial liabilities). The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

In calculating the actual interest rate, the Group will take into consideration the prediction of future cash flow (the future credit impairment loss is not included) based on an overview of all the rules and contracts concerning financial assets and liabilities, as well as all expenses, discounts, and premium arising from the transaction between related parties of the financial assets or the financial liabilities.

9.3 Classification and measurement of financial assets

Financial assets of the Group are classified into the following four categories when they are initially recognized: the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period; the investments which will be held to their maturity; loans and the account receivables; and financial assets available for sale. Regular transactions of financial assets are recognized and derecognized on a settlement date basis.

9.3.1 Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. All financial assets at FVTPL of the Group are classified as held for trading.

A financial asset is classified as held for trading if: (1) it has been acquired principally for the purpose of selling in the near future; or (2) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured.

The financial assets can be initially recognized as those calculated at fair value and will be recorded into the profits or losses of the period if: (1) Such measure could eliminate or greatly reduce the variance in calculating profits or losses on different basis; (2) It is stated in the Group's documents about risk management and investment policy that these financial assets or liabilities should be managed and reported on the basis of fair value.

Financial assets at held for trading are subsequently measured at fair value, with gains or losses arising from changes in fair value as well as dividends and interest income related to such financial assets recognised in profit or loss for the current period.

9.3.2 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 repayment is fixed or determinable. The accounts receivable, dividends receivable and other receivable as well as loans and money advanced are included in this category.

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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

9.3.3 AFS financial assets

The "separable financial assets" refers to the non-derivative financial assets which are designated as separable when they are initially recognized as well as the financial assets except 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.

AFS financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss for the current period) are recognized as other comprehensive income and recorded into capital reserve, and are reversed and recognised in profits or losses for the period when such financial assets are derecognised.

The cash dividends or interest income of a separable 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.

9.4 Impairment of financial assets

The Group carries out an inspection, on the balance sheet day, on the carrying amount of the financial assets except 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. 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.

Objective evidence that a financial asset is impaired includes evidence arising from the following events:

- (1) Significant financial difficulty of the issuer or obligor;
 - (2) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
 - (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
 - (5) The disappearance of an active market for that financial asset because of financial difficulties;
 - (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - Adverse changes in the payment status of borrowers in the group;
 - National or local economic conditions that correlate with defaults on the assets in the group;
 - (7) Significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
 - (9) Other objective evidence manifesting the impairment of a financial asset.
- Financial assets measured on the basis of post-amortization costs

If financial assets carried at amortised cost are impaired, the carrying amount of the financial asset shall be reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction shall be recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on a financial asset carried at amortised cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

An impairment test is made on the financial assets with significant single amounts. 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.

- 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 sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(11) Principal Accounting Policies and Accounting Estimates of the Company (continued)

If, after the recognition of impairment losses, the carrying amount of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed. The reversal of impairment losses of AFS equity instruments is recognised in equity and the impairment losses of AFS debt instruments are recognised in profits or losses for the current period.

- Financial assets measured on the basis of costs

Where an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, its impairment is dealt with using the following method. The gap between the carrying amount of the financial asset and the current value of the future cash flow of similar financial assets capitalised according to the returns ratio of the market at the same time is recognised 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 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 instruments. Its impairment is dealt with using the same method.

9.5 Transfer of financial assets

Where a financial asset satisfies any of the following requirements, the recognition of it shall be terminated: (1) Where the contractual rights for collecting the cash flow of the said financial asset are terminated; or (2) Where the said financial asset has been transferred and almost all of its risks and rewards have been transferred; or (3) Where the said financial asset has been transferred and the Group has given up the controlling power over the financial asset although the Group has not transferred or retained nearly all of the risks and rewards related to the ownership of 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, and 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. The extent of its continuous involvement in the transferred financial asset refers to the risk level imposed upon the enterprise by this change of financial asset value.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between the following two amounts is recognised in profits or losses for the current period: (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognised directly in equity.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset in its entirety is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts. In this case, the servicing asset retained is treated as a part that continues to be recognised. The difference between the following two amounts is included in profits or losses for the current period: (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and (4) the transfer involves an available-for-sale financial asset) any cumulative gain or loss allocated to it that had been recognised directly in equity.

9.6 Classification, recognition and measurement of financial liabilities

Based on the nature of the instrument, the Group's financial instruments are divided into financial liabilities or equity instrument.

Financial liabilities shall be classified into the following two categories when they are initially recognized: the financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses and other financial liabilities.

9.6.1 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.

The financial liabilities can be initially recognized as those calculated at fair value and will be recorded into the profits or losses of the period if (1) Such measure could eliminate or greatly reduce the variance in calculating profits or losses on different basis; (2) It is stated in the Group's documents about risk management and investment policy that these financial assets or liabilities should be managed and reported on the basis of fair value.

Subsequent measurements on these financial assets are made according to their fair values with gains and losses caused by the change of their fair values and the dividend and interest expenditure related to these financial liabilities recorded into the profits and losses of the current period.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

9.6.2 Other financial liabilities

For the derivative financial liabilities 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 liabilities are made according to their costs. Other financial liabilities are measured on the basis of the post-amortization costs by adopting the actual interest rate method.

9.7 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, the Group recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss for the period.

9.8 Derivative financial instruments & embedded derivative financial instruments

Derivative financial instruments used by the Group, mainly including forward contracts and interest rate exchange contracts, 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. 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.

For a mixed instrument containing an embedded derivative financial instrument, the embedded derivative financial instrument can be separated and recognized as an independent derivative financial instrument if it is not recognized as a financial asset or financial liability measured at fair values with its variation recorded into the profits and losses of the current period, and the embedded derivative financial instrument is not closely related with the major contract concerned as regards economic features and risks, and the embedded derivative financial instrument falls into the definition of a derivative financial instrument. When it is impossible to measure the embedded derivative financial instrument separately, this mixed instrument should be recognized as a financial asset or a financial liability measured at fair values with its variation recorded into the profits and losses of the current period.

9.9 Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability is offset and the net amount presented in the balance sheet when both of the following conditions are satisfied: (1) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (2) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

9.10 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, is added to owners' equity.

All types of distributions made by the Group to holders of equity instruments (excluding stock dividends) are deducted from owners' equity. The Group does not recognize changes in the fair value of equity instruments.

9.11 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 cancelled, converted or redeemed. The equity component is recognized and is not subsequently measured.

For the convertible bonds issued by the Group, if a stock warrant holder has not exercised warrant during the exercise period, the related amount originally recorded in capital reserve (other capital reserve) shall be transferred into capital reserve (capital premium). If a stock warrant holder has exercised warrant during the exercise period, the due amount measured at equity will be transferred from the capital reserve (other capital reserve) into capital reserve (capital premium), total face value of the stock measured at the face value and the transferred number of shares will be recorded into stock capital, while the balance between the total of financing by equity on one hand and the stock capital on the other hand will be recorded into capital reserve (capital premium).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

10. Accounts receivable

10.1 Recognition and measurement of individually significant receivables

Criteria for individually significant receivables	The Group recognises receivables of the top five customers as individually significant receivables.
Recognition and measurement of bad provision of individually insignificant receivables	The Group performs accounts receivable provision test separately for individually significant receivables. The financial assets tested to be without impairment will be tested together with other financial combination based on the similarity of credit risk characteristics. Those tested to be with impairment will not be retested in the financial combination.

10.2 Accounts receivable recognizing provision for bad debts classified into groups

Recognition by similar credit risk characteristics	For those individually insignificant receivables and the individually significant receivables that have been tested individually but not impaired, the Group classified them in line with similar credit risk characteristics into groups. The said credit risks generally reflect the debtors' capacity in returning the due debts, and have a bearing on the estimation of future cash flows of these tested assets.
Measurement of the amount of bad debt provision	When exercising the testing by group, the amount of bad debt provision is measured by estimation based on the credit risk characteristics, historical records, and the current economic situation.

10.3 Individually insignificant receivables but recognizing bad provision individually

Reason for provision for an individual receivable	Receivables with long ages
Measurement of the amount of provision	Percentage of total accounts receivable outstanding

11. Inventories

11.1 Classification of 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.

11.2 Cost of inventories

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

11.3 Recognition of the net realisable value and measurement of provision for decline in value of 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. The provision for the loss on decline in value of inventories is made on the basis of the balance between the cost of the single item of inventories and the net realizable value.

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 evaluation of the net realizable value shall be made on the basis of concrete evidence and considerations shall be given to the purpose of holding the inventories and the influence of the financial liability statement on other matters in the future.

11.4 Inventory system

The perpetual inventory system is adopted for inventories.

11.5 Write-off of low cost and short-lived consumable items and packaging materials

The Company amortizes the carrying amount of low cost and short-lived consumable items and packaging materials and supplies through the one-off write-off method.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(III) Principal Accounting Policies and Accounting Estimates of the Company (continued)

12. Long-term equity investments

12.1 Recognition of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment is the absorbing party's share of the carrying amount of the shareholders' equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired is the cost of acquisition. The long-term equity investment acquired through means other than a business combination is initially measured at its cost.

12.2 Subsequent measurement and recognition of profit and loss

12.2.1 A long-term equity investment accounted for using the cost method

The price of a long-term equity investment is measured by employing the cost method, when the Group 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. The cost method is also used for calculating the long-term equity investment on the subsidiary companies, i.e., the vestees which are under the control of the Group.

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.

12.2.2 A long-term equity investment accounted for using the equity method

Where the Group can exercise joint control or significant influence over the investee, a long-term equity investment is accounted for using the equity method. Where an investing enterprise is able to exercise significant influence over an investee, the investee is its associate. Where an investing enterprise can exercise joint control over the investee, the investee is its jointly controlled enterprise.

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 will not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference is included in the current profits and losses and the cost of the long-term equity investment is adjusted simultaneously.

Under the equity method, investment income or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group recognizes its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. For the unrealized profit or loss between the Group and an associate or joint venture, the part belongs to the Group, calculated with ratio held by the Group, should be offset. Accordingly, the Group recognizes investment income. But if the unrealized loss is related with an impairment of the assets transferred between the Group and the investee, the loss cannot be offset. For any changes in shareholders' equity other than net profits or losses in the investee, the Group adjusts the carrying amount of the long-term equity investment and includes the corresponding adjustment in other comprehensive income of capital reserve.

The Group's share of net losses of the investee is recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed is provided for and charged to the profit or loss as investment loss for the period. Where the investee records profits in subsequent periods, the Group resumes recognizing its share of profits after setting off profits against the unrecognized share of losses.

For a long-term equity investment in an associate or joint venture held prior to first-time adoption date of new accounting standards on January 1, 2007, if an equity investment debit balance associated with the investment exists, the amount amortized on a straight-line basis during the remaining period is recognized in profits or losses for the current period.

12.2.3 Disposal of a long-term equity investment

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.

12.3 Criteria for recognition of joint control or significant influence over an investee

The term "control" refers to the power to make decision on the financial and operating policies of an enterprise, and to benefit from the operating activities of this enterprise. 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 determining whether an investing enterprise is able to exercise

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible is considered.

12.4 Test of impairment of assets and method for provision for the asset impairment

The Company 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. Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, 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.

Once any of the above losses of asset impairment is recognized, it is not reversed in the future accounting periods.

13 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, 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 according to policies in accordance with the right of using the building or land to write off the cost over its useful life.

The Group makes a judgment, on the date of balance sheet, on whether there is any sign of possible assets impairment of its investment real estates. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. The Group estimates, on the basis of a 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. Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, 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.

Once the loss of investment real estate impairment is recognized, it is not reversed in the future accounting periods.

When an investment property is sold, transferred, retired or damaged, the amount of any proceeds on disposal net of the carrying amount and related taxes is recognised in profits or losses for the current period.

14. Fixed asset

14.1 Recognition of fixed assets

Fixed assets refer to the tangible assets held for commodity production, labor service, lease, operation or management and with a use term of over one fiscal year. Fixed assets are recognized only when the economic benefits pertinent to them are likely to flow into the Group and their costs are measured reliably. The initial measurement of a fixed asset shall be made at its cost.

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.

14.2 Depreciation method for fixed assets

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

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

14.3 Test of impairment of fixed assets and method for provision for the asset impairment

The Group makes a judgment, on the day of balance sheet, on whether there is any sign of possible assets impairment of its fixed assets. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. 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. When the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, 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.

Once any of the above losses of asset impairment is recognized, it is not reversed in the future accounting periods.

14.4 Others

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.

When the fixed asset is at the process of disposal or is expected to be unable to generate any business benefit if used or disposed, the fixed asset should be derecognized. When a fixed asset is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profits or losses for the current period.

15 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. Depreciation is not applicable to the construction-in-progress, which is transferred to fixed assets when the asset is ready for its intended use.

The Group makes a judgment, on the day of balance sheet, on whether there is any sign of possible assets impairment of its construction-in-progress. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. 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. When the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, 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.

Once any of the above losses of asset impairment is recognized, it is not reversed in the future accounting periods.

16 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 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.

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 disbursements of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

During the period of capitalization, the balance of exchange of special foreign currency borrowings will be capitalized, while the balance of exchange of other general foreign currency borrowings is recorded into the profits and losses at the current period.

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.

Where the acquisition and construction or production of an asset eligible for capitalization is interrupted abnormally and the interruption period lasts for more than three months, the capitalization of the borrowing costs is suspended till the acquisition and construction or production of the asset restarts.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(II) Principal Accounting Policies and Accounting Estimates of the Company (continued)

17. Intangible assets

17.1 Intangible assets

The intangible assets include land use rights and software copyrights.

The intangible assets are initially measured according to their costs. Intangible assets with a limited service life are amortized by the straight-line method. Intangible assets whose service life are uncertain will not be amortized.

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.

17.2 Expenditures for research and development

The research expenditures for the internal research projects are recorded into the profit or loss for the current period.

The development expenditures of the Group are confirmed as intangible assets when they satisfy the following conditions simultaneously. Otherwise, they are recorded in the losses and gains of the period they occur.

- (1) It is feasible technically to finish intangible assets for use or sale;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) 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;
- (4) 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
- (5) The development expenditures of the intangible assets can be reliably measured.

Where expenditures for its internal research and development projects cannot be simply classified into research expenditures or development expenditures, the expenditures are recorded into the profits and losses at the current period.

17.3 Test of impairment of the intangible assets and method for provision for the asset impairment

The Group makes a judgment, on the day of balance sheet, on whether there is any sign of possible assets impairment of its intangible assets. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. 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. Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, 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.

No matter whether there is any sign of possible assets impairment, the intangible assets with uncertain service lives and intangible assets that are not ready for its intended use are subject to impairment test at the end of each year.

Once any of the above losses of asset impairment is recognized, it is not reversed in the future accounting periods.

18. Long-term deferred expenses

Long-term deferred expenses are various expenditures incurred but that should be allocated over the current and future periods of more than one year. Long-term deferred expenses are amortized from the date they incur over the beneficiary 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.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(III) Principal Accounting Policies and Accounting Estimates of the Company (continued);

19. Revenue

19.1 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.

19.2 Revenue from providing labor services

If the Company 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. The Company 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 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.

If the outcome of a transaction concerning the labor services is not able to be reliably estimated, the revenue is recognized in accordance with the amount of the cost of labor services incurred and is expected to be compensated and the service costs incurred are recognised as expenses for the current period, where the costs incurred are not expected to be recoverable, no service revenue is recognised.

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.

19.3 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.

19.4 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.

20. Government subsidies

Government grants are the transfer of monetary assets or non-monetary assets from the Government to the Group at no consideration excluding capital contribution from the Government as an owner of the Group. Government subsidies are recognised where there is reasonable assurance that the subsidies will be received and all attaching conditions will be complied with. Government subsidies are classified into subsidies pertinent to assets and subsidies pertinent to incomes.

Where a government subsidy is a monetary asset, it is measured in the light of the received or receivable amount.

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. 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.

For the repayment of a government grant already recognized, if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the current period; if there is no related deferred income, the repayment is recognized immediately in profits or losses for the current period.

Government compensation for relocation of enterprises for public interest

When the Group has to relocate because of overall town planning and other public interest, it receives direct payment from the fiscal budget as the relocation compensation payments. The payments should be treated as special payables. The payments related to the compensation for loss of fixed assets and intangible assets occurred during the relocation and reconstruction, the related expenses, loss on work stoppage, as well as compensation for the proposed new construction, should be transferred from the special payables to deferred income in accordance with the nature of the assets and with the relevant government grants and subsidies. The positive balance between the compensation payments and the compensation amount transferred to deferred income should be recognized as capital reserve.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(1) Principal Accounting Policies and Accounting Estimates of the Company (continued)

21 Deferred income tax assets/liabilities

Income taxes comprise income taxes of the current period and deferred income tax of the Group.

21.1 Income tax of the current 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.

21.2 Deferred income tax assets/liabilities

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.

Generally the Group recognises all the temporary difference as deferred tax assets. The corresponding deferred tax asset for deductible temporary differences is recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are not recognised for taxable temporary differences related to (1) the initial recognition of goodwill, and (2) the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction.

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.

An enterprise shall recognise the corresponding deferred tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: (1) the Group is able to control the timing of the reversal of the temporary difference; and (2) it is probable that the temporary difference will not reverse in the foreseeable future. An enterprise shall recognise the corresponding deferred tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures when both of the following conditions are satisfied: (1) it is probable that the temporary difference will reverse in the foreseeable future; (2) it is probable that taxable profits will be available in the future, against which the temporary difference can be utilized. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws.

The income taxes, except for adjusted business reputation 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 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 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 Group intends either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets and liabilities are offset when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on:

(1) The same taxable entity; or

(2) Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(1) Principal Accounting Policies and Accounting Estimates of the Company (continued)

22 Operating lease

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".

22.1 Leases in operating leases

The rents from operating leases are recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial costs are recorded into the current period of profits and losses. Contingent rents are recognized as an expense in the period in which they are actually incurred.

22.2 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. Significant initial direct cost are capitalised when incurred and charged to profit or loss for the responding period according to the same basis for rental income recognition. Other insignificant initial direct costs are charged to profits and losses of the current period in which they are incurred. Contingent rents are credited to profits and losses in the period in which they actually arise.

23 Employee compensation

During the accounting period of an employee providing services to an enterprise, the Group recognizes the compensation payable as liabilities, except the compensation to any employee with whom the Group cancels the labor relationship.

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.

24 Significant changes of accounting policies

The Changes of accounting policies in China Accounting Standards Interpretation No. 4 issued by the Ministry of Finance in 2010 have to do with the following items: excess deficit of subsidiaries, measurement of the residual equity when a parent company lose control of a subsidiary, recognition of initial long-term investment cost for an entity formed through combination not under the same control realized by two or more transactions.

Recalculation of shares held by the acquirer before the date of purchase in the situation of an entity formed through combination not under the same control realized by two or more transactions, measurement of all direct expenses arising from the business combination, and the contingent consideration in combination not under the same control. These changes have no significant influence over the Group's financial statements during this year.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(III) Principal Accounting Policies and Accounting Estimates of the Company (continued)

25 Basis of determining significant accounting policies and key assumptions and uncertainties in accounting estimates

In the application of the Group's accounting policies, the Group is required to make judgements, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately. These judgements, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgements, estimates and assumptions are reviewed regularly on a going concern basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

- Critical judgements in applying accounting policies

The following are the critical judgements that the Group has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- Provision for decline in value of inventories

As stated in Note (8), I.I., on the date of balance sheet, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes.

Since inventory takes up a great portion in the operational finance of the Group, there are specific procedures for this risk control. The Group carries out regular check of the inventories so as to see whether there are any out-dated and stagnant inventories and if any, to recheck the situation of value deduction. The recheck procedures are: comparing the book value of the out-dated and stagnant inventory with relevant net realizable value so as to decide whether it is necessary to make provision for the said inventory. Based on the above mentioned procedure, the management of the Company believes that sufficient provision has already been made for the said inventories.

Reduction of accounts receivable

When there is obvious evidence showing that there is a problem in reclaiming an account receivable, the Company will make provision for impairment loss on receivables. When making the provision, the Group's management has to make assumption based on these factors: records of collecting receivables in the past, aging of the debt, the debtor's financial situation and the overall economic environment. Therefore the provision cannot be measured accurately. Actual results may differ from the estimation, and when the difference does happen, the book value of the accounts receivable will be adjusted accordingly.

Deferred Tax assets

The deferred tax asset is recognized to the extent that it is probable that the future taxable profits will be available against which the temporary differences can be utilized. If the future taxable profit turns out to be less than the expected, the recognized deferred tax asset is reversed and the reversed amount is recorded into the consolidated profit statement of the period. The deductible losses that can be carried forward to subsequent periods is not recognized as a deferred tax asset since it is uncertain whether sufficient taxable profits will be available.

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

(III) Taxation

1. The applicable taxes and tax rates to the Group are as follows:

Item	Tax basis	Tax rate
Value-added tax	Taxable production sales	13% or 17%
Income tax	Taxable income	3% or 5%
Urban maintenance and construction tax	Actual amount of turnover taxes	1%~7%
Education additional tax	Actual amount of turnover taxes	1%~4%
Enterprise income tax	Taxable income	Note
River management fee	Actual amount of turnover taxes	Based on applicable rates set by the government
Real estate tax	Residual value of the taxable income of the taxable building or rent	Based on applicable rates set by the government
Individual income tax	Taxable income	Based on applicable rates set by the government

Note: The income tax rate of the Company is 25%. Taxation of subsidiaries of the Group are based on their respective taxation rate. Taxation of overseas subsidiaries of the Group are based on the relevant local laws and regulations on taxation.

Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

(IV) Scope of Consolidated Financial Statements

1 Major subsidiaries

(1) Subsidiaries obtained through combination under same control

Subsidiary	Category	Place of incorporation	Nature of business	Registered capital (RMB'000)	Businesses scope
Lubao Steel Tubes	LLC	Yantai	Manufacturing	RMB100,000	Production & sales of steel tubes
Huangshi Coating & Galvanizing Huangshi	LLC	Huangshi	Manufacturing	USD 8,000	Production & sales of galvanized steel pipes
Baosteel International	LLC	Shanghai	Steel trading	RMB2,248,579	Steel trading
Meishan Steel	LLC	Nanjing	Manufacturing	RMB7,081,476	Steel processing and sales
Ningbo Baixin	LLC	Ningbo	Manufacturing	RMB3,188,361	Cold rolled stainless sheets
Baoshit Software	LLC	Shanghai	Information technology	RMB262,244	Software development
Baosteel America	LLC	Texas, USA	Steel trading	USD 980	Steel trading
Howa Trading	LLC	Tokyo, Japan	Steel trading	JPY 876,000	Steel trading
Baosteel Europe	LLC	Hamburg, Germany	Steel trading	EUR 2,050	Steel trading
Baosteel Singapore	LLC	Singapore	Steel trading	SGD 1,500	Steel trading
Bao Island Enterprises	LLC	Hong Kong	Steel trading	HKD 1,000	Steel trading
Bao Brazil Trading	LLC	Rio de Janeiro, Brazil	Steel trading	USD 980	Steel trading
Baosteel Chemical	LLC	Shanghai	Manufacturing	RMB2,110,040	Chemical products production and sales
Baosteel No. 5 Gas	LLC	Shanghai	Manufacturing	RMB127,718	Inspection, installation & sales of gas generation equipment
Finance Co.	LLC	Shanghai	Finance	RMB500,000	Exchange businesses
Nantong Steel	LLC	Nantong	Manufacturing	RMB620,532	Processing & sales of steel products

Note 1: The Company holds less than 50% of the equity capital of Huangshi Coating and Galvanizing but controls more than half of the voting power in the Board of Directors. Accordingly Huangshi Coating and Galvanizing is consolidated in the financial statements.

(2) Subsidiaries obtained through establishment or investment

Subsidiary	Category	Place of incorporation	Nature of business	Registered capital (RMB'000)	Businesses scope
Special Metal	LLC	Shanghai	Steel trading	RMB50,000	Steel trading
Baoyin Tubes	LLC	Yixing	Manufacturing	RMB222,220	Production & sales of steel tubes
Yanbao Tubes	LLC	Yantai	Manufacturing	RMB2,000,000	Production & sales of steel tubes

2 Exchange rates used in the financial statements for overseas entities

Currency	Average exchange rate		Exchange rate at end of period	
	2010	2009	2010	2009
USD	6.7255	6.8314	6.6227	6.8282
EUR	9.30.8	9.7281	8.8065	9.7971
JPY	0.0775	0.0747	0.0813	0.0738
BRL	3.88524	3.4529	3.81759	3.9549

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

The Group's actual investment at year end (RMB '000)	Balances of other items actually constitute the net investment in the subsidiaries	Share proportion (%)	Proportion of voting power held by the entity (%)	Included in consolidated financial statements	Minority interests (RMB '000)	Equity of Share in minority interests to offset losses in Minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent company
RMB79,820	-	79.82%	79.82%	Yes	157,930	-	-
USD3,150	-	39.37%	Note 1	Yes	78,215	-	-
RMB32,248,879	-	100%	100%	Yes	857,714	-	-
RMB5,455,836	-	77.04%	77.04%	Yes	2,904,246	-	-
RMB1,721,715	-	54%	54%	Yes	1,098,611	-	-
RMB145,545	-	55.5%	55.5%	Yes	513,748	-	-
USD980	-	100%	100%	Yes	-	-	-
¥876,000	-	100%	100%	Yes	-	-	-
EUR2,050	-	100%	100%	Yes	61,359	-	-
SGD1,500	-	100%	100%	Yes	-	-	-
HKD1,000	-	100%	100%	Yes	-	-	-
USD980	-	100%	100%	Yes	-	-	-
RMB2,110,040	-	100%	100%	Yes	203,847	-	-
RMB127,718	-	100%	100%	Yes	-	-	-
RMB310,500	-	62.1%	62.1%	Yes	585,169	-	-
RMB594,582	-	95.82%	95.82%	Yes	34,303	-	-

The Group's actual investment at year end (RMB '000)	Balances of other items actually constitute the net investment in the subsidiaries	Share proportion (%)	Proportion of voting power held by the entity (%)	Included in consolidated financial statements	Minority interests (RMB '000)	Equity of Share in minority interests to offset losses in Minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent company
RMB50,000	-	100%	100%	Yes	-	-	-
RMB130,000	-	58.5%	58.5%	Yes	100,875	-	-
RMB2,000,000	-	100%	100%	Yes	-	-	-

Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements

1. Monetary capital

UNIT: RMB

Item	31 December 2010			31 December 2009		
	Original currency	Rate	RMB equivalent	Original currency	Rate	RMB equivalent
Cash						
RMB			865,587.11			1,359,934.40
Bank deposit						
RMB			6,181,039,343.42			2,679,000,853.00
USD	169,509,092.29	6.6227	1,122,607,865.53	238,359,814.32	6.8282	1,627,568,484.14
JPY	1,200,330,030.99	0.08126	97,538,818.32	1,649,892,538.22	0.07378	121,729,071.47
EUR	30,458,207.95	8.8065	268,230,207.71	25,096,328.37	9.7971	245,871,238.68
HKD	1,767,784.96	0.8509	1,504,208.22	1,666,777.81	0.8805	1,467,597.86
Other currencies			35,260,147.45			33,495,221.38
Other monetary capital						
RMB			180,873,246.47			134,905,066.05
Deposit reserve in central bank by Finance Co.			1,312,756,361.82			834,193,245.93
Total			9,700,675,785.05			5,558,776,152.91

Monetary capital with restrictions:

UNIT: RMB

Item	31 December 2010	31 December 2009
Deposit reserve in central bank by Finance Co.	1,312,756,361.82	834,193,245.93

By 31 December 2010, a total worth of RMB1,283,746,961.40 (31 December 2009: RMB1,557,960,027.69) of monetary capital were deposited in overseas banks. By 31 December 2010, other forms of monetary capital of the Group consist of the Group's refundable deposits RMB136,613,113.97 (31 December 2009: None), a credit card deposit of RMB526,915.18 (31 December 2009: RMB2,694,566.80), an acceptance bill deposit of RMB38,464,457.19 (31 December 2009: RMB8,921,142.55), and an officer's cheque and credit deposit of RMB508,867.48 (31 December 2009: RMB1,701,327.34).

2. Funds lent to financial institutions

UNIT: RMB

Item	31 December 2010	31 December 2009
Original value	29,934,050.00	30,242,300.00
Including Funds lent to institutions other than banks	29,934,050.00	30,242,300.00
Provision for loss	(29,934,050.00)	(30,242,300.00)
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 RMB20,000,000.00 and USD1,500,000.00 (an equivalent of RMB9,934,050.00 as at 31 December 2010 and RMB10,242,300.00 as at 31 December 2009) to China Huacheng Finance Company. The No.2 Intermediate People's Court of Shanghai Municipality sealed up an equity of RMB58,000,000.00 that Huacheng had held in Huafang Joint Stock Co., Ltd., but the fund has not transferred to the Finance Co., who has made a full provision for the fund lent, for which chance of recovery seems rather slim. The increase or decrease in provision for the loan loss for the year was a result of change in USD exchange rate.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

3. Transactional financial assets

Item	UNIT: RMB	
	Fair value as of 31 December 2010	Fair value as of 31 December 2009
Transactional bond investment	235,626,220.00	-
Transactional equity instrument investment	-	41,473,019.20
Transactional fund investment	50,000,000.00	115,024,049.15
Derivative financial assets	1,507,631.72	-
Others	-	389,880,000.00
Total	297,133,851.72	546,377,068.35

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

4. Notes receivable

(1) Categories of notes receivable

Category	UNIT: RMB	
	31 December 2010	31 December 2009
Bank acceptance	6,465,147,727.31	4,850,855,255.93
Trade acceptance	1,414,537,077.62	1,823,396,528.12
Total	7,879,784,804.93	6,674,251,784.05

As at 31 December 2010, a total book value of RMB1,346,265,947.37 (31 December 2009: RMB1,597,793,646.17) of the bank acceptance was being mortgaged for a short-term mortgage loan of RMB1,346,265,947.37 (31 December 2009: RMB1,597,793,646.17).

- (2) As at 31 December 2010, there were no notes receivable transferred into accounts receivable as the issuer failed to keep a promise.
- (3) As at 31 December 2010, there were no notes receivable due from any shareholder holding 5% or more of the Company's shares or voting power.
- (4) Refer to Note (VI). 6 (1) for more information about notes receivable of related parties.
- (5) The five notes receivable with largest sums mortgaged (for short-term loans) as at 31 December 2010:

Issuing Entity	Date	Date due	UNIT: RMB
			Amount
Zhangyang Longteng Logistics Co., Ltd. (Zhangyang Longteng)	28 September 2010	29 March 2011	250,000,000.00
Zhangyang Longteng Logistics Co., Ltd. (Zhangyang Longteng)	27 July 2010	27 January 2011	702,616,785.59
BNA	11 November 2010	10 January 2011	179,663,977.7
SNA	11 November 2010	17 January 2011	153,701,677.99
BNA	11 November 2010	27 January 2011	54,542,213.88
Total			840,524,654.63

The five notes receivable with largest sums mortgaged (for short-term loans) as at 31 December 2010:

Issuing Entity	Date	Date due	UNIT: RMB
			Amount
Baosteel Resource	6 October 2009	16 April 2010	390,526,848.87
Baosteel Resource	24 November 2009	23 May 2010	194,508,172.13
Baosteel Resource	22 December 2009	22 June 2010	180,691,533.86
BNA	15 December 2009	15 January 2010	100,000,000.00
Bi-A	15 December 2009	29 January 2010	90,000,000.00
Total			965,726,554.86

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

5. Trade receivables

(1) Categories of trade receivables

UNIT: RMB

Category	31 December 2010				31 December 2009			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Receivables with significant single amounts	1,505,846,291.60	71	75,292,314.58	18	1,457,955,253.08	24	72,897,762.65	18
Individually insignificant receivables but recognizing bad provision individually	115,744,519.01	2	115,744,519.01	28	92,751,953.91	2	92,751,953.91	22
Accounts receivable recognizing provision for bad debts classified into groups	5,525.49	141.08	227,092,117.69	54	4,433,905,278.40	74	252,675,489.68	60
Total	7,147,081,951.69	100	4,612,995,128	100	5,984,612,485.39	100	418,325,206.24	100

Ageing analysis of the trade receivables

UNIT: RMB

Type	31 December 2010				31 December 2009			
	Amount	Percentage (%)	Bad debt provision	Carrying amount	Amount	Percentage (%)	Bad debt provision	Carrying amount
Within 1 year	6,842,348,792.50	96	291,118,213.29	6,551,230,579.21	5,628,978,700.95	93	256,028,253.49	5,372,940,447.46
1-2 years	102,759,113.47	1	8,442,850.80	94,316,262.67	168,229,653.47	3	9,788,207.94	158,441,445.53
2-3 years	73,610,245.53	1	2,824,368.18	70,785,877.35	36,660,931.97	1	10,112,272.92	26,548,665.05
Over 3 years	128,363,800.19	2	115,744,519.01	12,619,281.18	150,743,183.00	3	142,436,477.89	8,306,711.11
Total	7,147,081,951.69	100	4,612,995,128	6,728,952,000.41	5,984,612,485.39	100	418,325,206.24	5,566,287,279.15

(2) 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 2010:

UNIT: RMB

Item	Carrying amount	Bad debt provision	Provision rate (%)	Reasons
Trade receivable with large sums	1,505,846,291.60	75,292,314.58	5	Note 1
Trade receivable with longer ages	115,744,519.01	115,744,519.01	100	Note 2
Total	1,621,590,810.6	191,036,833.59		

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:

UNIT: RMB

Item	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
Total	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.

(3) Refer to Note (VI)2 for accounts receivable from shareholding over 5% (inclusive) of the Group shares.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

(4) Top five clients

				UNIT: RMB
Name	Relationship with group	Amount	Aging	Proportion (%)
Entity 1	Related party	391,392,266.67	Within 1 year	5
Entity 2	Third party	377,421,633.65	Within 1 year	5
Entity 3	Third party	354,584,047.60	Within 1 year	5
Entity 4	Third party	199,631,430.67	Within 1 year	3
Entity 5	Third party	182,816,913.01	Within 1 year	3
Total		1,505,846,291.60		

- (5) As at 31 December 2010, a total book value of RMB600,000,000.00 of trade receivables was being mortgaged for a short-term loan of RMB600,000,000.00 (31 December 2009: RMB600,000,000.00) by means of bank guarantee.

- (6) Refer to Note (VI)(2), "Related party relationships and transactions", for details.

6. Payment in advance

- (1) The aging analysis of advances to suppliers is as follows:

					UNIT: RMB
Aging	31 December 2010		31 December 2009		
	Amount	Percentage (%)	Amount	Percentage (%)	
Within 1 year	5,300,995,878.06	97	3,592,895,515.80	88	
1-2 years	89,836,018.65	2	484,797,395.53	12	
2-3 years	65,528,088.86	1	17,901,937.13	-	
Over 3 years	7,806,439.09	-	3,770,327.33	-	
Total	5,464,166,424.66	100	4,099,365,175.79	100	

As at 31 December 2010, large sums of payments in advance with ages over than one year were mainly made to pay for large equipment.

(2) Top five payment in advance

				UNIT: RMB
Name	Relationship with group	Amount	Aging	
Entity 1	Related party	367,543,255.01	Within 1 year	
Entity 2	Related party	326,653,731.80	Within 1 year	
Entity 3	Third party	299,557,526.96	Within 1 year	
Entity 4	Third party	241,850,000.00	Within 1 year	
Entity 5	Third party	238,643,569.74	Within 1 year	
Total		1,474,248,083.51		

- (3) As at 31 December 2010, 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 2009).

- (4) Disclosure of advances to suppliers by supplier categories is as follows:

			UNIT: RMB
Category	31 December 2010	31 December 2009	
Individually significant payments	1,474,248,083.51	1,392,038,121.52	
Other insignificant payments	3,989,918,341.15	2,707,327,054.27	
Total	5,464,166,424.66	4,099,365,175.79	

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

7. Interests receivable

(1) Interests receivable

UNIT: RMB				
Item	31 December 2009	Increase	Decrease	31 December 2010
Interest receivable	5,702,089.26	181,705,585.3	179,309,753.30	8,097,921.09

(2) Note: The ages of interests receivable in the Group were all within one year as on the balance sheet date.

8. Dividends receivable

UNIT: RMB						
Item	31 December 2009	Increase	Decrease	31 December 2010	Reasons	Value decrease of the related item
Within 1 year	-	19,199,112.85	-	19,199,112.85	Baotight Software has not realized its dividends from CISDI Engineering Co. Ltd.	No

9. Other receivables

(1) Other receivables by category:

UNIT: RMB								
Category	31 December 2010				31 December 2009			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Receivables with significant single amounts	336,503,750.20	27	9,948,976.30	6	472,401,041.63	52	-	-
Individually insignificant receivables but recognizing bad provision individually	128,476,461.58	10	128,476,461.58	76	123,828,510.35	14	123,828,510.35	80
Accounts receivable recognizing provision for bad debts classified into groups	792,801,883.91	63	30,667,170.67	18	312,752,719.05	34	31,296,652.40	20
Total	1,257,782,095.69	100	169,092,608.55	100	908,982,271.03	100	155,125,162.75	100

Aging analysis of other receivables is as follows:

UNIT: RMB								
Age	31 December 2010				31 December 2009			
	Amount	Percentage (%)	Bad debt provision	Book value	Amount	Percentage (%)	Bad debt provision	Book value
Within 1 year	1,027,876,131.48	82	26,298,038.48	1,001,578,093.00	698,957,470.89	77	20,118,702.96	678,838,767.93
1-2 years	38,621,799.03	3	4,495,187.75	34,126,611.28	29,268,489.29	3	4,740,712.67	24,527,776.62
2-3 years	17,626,200.26	1	9,822,920.74	7,803,279.52	47,416,854.04	5	982,761.79	46,434,092.25
Over 3 years	173,657,964.92	14	128,476,461.58	45,181,503.34	33,339,456.81	4	129,262,985.33	4,056,471.48
Total	1,257,782,095.69	100	169,092,608.55	1,088,689,487.14	908,982,271.03	100	155,125,162.75	753,857,108.28

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

- (2) 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 2010:

Item	Carrying amount	Bad debt provision	Provision rate (%)	UNIT: RMB
				Reasons
Notes receivable with large sums	336,503,750.20	9,948,976.30	3	Note1
Notes receivable with longer ages	128,476,461.58	128,476,461.56	100	Note2
Total	464,980,211.78	138,425,437.88		

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:

Item	Carrying amount	Bad debt provision	Provision rate (%)	UNIT: RMB
				Reasons
Other large sums of receivables	472,461,041.63			Note3
Other receivables with longer ages	123,828,510.35	123,828,510.35	100	Note2
Total	596,229,551.98	123,828,510.35		

- Notes:
- Provisions for bad debts were made only for a part of these receivables based on the age of the residual amount due to the fact that these "Other large sums of receivables" were mainly for the R&D expenses of the Baosteel Group, customs deposits and import VATs of related transactions, which have very low risk in recovering.
 - A full amount of provision was prepared due to the age as well as the difficulty in recovering.
 - Provisions were not prepared for bad debts due to the fact these estimates were for the R&D expenses of Baosteel Group, customs deposits and import VATs of related transactions, which have very low risk in recovering.

- (3) Refer to Note (VI)8(4) for information of other accounts receivable from shareholders holding over 5% (inclusive) of the Group shares

- (4) Top five debts of other receivables

Name	Relationship with group	Amount	Aging	UNIT: RMB
				Proportion (%)
Entity 1	Related party	199,169,904.31	Within 1 year	15
Entity 2	Third party	56,602,380.26	Within 1 year	5
Entity 3	Third party	47,560,000.00	Over 3 years	4
Entity 4	Third party	15,609,970.94	Within 1 year	1
Entity 5	Third party	14,561,494.69	Within 1 year	1
Total		336,503,750.20		

- (5) Refer to Note (VI)8(4) for information about other accounts receivable of the related party.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

10. Inventories

(1) Categories of the inventories

UNIT: RMB

Item	31 December 2010			31 December 2009		
	Carrying amount	Provisions for reductions in the value of inventories	Book value	Carrying amount	Provisions for reductions in the value of inventories	Book value
Raw material	13,462,393,491.11	36,962,887.60	13,425,430,603.51	9,360,371,802.98	65,923,112.91	9,294,448,690.07
Work in progress	11,596,928,364.96	632,421,292.59	10,966,507,072.37	8,738,985,351.48	460,997,402.23	8,277,987,949.25
Finished products	9,778,708,149.54	428,128,758.30	9,350,579,391.24	7,993,194,308.30	436,846,270.90	7,556,348,037.40
Spare parts and others	4,393,223,345.94	108,418,539.18	4,284,804,806.76	4,430,262,990.72	96,876,284.02	4,333,386,706.70
Total	39,233,253,351.55	1,205,931,477.67	38,027,321,873.88	30,522,814,453.48	1,060,643,070.06	29,462,171,383.42

(2) provisions for reductions in the value of inventories

UNIT: RMB

Item	Opening balance	Provision in the year	Decrease		Foreign currency translation difference	Carrying amount
			Reversal in the year	Writing-off in the year		
Raw material	65,923,112.91	125,915,187.21	154,876,412.57	-	-	36,962,887.60
Work in progress	460,997,402.23	480,639,912.53	309,216,022.17	-	-	632,421,292.59
Finished products	436,846,270.90	207,920,402.42	214,817,650.79	-	(1,820,264.23)	428,128,758.30
Spare parts and others	96,876,284.02	52,594,116.57	40,523,052.18	528,809.23	-	108,418,539.18
Total	1,050,643,070.06	867,070,618.73	719,433,137.66	528,809.23	(1,820,264.23)	1,205,931,477.67

(3) Provisions for inventories in the year

Item	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%
Work in progress	Lower inventory cost than net realizable	Rise in market price	3%
Finished products	Lower inventory cost than net realizable	Rise in market price	2%
Spare parts and others	Lower inventory cost than net realizable	Rise in market price	1%

There is no amount for guarantee in the inventory balance at year end, neither is there any capitalization of interests in the inventory balance.

11. Non-current assets due next period

UNIT: RMB

Item	Fair value as of 31 December 2010	Fair value as of 31 December 2009
Financial bonds available for sale	150,362,590.00	-

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

12. Loans granted and cash advances

(1) Categories of loans granted and cash advances

UNIT: RMB		
Item	31 December 2010	31 December 2009
Loans	3,778,928,723.87	3,182,373,101.13
Discount	167,471,511.05	974,953,892.17
Provision for loss of borrowings	(14,600,000.00)	(25,050,000.00)
Total	3,931,800,234.92	4,132,276,993.30

(2) Provisions for loss of short-term, medium- and long-term borrowings:

UNIT: RMB					
Item	Opening balance	Provision for the year	Decrease		Closing balance
			Reversal	Writing off	
provisions for loss of short-term, medium- and long-term borrowings	25,050,000.00	11,000,000.00	21,450,000.00	-	14,600,000.00

13. Financial assets available for sale

(1) AFS financial assets

UNIT: RMB		
Item	31 December 2010	31 December 2009
Financial bonds available for sale	150,362,590.00	10,353,920.00
Equity instruments available for sale	1,079,630,345.22	1,015,666,601.34
Others	174,000,000.00	30,000,000.00
Less: Financial bonds available for sale due next period (Note)	50,362,590.00	-
Total	1,253,630,345.22	1,056,020,521.34

Note: Refer to Note (V) 11 for financial bonds available for sale due next period.



Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

14. A list of joint ventures and associates and their key financial information

Invested entity	Category	Place	Legal representative	Business type
I. Joint ventures				
BNA	LLC	Shanghai	Dai Zhihao	Manufacturing
Bao-Island Enterprises	LLC	Hong Kong	N/A	Ship chartering
Niagara Machinery Note (1)	LLC	Ontario Canada	N/A	Manufacturing
Shaoxing Baosteel	LLC	Shanghai	Zhang Yong	Manufacturing
II. Associated entities				
STAL Precision	LLC	Shanghai	Wang Xiaodong	Manufacturing
Weidong Co	LLC	Shanghai	Hou Xiangdong	Manufacturing
Renwei Software	LLC	Shanghai	Song Jianhai	Information technology
Henshi Pingbao	LLC	Xuchang	Chen Jiansheng	Mining
Tianjin BCM	LLC	Tianjin	Pan Zhijun	Steel trading
Baoqing Shipping	LLC	Shanghai	Yan Heping	Transportation
Wuxi Baomin	LLC	Wuxi	Ogawa Shinichi	Steel trading
Zhongyou Baoshun	LLC	Shanghai	Li Ruoping	Manufacturing

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

		UNIT: RMB						
Registered capital	Percentage	Percentage	Total assets as	Total liabilities as	Total net assets	Total business	Total net profit	
Currency	RMB	of equity held	of 31 December	of 31 December	as of 31 December	revenue in the	in the period	
Thousand	(%)	power (%)	2010	2010	2010	period		
RMB	3,000,000	50	5,484,956,133.96	848,463,664.06	3,636,492,469.80	12,320,924,754.46	567,245,908.54	
HKD	3,300	50	1,434,543,047.00	349,122,253.20	1,077,579,570.00	744,225,912.50	138,805,169.30	
USD	37,500	50						
RMB	199,930	50	206,552,726.73	1,699,431.10	204,883,295.63		4,953,295.54	
USD	96,560	40	1,571,506,852.62	747,824,798.08	1,328,682,554.54	1,131,167,861.38	132,263,262.53	
RMB	211,500	35	565,850,076.61	279,695,739.10	286,154,337.51	901,044,896.93	71,819,808.10	
USD	1,500	41.33	10,074,492.47	4,571,397.85	3,453,094.62	5,294,525.72	(2,986,891.46)	
RMB	800,000	40	1,750,508,733.65	1,018,861,424.33	731,647,309.32	477,695,049.77	(71,126,717.60)	
RMB	140,000	40	205,923,251.53	81,356,291.37	124,566,960.16	301,880,110.22	2,684,143.77	
RMB	40,000	40	83,548,258.86	9,630,722.12	73,917,536.74	117,220,414.73	16,801,387.39	
USD	7,700	51	32,172,991.76	189,583,923.08	133,410,668.68	455,694,625.23	2,404,886.72	
RMB	5,000	35	5,482,715.66	65,477.14	5,417,238.52		(79,834.77)	

Note 1 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 RMB323,957,108. As the Company discontinued operations in 2009 and in the reported period, its shareholders' equity remained unchanged.

Note 2 As at the balance sheet date, the investment from the Group accounts accounted for 51% of the total of Wuxi Baomin and half of the directors on its board were from the Group. The board was chaired by one of the directors appointed by Mitsu & Co Ltd. In accordance with the articles of Wuxi Baomin, 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 Baomin 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

15. Long-term equity investment

(1) Details of long-term equity investment

Invested entity	Measurement	Initial investments	Opening balance	Increase/decrease in the year	Closing balance
Joint ventures					
BNA	equity method	1,500,000,000.00	1,640,656,034.85	143,694,826.17	1,784,350,861.32
Bao-Island Enterprises	equity method	143,084,132.00	483,952,089.10	54,837,669.40	538,789,758.50
Niagara Machinery	equity method	123,721,439.29	-	-	-
Shipping-Baosteel	equity method	99,965,000.00	99,965,000.00	2,476,647.82	102,441,647.82
Sub-total		1,866,770,571.29	2,224,573,123.95	201,009,143.69	2,425,582,267.64
Associated entities					
STAL Precision	equity method	122,004,541.93	478,567,716.81	52,905,305.01	531,473,021.82
Welding Co	equity method	46,170,000.00	89,657,071.76	19,081,576.48	108,738,648.24
Renwei Software	equity method	5,131,591.00	3,488,246.25	(1,234,482.24)	2,253,764.01
Henan Pingbao	equity method	120,000,000.00	319,956,823.66	(27,297,899.94)	292,658,923.72
Tianjin BCM	equity method	56,000,000.00	48,753,126.76	1,073,657.31	49,826,784.07
Baoqing Shipping	equity method	6,000,000.00	27,799,946.28	1,767,058.12	29,567,014.70
Wuxi Baomet	equity method	32,522,976.15	66,676,477.80	1,226,492.23	67,902,965.03
Zhongyou Baoshun	equity method	1,912,509.83	1,923,975.65	(27,942.17)	1,896,033.48
Sub-total		399,741,618.91	1,036,823,379.97	47,493,775.10	1,084,317,155.07
Others					
Baovale Mining Co., Ltd.	cost method	-	103,282,213.00	-	103,282,213.00
Taiyuan Baoyuan Mechanical Industry Co., Ltd.	cost method	-	9,000,000.00	-	9,000,000.00
CISDI Engineering Co., Ltd.	cost method	-	9,508,999.34	-	9,508,999.34
Jinchuan Group Automation Engineering Co., Ltd.	cost method	-	1,000,000.00	-	1,000,000.00
Dandong Tianma Refractoriness Co., Ltd.	cost method	-	20,000,000.00	(20,000,000.00)	-
Zhongyuan Investment Consultancy Stock Co., Ltd.	cost method	-	3,000,000.00	-	3,000,000.00
Hanyang Components Co., Ltd.	cost method	-	3,311,720.00	-	3,311,720.00
Anhui Huishang Co., Ltd.	cost method	-	3,000,000.00	-	3,000,000.00
Henan Longyu Energy Co., Ltd.	cost method	-	370,269,254.56	-	370,269,254.56
Shanghai Luoyang Mining Port Co., Ltd.	cost method	-	88,734,096.00	-	88,734,096.00
Yongmei Group Co., Ltd.	cost method	-	279,000,000.00	-	279,000,000.00
Hannan Zhengfeng Coal Co., Ltd.	cost method	-	45,569,714.27	-	45,569,714.27
Guangzhou Huiren Auto Service Co., Ltd.	cost method	-	215,923.23	-	215,923.23
China Resources Land Limited (Beijing)	cost method	-	1,618,750.00	-	1,618,750.00
Others	cost method	-	980,000.00	-	980,000.00
Sub-total of others		-	938,490,570.40	(20,000,000.00)	918,490,570.40
Right to trade in previously non-tradable shares		-	7,949,489.18	-	7,949,489.18
Total		-	4,207,836,563.50	228,502,918.79	4,436,339,582.29

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

UNIT: RMB					
Percentage of equity held (%)	Percentage of voting power (%)	Explanation of the voting right not consistent with proportion of ownership interest	Preparation for impairment loss	Provision for impairment loss in the period	Cash dividend received in the period
50	50		-	-	169,827,558.59
50	50		-	-	-
50	50		-	-	-
50	50		-	-	-
			-	-	169,827,558.59
40	40		-	-	-
38	38		-	-	8,209,950.59
41.33	41.33		-	-	-
40	40		-	-	-
40	40		-	-	-
40	40		-	-	4,953,484.54
51	Note 1		-	-	-
35	35		-	-	-
			-	-	13,163,435.13
50	Note 2	Note 2	-	-	12,324,680.38
15	15		-	-	-
6.28	6.28		-	-	-
7.128	7.128		-	-	-
20	20		-	-	-
5	5		666,024.47	-	-
20	20		3,311,720.00	(3,311,720.00)	-
35.3	35.3		-	-	1,215,000.00
12.96	12.96		-	-	324,394,553.95
12	12		-	-	4,793,785.60
10	10		-	-	-
4.91	4.91		-	-	45,847,620.00
15	15		56,443.17	-	-
0.09	0.09		-	-	-
Tiny	Tiny		-	-	23,100.00
			4,034,187.64	(3,311,720.00)	388,598,739.93
			-	-	-
			4,034,187.64	(3,311,720.00)	57,589,733.65

Note 1: As at the balance sheet date, the investment from the Group accounts accounted for 51 per cent of the total of Wuxi Baomin 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 Baomin, 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 Baomin has been considered an associate of the Group and measured on basis of the equity method.

Note 2: As the Company does not exert actual control or significant influence over the operating policies and financial decisions of 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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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

16. Investment real estates

(1) Investment real estates measured on the basis of cost

Item	UNIT: RMB			
	Opening balance	Increase	Decrease	Closing balance
I Total of initial book value				
I. Houses and buildings	204,694,343.94	32,617,107.17	-	237,311,451.11
II Accumulated depreciation & accumulated amortization				
I. Houses and buildings	74,159,026.69	8,588,032.90	-	82,747,059.59
II. Net				
I. Houses and buildings	130,535,317.25	24,029,074.27	-	154,564,391.52
IV Provision for impairment loss				
I. Houses and buildings				-
V Net Book value				
I. Houses and buildings	130,535,317.25	24,029,074.27	-	154,564,391.52

The depreciation of this period is RM38,588,032.90.

17. Fixed assets

(1) Fixed assets

Item	UNIT: RMB			
	Opening balance	Increase	Decrease	Closing balance
I Total of initial book value	242,706,540,548.74	15,522,787,253.36	445,774,564.31	257,783,548,237.79
Including Houses and buildings	52,973,218,525.76	4,557,142,671.99	122,664,057.48	57,407,697,139.77
Mechanical equipment	154,418,439,509.96	894,332,673.12	870,632,384.50	167,579,139,798.58
Transportation vehicles equipment	17,597,584,973.00	897,889,230.91	221,462,733.87	18,274,011,470.09
Office and other equipment	18,717,297,540.52	1,126,417,677.34	271,015,388.51	19,572,699,829.35
II Accumulated depreciation	28,188,809,865.36	13,025,164,047.69	1,222,652,056.00	40,991,321,857.05
Including Houses and buildings	19,421,521,800.04	2,426,506,763.54	51,541,281.99	21,798,786,778.59
Mechanical equipment	82,393,342,237.80	7,724,312,060.02	748,812,531.34	89,368,841,766.48
Transportation vehicles equipment	13,613,642,635.51	1,217,993,454.52	181,670,745.16	14,645,965,344.88
Office and other equipment	12,760,303,192.01	1,658,052,269.60	240,627,494.51	14,177,727,967.10
III Net	115,517,730,683.38	2,497,623,205.67	1,717,992,226,380.74	116,298,541,100.71
Including Houses and buildings	33,551,696,725.22	2,426,506,763.54	51,541,281.99	35,926,882,206.77
Mechanical equipment	72,025,097,272.16	7,724,312,060.02	748,812,531.34	79,000,596,808.84
Transportation vehicles equipment	3,983,942,337.49	897,889,230.91	221,462,733.87	4,659,668,834.53
Office and other equipment	5,956,994,348.51	1,126,417,677.34	271,015,388.51	6,812,396,637.34
IV Preparation for impairment	51,828,691.59	3,378,509.51	-	55,207,201.10
Including Houses and buildings	7,240,364.02	-	-	7,240,364.02
Mechanical equipment	33,630,124.91	3,378,509.51	-	37,008,634.42
Transportation vehicles equipment	366,236.65	-	-	366,236.65
Office and other equipment	591,956.01	-	-	591,956.01
V Total book value of the fixed assets	115,465,901,991.79	2,497,623,205.67	1,717,992,226,380.74	116,245,632,917.72
Including Houses and buildings	33,534,456,361.20	2,426,506,763.54	51,541,281.99	35,909,669,997.6
Mechanical equipment	71,997,467,137.25	7,724,312,060.02	748,812,531.34	79,000,966,665.93
Transportation vehicles equipment	1,983,576,100.64	897,889,230.91	221,462,733.87	2,659,992,607.68
Office and other equipment	5,956,402,392.50	1,126,417,677.34	271,015,388.51	7,811,794,681.33

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

(2) Fixed assets temporarily unused

As at 31 December 2010, a total value of RMB1,090,468.66 (2009: RMB3,557,625.76) of fixed assets were temporarily unused.

(3) Book value of operating leases of fixed assets:

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Houses and buildings	129,014,231.45	-
Mechanical equipment	978,805.78	8,981,068.22
Transportation vehicles equipment	-	94,255.44
Office and other equipment	57,105.70	524,616.54
Total	130,050,142.94	9,599,940.30

(4) Fixed assets with no certificates

As at 31 December 2010, the property-user rights of the buildings and plants which are worth RMB2,583,406,731.68 (2009: RMB5,488,516,696.50) 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.

Notes to fixed assets:

- (1) Included in current year cost additions, acquisition of fixed assets is amounted to RMB403,502,063.71 and transfer from construction-in-progress is amounted to RMB15,112,597,773.14. The increase from currency exchange is RMB6,682,416.51.
- (2) Included in current year cost reduction, disposals of useless fixed assets is amount to RMB1,391,220,445.08 and transfer into investment properties is amounted to RMB32,617,107.17. The decrease of fixed assets caused by exchange is amounted to RMB21,937,012.06.
- (3) Included in current year additions of accumulated depreciation, provided for this year is amounted to RMB13,023,273,187.03. The accumulated depreciation increased caused by exchange is RMB1,890,860.66.
- (4) Included in current year reductions of accumulated depreciation, disposals of useless fixed assets is amounted to RMB1,221,256,715.57 and reductions caused by the transfer into investment properties is amounted to RMB785,405.38. The accumulated depreciation decreased caused by exchange is RMB609,935.05.

18. Construction in progress

(1) Details of construction in progress are as follows:

Item	31 December 2010			31 December 2009		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment loss	Book value
Technique updating and infrastructure construction	9,762,744,217.47	-	9,762,744,217.47	13,746,832,781.17	-	13,746,832,781.17

(2) Change of significant construction in progress

Item	UNIT: RMB					
	Budget	31 December 2009	Increase in the year	Transfer to fixed assets	Transfer to intangible assets	Other reductions in the year
Technique updating and infrastructure construction	49,205,214,049.38	13,746,832,781.17	11,581,791,531.44	15,112,597,773.14	453,282,322.00	-

Item	Proportion of construction investment in budget (%)	Cumulative amount of interest capitalization	Including amount of interest capitalization for this year	Ratio of interest capitalization for this year (%)	Capital source	31 December 2010
Technique updating and infrastructure construction	48.26%	315,328,944.94	215,519,231.64	4.374%-5.5187%	Own capital, borrowings and bond financing	9,762,744,217.47

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

19. Project materials

UNIT: RMB

Item	31 December 2009	Increase in the year	Decrease in the year	31 December 2010
Special materials	6,389,751.56	231,739,881.58	200,831,190.71	37,292,442.93
Special equipment	300,881,150.23	4,702,105,415.10	4,536,176,848.71	166,809,716.62
Equipment in transit	387,558,981.22	84,918,548.95	1,274,477,530.17	-
Total	689,879,883.01	5,775,763,845.63	5,961,491,569.09	504,102,159.55

20. Intangible assets

UNIT: RMB

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
I. Total of initial book value	8,644,042,523.56	552,896,464.02	36,803,477.47	9,160,135,510.11
Land use right	8,161,761,599.52	524,898,672.27	34,583,114.64	8,952,077,257.15
Computer software	426,192,934.40	8,827,182.92	5,862.23	51,139,613.49
Others	139,661,530.64	19,170,608.83	221,330.00	156,618,639.47
II. Accumulated Amortization	806,932,368.56	205,783,446.80	1,890,788.69	1,010,825,026.67
Land use right	697,815,734.35	80,916,316.40	661,224.85	878,070,825.90
Computer software	34,365,159.22	4,867,304.05	4,119.43	39,228,343.84
Others	74,751,474.99	19,999,826.35	1,225,444.41	93,525,856.93
III. Net	7,837,110,155.00	347,113,017.22	34,912,688.78	8,149,310,483.44
Land use right	7,752,945,955.17	343,982,355.87	33,921,889.79	8,074,006,431.25
Computer software	8,254,134.18	3,959,878.87	2,743.40	12,211,269.65
Others	64,910,055.65	(829,217.52)	988,055.59	63,092,782.34
IV. Preparation for impairment loss	-	-	-	-
Net book value	7,837,110,155.00	347,113,017.22	34,912,688.78	8,149,310,483.44

Note on intangible assets:

- (1) As at 31 December 2010, the Group was going through the procedures for land-use right certificates of land with a book value of RMB409,983,251.90 (31 December 2009: RMB279,172,169.55). The management sees no legal or other obstacles in obtaining the certificates when registration formalities are performed and related fees are paid.
- (2) Included in current year cost additions, acquisition of intangible assets is amounted to RMB99,614,142.02 and transfer from construction-in-progress is amounted to RMB453,282,322.00.
- (3) Included in current year cost reduction, disposal of assets is amounted to RMB36,796,614.64, and the decrease caused by exchange is amounted to RMB6,862.93.
- (4) Included in additions of accumulated amortization of intangible assets, provided for this year is amounted to RMB205,783,446.80.
- (5) Included in reductions of accumulated amortization of intangible assets, disposal of assets is amounted to RMB1,886,669.26, and the reduction caused by exchange is amounted to RMB4,194.43.

21. Long-term deferred expenses

UNIT: RMB

Item	Opening balance	Increase in the year	Amortization in the year	Recording into foreign currency exchange difference	Closing balance
Fees for decorations	28,947,263.51	12,321,429.33	30,021,907.26	-	1,246,785.58
Leasing expenses	1,453,518.34	849,079.56	545,768.40	-	1,756,829.50
Others	2,137,772.42	2,404,933.61	704,809.49	(13,064.75)	3,824,831.79
Total	34,538,554.27	15,575,442.47	31,272,485.15	(13,064.75)	18,828,146.84

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

22. Deferred income tax assets/liabilities

(1) Recognized deferred income tax assets/liabilities:

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Deferred income tax assets		
Provision for asset impairment	451,481,222.69	406,861,439.44
Unrealized profit compensation in internal transaction	175,768,951.77	104,134,873.49
Difference in residuals of fixed assets	56,012,988.53	61,691,936.83
Loss from change in fair value	35,705,549.10	-
Termination benefit	46,321,807.72	59,866,607.12
Deductible loss	262,483,929.98	338,643,368.89
Others	139,781,621.18	83,471,528.95
Total	1,353,771,070.97	1,054,669,754.72
Deferred income tax liabilities		
Tax allowance for investment income	212,253,962.25	113,926,874.31
Gains from change in fair value	181,404,831.89	149,052,795.09
Others	2,567,620.32	2,492,512.06
Total	396,226,414.46	265,472,181.46

(2) Unrecognized deferred income tax assets

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Provision for asset impairment	55,827,627.97	70,460,858.43
Deductible loss	711,637,168.41	844,217,126.74
Others	103,544,534.66	253,144,771
Total	871,009,331.04	939,989,432.88

(3) Deductible losses of unrecognized deferred income tax assets due next period:

Year	UNIT: RMB	
	31 December 2010	31 December 2009
2010	-	261,069,755.03
2011	-	35,549,414.86
2012	15,489,134.32	44,100,644.49
2013	451,235,939.74	485,822,238.94
2014	17,675,073.42	17,675,073.42
2015	227,237,020.93	-
Total	711,637,168.41	844,217,126.74

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

(4) Temporary difference

		UNIT: RM8
Item	Temporary difference	
31 December 2010		
Deductible temporary difference & deductible losses		
Preparation for assets impairment	1,840,632,259.21	
Unrealized profit compensation in internal transaction	703,075,807.08	
Deductible loss	1,055,325,906.68	
Difference in residuals of fixed assets	216,249,750.60	
Termination benefit	185,847,664.53	
Loss from change in fair value	14,082,196.36	
Others	562,501,512.70	
Sub-total	4,577,715,097.16	
Taxable temporary differences		
Tax allowance for investment income	1,320,959,363.76	
Gains from change in fair value	758,513,140.08	
Others	4,992,305.48	
Sub-total	2,084,464,809.32	
31 December 2009		
Deductible temporary difference & deductible losses		
Preparation for assets impairment	1,671,476,039.86	
Unrealized profit compensation in internal transaction	416,539,493.96	
Deductible loss	1,383,798,063.69	
Difference in residuals of fixed assets	356,421,741.01	
Termination benefit	241,016,808.40	
Loss from change in fair value	-	
Others	656,139,604.13	
Sub-total	4,725,382,184.05	
Taxable temporary differences		
Tax allowance for investment income	455,707,497.24	
Gains from change in fair value	671,536,222.00	
Others	8,040,361.48	
Sub-total	1,135,284,080.72	

23. Asset impairment provisions

						UNIT: RM8
Item	Opening balance	Increase in the year	Decrease in the year		Foreign currency translation difference	Closing balance
			Reversal	Writing off		
I. Bad debt provision	573,450,368.99	179,361,343.15	135,553,453.07	27,850,847.49	(2,184,851.75)	587,222,559.83
II. Loss from inventories	1,060,643,070.06	867,070,618.73	719,433,137.66	528,809.23	(1,820,764.23)	1,205,931,477.67
III. Provision for long-term equity investment impairment	722,467.64	3,311,720.00	-	-	-	4,034,187.64
IV. Provision for fixed asset impairment	51,828,691.59	3,378,509.51	-	-	-	55,207,201.10
V. Provision for loan impairment	55,292,300.00	11,000,000.00	21,450,000.00	-	(308,250.00)	44,534,050.00
Total	1,741,936,698.28	1,064,122,191.39	876,436,590.73	28,379,656.72	(4,313,365.98)	1,896,929,476.24

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

24. Other non-current assets

UNIT: RMB		
Item	31 December 2010	31 December 2009
Loans receivable from Bao-Island Enterprises	117,905,780.14	117,905,780.14
Deposit	-	298,440.75
Others	3,138,192.64	3,460,106.57
Total	121,043,972.78	121,564,327.46

25. Short-term loans

(1) By category

UNIT: RMB		
Item	31 December 2010	31 December 2009
Loans by pledge (Note1)	1,946,265,947.37	2,197,793,646.17
Guaranteed loans (Note2)	40,000,000.00	12,500,000.00
Credit loans	21,624,980,476.45	22,064,136,139.78
Total	23,611,246,423.82	24,274,429,785.95

At the balance sheet date, among the Group's short-term loans, the annual interest rate ranges from 4.003% to 5.10% for short-term loans in RMB (2009: 1.7062% to 4.374%), and from LIBOR+0.6% to LIBOR+2.5% for short-term loans in USD (2009: LIBOR+0.4% to LIBOR+0.7%). The annual interest rate in Euro ranges from LIBOR+0.35% to LIBOR+0.65% (2009: LIBOR+0.35% to LIBOR+0.65%).

Note1: As at December 31, 2010, a total of RMB1,346,265,947.37 (31 December 2009: RMB1,597,793,646.17) of pledge for the short-term loans are unsecured discounted bank acceptance bills of exchange. A total of RMB600,000,000.00 (31 December 2009: RMB600,000,000.00) is pledged by means of bank guarantee and note payable.

Note2: As at December 31, 2010, a total of RMB40,000,000.00 of the guaranteed loans is collateralized by guarantee letters issued by Mitsui & Co. Ltd (31 December 2009: RMB12,500,000.00).

26. Customer bank deposits and deposits due to banks and other financial institutions

UNIT: RMB		
Item	31 December 2010	31 December 2009
Current deposit	347,340,779.32	147,301,946.55
Fixed deposit	8,561,000,000.00	6,871,308,731.90
Total	8,908,340,779.32	7,018,610,678.45

27. Loans from other banks

UNIT: RMB		
Item	31 December 2010	31 December 2009
Loans from domestic banks	-	34,141,000.00

28. Transactional financial liabilities

UNIT: RMB		
Item	Fair value at year end	Fair value at the beginning of the year
Derivative financial liabilities	3,480,773.10	6,285,024.95

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

29. Notes payable

UNIT: RMB		
Item	31 December 2010	31 December 2009
Commercial acceptance bills of exchange	801,578,107.92	3,655,041,603.13
Bank acceptance bills of exchange	1,420,364,691.99	1,200,314,389.74
Total	2,221,942,799.91	4,855,355,992.87

The above-mentioned notes payable will be due in 2011. As at 31 December 2010, no balance in the account is due from shareholding institutes or related parties who own 5% or more of the Company's shares or voting power (2009: None).

30. Trade payable

(1) Details of trade payable

UNIT: RMB		
Item	31 December 2010	31 December 2009
Fund payable for equipment	2,573,167,239.12	3,751,804,266.85
Fund payable for raw materials	16,590,967,419.25	14,830,809,173.79
Total	19,164,134,658.37	18,582,613,440.64

As at 31 December 2010, trades payable with an age over one year, totaling RMB669,315,805.26, were uncanceled constructions fees for technique updating and infrastructure projects, which last for a long period. (2009: RMB163,335,593.80).

- (2) Refer to Note (VI) 6(8) for details regarding the accounts payable to shareholder holding 5% (inclusive) of the equity interests with voting power or related parties.

31. Advance receivable

(1) Details of advance receivable

UNIT: RMB		
Item	31 December 2010	31 December 2009
Advance receivable	11,795,800,061.97	11,045,412,382.55

- (2) Refer to Note VI 6(9) for details about advance from customers from shareholders holding over 5% (inclusive) of the equity interests with voting power or related parties.

The ages of payments in advance in significant amount in the Group were all within one year as at 31 December 2010.

32. Employee compensations payable

UNIT: RMB				
Item	1 January 2010	Increase in the year	Decrease in the year	31 December 2010
I Salaries, bonuses, allowances and subsidies	1,163,181,103.02	5,570,983,105.09	5,513,715,143.98	1,220,449,064.13
II Welfare expenses	-	333,268,590.89	333,268,590.89	-
III Social insurances	11,270,126.29	1,545,737,932.76	1,552,383,142.42	4,624,916.63
Including Basic endowment insurance	3,051,059.75	806,850,642.08	807,795,195.69	2,106,506.14
Medical insurance	340,470.59	435,036,806.74	433,863,383.72	1,513,893.61
Unemployment insurance	105,734.10	70,848,426.09	70,798,601.29	155,558.90
Work injury insurance	208,974.92	19,888,247.69	20,021,438.50	75,784.11
Maternity insurance	57,430.63	19,241,060.57	19,236,116.63	62,374.57
Employment for the injured	752,508.38	24,408,432.85	25,153,859.73	7,081.50
Annuity fund	5,732,663.66	169,441,427.14	174,471,187.00	702,903.80
Others	1,021,284.26	22,889.60	1,043,359.86	614.00
IV Housing accumulation fund	104,244.93	274,282,923.20	274,275,687.23	111,480.90
V Compensations for cancellation of labor relationship	220,622,530.05	97,050,139.67	127,751,840.28	189,920,829.44
VI Labor union expenditure and employee educational expenses	136,075,161.99	181,961,011.54	162,959,270.45	155,076,903.08
VII Others	63,877,032.02	68,290,241.24	61,116,431.13	71,050,842.13
Total	1,595,130,198.30	8,071,573,944.39	8,025,470,106.38	1,641,234,036.31

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

As at 31 December 2010, the total employee compensation payable amounted to RMB982,397,188.61 (RMB982,397,188.61 in the previous year), including unpaid portion which was accounted in line with work efficiency.

No amount in arrears or non-monetary welfare is included in employee benefits payable.

33. Taxes and fees payable

Item	UNIT: RMB	
	31 December 2010	31 December 2009
VAT	(7,185,934.37)	(359,176,289.40)
Business tax	20,032,667.18	12,778,648.22
Enterprise income tax	811,389,051.36	(784,411,969.47)
Individual income tax	114,449,189.74	117,323,281.96
Urban maintenance and construction tax	46,412,165.04	10,894,365.64
Property tax	35,904,409.53	18,224,286.80
Others	101,961,243.41	37,996,942.88
Total	1,122,962,791.89	(946,370,733.37)

34. Interests payable

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Interests payable for convertible bonds	42,222,222.22	42,222,222.22
Interests payable for medium-term notes	146,482,191.78	146,482,191.78
Interests payable for loans	100,976,973.11	51,752,131.77
Total	289,681,387.11	240,456,545.77

35. Dividends payable

Company	UNIT: RMB	
	31 December 2010	31 December 2009
China Orient Asset Management Corp.	8,850,086.58	8,850,086.58
Sumitomo Corporation Ltd.	-	4,037,596.46
Coming (Hong Kong) Ltd.	2,082,443.05	2,582,443.05
Mitsui & Co. Ltd.	78,115.99	691,621.34
Anhui Huihang Co. Ltd.	3,457,171.58	-
Others	22,022.21	522,022.21
Total	14,469,839.41	6,683,769.64

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

36. Other payables

(1) Details of other payables:

Category	UNIT: RMB	
	31 December 2010	31 December 2009
Guarantee and deposit fees	477,259,636.72	492,053,170.35
Advanced fund	95,385,813.56	186,880,050.05
Transportation and port dues	115,102,376.64	151,202,287.30
Construction fees payable	2,300,762.43	1,270,068.24
Land compensation	49,016,850.40	44,784,320.36
Rever fund	13,016,932.34	3,016,932.34
Commission expense	7,878,039.65	21,986,879.67
Others	105,994,616.01	105,044,582.93
Total	865,954,967.77	1,016,235,301.24

(2) As at 31 December 2010, the balance of the account did not include any fund (same as at 31 December 2009) which were attributable to shareholding institutes or related parties who own 5% or more of the Company's shares or voting power.

(3) Note about other payables with over one year of aging:

The age of the following trade receivable in significant amount in the Group is over one year as at 31 December 2010: Guarantee and pledge RMB176,643,346.47. This is because of longer period of contract term.

37. Current liabilities

(1) Detail of current liabilities

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Current long-term loan	667,876,403.21	114,126,334.34
Current long-term payable	2,958,833,680.10	2,868,833,680.10
Total	3,536,710,083.31	2,982,960,014.44

(2) Current portion of long-term borrowings

(a) Current portion of long-term borrowings

Item	UNIT: RMB	
	31 December 2010	31 December 2009
Debt of nonour	667,876,403.21	114,126,334.34

(b) Top five current long-term borrowings

Bank	Starting	Ending	Currency	Rate (%)	UNIT: RMB	
					31 December 2010	
					Amount in foreign currency	Translated amount in RMB
SMBC	07/06/2010	02/09/2011	USD	LIBOR + 1.1%	30,000,000.00	198,681,000.00
SMBC	03/11/2009	28/01/2011	USD	LIBOR + 0.5%	24,000,000.00	158,944,800.00
SMBC	03/11/2009	28/01/2011	USD	LIBOR + 0.5%	6,000,000.00	105,963,200.00
Standard Chartered	20/03/2010	19/09/2011	USD	6 LIBOR + 2.03%	15,000,000.00	99,340,500.00
CCB	18/09/2009	18/09/2011	EUR	FIXED + 0.305%	5,750,384.74	50,640,763.21
Total						613,570,263.21

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

Bank	Starting	Ending	Currency	Rate (%)	31 December 2009	
					UNIT: RMB	
					Amount in foreign currency	Translated amount in RMB
CCB	18/03/2008	18/09/2010	EUR	EUR+0.305%	5,750,384.74	56,337,094.34
CCB	11/08/2004	20/12/2010	USD	LIBOR+1.2%	4,800,000.00	32,775,360.00
CCB	29/04/2004	20/12/2010	USD	LIBOR+1%	3,400,000.00	23,215,880.00
SMBC	17/07/2007	30/06/2010	RMB	4.86%		1,798,000.00
Total						114,126,334.34

38. Long-term borrowings

(1) Categories

Item	31 December 2009	
	UNIT: RMB	
Credit loan	6,586,976,200.00	5,294,932,134.33

(2) Top five current long-term borrowings

Bank	Starting	Ending	Currency	Rate (%)	31 December 2010	
					UNIT: RMB	
					Amount in foreign currency	Translated amount in RMB
EIBC	15/09/2010	15/07/2013	USD	6 LIBOR+2.8%	200,000,000.00	1,324,540,000.00
EIBC	29/12/2010	16/12/2013	USD	6 LIBOR+0.5%	100,000,000.00	662,270,000.00
BOC	04/05/2009	04/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
BOC	08/05/2009	08/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
BOC	20/05/2009	20/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	662,270,000.00
Total						3,973,620,000.00

Bank	Starting	Ending	Currency	Rate (%)	31 December 2009	
					UNIT: RMB	
					Amount in foreign currency	Translated amount in RMB
BOC	04/05/2009	04/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	682,820,000.00
BOC	08/05/2009	08/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	682,820,000.00
BOC	20/05/2009	20/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	682,820,000.00
EIBC	11/06/2009	10/06/2012	USD	3 LIBOR+0.4%	100,000,000.00	682,820,000.00
EIBC	25/06/2009	25/06/2012	USD	3 LIBOR+0.4%	100,000,000.00	682,820,000.00
Total						3,414,100,000.00

Bank credit-granting quota

As at 31 December 2010, the remaining bank credit-granting quota of the Company was RMB380.313 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

39. Bond payable

Name	Carrying value	Issuing date	Duration	Amount issued
08Baosteel Bond (126016) (Note1)	10,000,000,000.00	20 June, 2008	6 years	10,000,000,000.00
Medium-term note (0982075) (Note2)	5,000,000,000.00	25 May 2009	3 years	5,000,000,000.00
Medium-term note (0982097) (Note2)	5,000,000,000.00	30 June 2009	3 years	5,000,000,000.00
Total	20,000,000,000.00			20,000,000,000.00

Note1: Approved by China Securities Regulatory Commission (CSRC) in the documents of [2008]739, the Company issued on 20 June 2008, RMB10 billion convertible bonds with attached warrants with par value of RMB100 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 RMB12.50 per stock, which was adjusted to RMB12.16 per stock on June 15, 2009, and was adjusted to RMB11.80 on 24 May 2010 due to the dividend distribution. 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 XWV (x-warrant) or 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.

Note2: In May 2009, the National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB10 billion medium-term note in China by the Company. The note can be launched within the following two years and by instalment. The Company issued on 25 May 2009 the first batch of three-year medium note (09Baosteel MTN1) worth RMB5 billion, with a coupon rate of 2.65%, a face value of RMB100 and a fixed interest rate. The second batch (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 securities market.

40. Long-term payables

UNIT: RMB		
Item	31 December 2010	31 December 2009
Payable to Luojing assets	5,410,891,926.22	7,961,274,621.45
Less: Current portion of long-term payables	2,868,833,680.10	2,868,833,680.10
Total	2,542,058,246.12	5,092,440,941.36

The delivery price of Luojing assets and businesses, which the Group acquired from Baosteel Group Pudong Steel on 1 Apr. 2008, was RMB14,344,168,400.50. The payment will be made by interest-free mortgage within a period of five years, with 20% of the total, or RMB2,868,833,680.10, 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 2010, the book value of the long-term payables in the Group totaled RMB5,737,667,360.20 and the unrecognized financing charge to be amortized was RMB326,775,433.98.

41. Special payables

UNIT: RMB				
Item	31 December 2009	Increase in the year	Decrease in the year	31 December 2010
Government subsidies	1,0914,331.45	3614,000.00	14,237,385.34	45808,945.11

42. Other non-current liabilities

UNIT: RMB			
Item	31 December 2010	31 December 2009	
Deferred income (Note)	1,088,486,622.55	368,408,656.13	
Others		2210,834.94	
Total	1,088,486,622.55	370,619,491.07	

Note: For the government subsidies to the Group, the deferred income will be amortized within the time period of the useable life-span of the related assets in accordance with the rules of the Accounting Standards for Business Enterprise.

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

UNIT: RMB				
Interest payable at the beginning of the year	Accumulated interest in the period	Interest paid in the year	Interest payable at the end of the year	Closing value
42,222,222.22	80,000,000.00	80,000,000.00	42,222,222.22	8,519,950,689.40
79,800,000.00	133,000,000.00	133,000,000.00	79,800,000.00	4,978,027,013.88
66,682,191.78	133,000,000.00	133,000,000.00	66,682,191.78	4,976,817,579.92
188,704,414.00	346,000,000.00	346,000,000.00	188,704,414.00	18,476,795,283.20

43. Share capital

The registered and paid-up capital of the Company totals RMB17,512,048,088.00 with par value of RMB1 each. The share types and structure is as follows:

UNIT: RMB						
	31 December 2009	Change in the year				
		New share issued	Bonus share	Share transferred from reserve	Others	Sub-total
2010						
I. Shares without selling restrictions						
I. RMB ordinary share	17,512,000,000.00	-	-	-	48,088.00	48,088.00
II. Total share	17,512,000,000.00	-	-	-	48,088.00	48,088.00
2009						
I. Shares without selling restrictions						
I. RMB ordinary share	17,512,000,000.00	-	-	-	-	-
II. Total share	17,512,000,000.00	-	-	-	-	-

As at the end of 31 December 2010, the 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 2.2 shares for every ten tradable shares the holders have registered on the day of registration and a European style warrant of subscription right with an expiry period of 378 days till 10 August, 2006, and an 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 RMB2 billion injection with its holding of the Company amounting to 446,565,849 shares.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

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 RMB2 billion in the aggregation, together with the remaining of the first injection if it has not being used up, to purchase the Company's shares by means of competitive pricing at the Stock Exchange of Shanghai until the promised sum has been used up or the Company's shares rise at a level above 4.53 per share. The promise shall be fulfilled before the China Securities Regulatory Commission exempts the Group from the duties in purchasing the shares of the Company and the non-tradable share reform program will be 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 RMB2-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 RMB2 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 5,542,359 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 RMB2 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 conditional 11,900,917,441 shares of the Company held by Baosteel Group were allowed to circulate on market, making all the shares of the Company unconditional shares, of which Baosteel Group owns 73.97%. In the reported period, the Group neither bought nor sold any of the shares of the Company it held.

The Company issued RMB10 billion of convertible bonds featuring the separation between stock rights and bonds on 20 June, 2008. The annual contract interest rate was 0.8%. The volume of warrants is 1,600,000,000. The duration of the warrant was 24 months, the exercise proportion was 2:1 and the initial exercise price was RMB12.50 per stock, which was adjusted to RMB12.16 per stock on June 15, 2009, and was adjusted to RMB11.80 on 24 May, 2010 due to the dividend distribution. The exercise duration was from 4 July 2008 to 3 July 2010. As at the Market Close on 2 July 2010, the exercise schedule for "Baosteel CWB1" was ended with 113,785 equity warrants exercised, and an increase of 48,088 shares of the Company. The share change of this year has been audited by Deloitte Touche Tohmatsu CPAL, who has presented a report "Deloitte Touche Tohmatsu CPAL (10) 0052".

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued);

44. Capital reserves

UNIT: RMB				
Item	31 December 2009	Increase in the year	Decrease in the year	31 December 2010
2010:				
Capital premium				
Including Reserve from conversion of state-owned share	5,726,556,609.73	-	-	5,726,556,609.73
Share premium (Note1)	27,370,337,395.58	2,332,992,327.42	-	29,703,329,723.00
Others				
Including Provision for equity investment (Note2)	(1,939,645.96)	-	134,2128.13	(1,535,774.09)
Change in fair value of available-for-sale financial assets	655,706,324.46	80,712,831.63	-	736,419,156.09
Impact of change in fair value of available-for-sale financial assets upon income tax	(52,675,258.18)	-	31,608,600.36	(184,283,858.54)
Other capital reserves				
Including Equity separated in the convertible bond (Note1)	2,332,472,977.02	-	2,332,472,977.02	-
Other capital reserves (Note3)	1,383,850,096.08	215,313,006.74	-	1,599,163,102.82
Total	37,314,308,498.73	2,629,018,165.79	2,377,493,705.51	37,565,832,959.03
2009				
Capital surplus				
Including Balance from state share exchange	5,726,556,609.73	-	-	5,726,556,609.73
Share premium	27,370,337,395.58	-	-	27,370,337,395.58
Others				
Including Provision for equity investment	(1,358,481.16)	-	381,164.80	(1,939,645.96)
Change in fair value of available-for-sale financial assets	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)
Other capital reserves				
Including Equity separated in the convertible bond (Note1)	2,332,472,977.02	-	-	2,332,472,977.02
Other capital reserves	1,166,306,618.44	217,577,178.42	33,700.78	1,383,850,096.08
Total	36,806,692,595.98	599,946,679.6	92,330,776.41	37,314,308,498.73

Note1 The volume originally in capital reserve (other capital reserve) shall be transferred into capital reserve (capital premium) when the warrant has not been exercised by the shareholder before the end of the exercise date.

Note2 Decrease in this year's reserve for equity investment, mainly due to the changes in the accounting of the capital reserve of associates and joint ventures by the equity method.

Note3 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

45 Special reserve

UNIT: RMB

Item	31 December 2009	Increase in the year	Decrease in the year	31 December 2010
2010				
Fees for security in operation	8,314,857.96	27,840,911.13	20,864,406.29	15,291,362.80
2009				
Fees for security in operation		22,585,557.62	14,270,699.66	8,314,857.96

46 Earnings reserve

UNIT: RMB

Item	31 December 2009	Increase in the year	Decrease in the year	31 December 2010
2010				
Statutory earnings reserve	12,781,589,936.61	1,483,315,664.42	-	8,426,474,601.03
Discretionary earnings reserve	10,549,611,276.39	1,149,315,664.42	-	11,697,926,940.81
Total	17,827,770,213.00	2,296,631,328.84	-	20,124,401,541.84
2009				
Statutory earnings reserve	6,770,471,793.79	507,687,142.82	-	12,781,589,936.61
Discretionary earnings reserve	10,041,924,333.57	507,687,142.82	-	10,549,611,276.39
Total	16,812,395,927.36	1,015,374,285.64	-	17,827,770,213.00

According to the Company Law of China and the Articles of the Company the Company allocates 10% of the parent company's 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.

47 Undistributed profit

UNIT: RMB

Item	Amount	Rate
2010		
Undistributed profit at beginning of year	22,583,995,111.41	
Add Net profit attributed to the owner of the parent company	12,889,083,319.12	
Less: Statutory earnings reserve	1,148,315,664.42	10% of the net profit of the parent company
Discretionary earnings reserve	1,149,315,664.42	0% of the net profit of the parent company
Dividend distributed	3,502,400,000.00	
Closing balance of the year	29,674,047,101.69	
2009		
Undistributed profit at beginning of year	20,935,302,003.95	
Add Net profit attributed to the owner of the parent company	5,816,227,393.10	
Less: Statutory earnings reserve	507,687,142.82	10% of the net profit of the parent company
Discretionary earnings reserve	507,687,142.82	0% of the net profit of the parent company
Dividend distributed	3,152,160,000.00	
Closing balance of the year	22,583,995,111.41	

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

48. Operating revenue and operating costs

(1) Operating revenue

Item	UNIT: RMB	
	2010	2009
Principal operating revenue	200,979,794,788.27	147,282,020,262.18
Other operating revenue	1,169,357,576.50	1,044,343,647.76
Total	202,149,152,364.77	148,326,363,909.94

(2) Principal operating activities (by industry)

Category	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Iron & steel manufacturing	173,411,363	154,674,564	125,637,716	114,536,566
Sales of iron & steel products	171,058,204	166,930,018	129,682,540	126,586,662
Others	12,246,936	10,687,611	9,222,745	8,193,932
Writing-off between industries	(155,736,708)	(155,443,419)	(117,260,981)	(115,927,760)
Total	200,979,795	176,848,774	147,282,020	133,389,400

(3) Principal businesses (by product):

Product	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Cost	Operating revenue	Cost
Iron & steel	194,547,928	172,584,532	143,202,073	130,742,802
Others	6,431,867	4,264,242	4,079,947	2,646,598
Total	200,979,795	176,848,774	147,282,020	133,389,400

(4) Principal businesses by region:

Region	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Cost	Operating revenue	Cost
RPC	180,976,333	160,404,690	133,376,620	121,690,748
Overseas	20,003,462	16,444,084	13,955,400	11,698,652
Total	200,979,795	176,848,774	147,282,020	133,389,400

(6) Operating revenue of top five customers

Entity	UNIT: RMB	
	Operating revenue	Percentage in the Company's total revenue (%)
Entity 1	10,328,609,849.63	5%
Entity 2	8,992,181,852.15	4%
Entity 3	3,315,916,287.63	2%
Entity 4	1,621,979,746.85	1%
Entity 5	1,487,045,214.46	1%
Total	25,745,732,950.75	13%

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

49. Operating taxes and surcharges

Item	UNIT: RMB	
	2010	2009
Income tax	63,120,117.77	73,827,005.53
Urban maintenance and construction tax	290,369,417.70	307,997,989.48
Education additional tax	131,957,787.54	138,724,123.91
Tariff	7,377,775.20	9,766,105.25
Others	32,230,104.58	39,319,067.95
Total	525,055,202.74	569,634,297.13

Note: Refer to Note (4)(1) for relevant criteria and tax rates for the above items.

50. Financial expenses

Item	UNIT: RMB	
	2010	2009
Interest expenses	815,579,485.34	1,898,990,980.15
Less capitalization of interests	217,845,686.64	234,335,290.51
Less income from interests	50,545,045.75	33,729,231.67
Exchange gain	(787,994,117.59)	(3,652,851.60)
Less capitalization of difference arising from exchange	-	-
Others	47,379,867.30	48,229,855.50
Total	806,574,502.66	1,675,503,461.87

51. Asset impairment loss

Item	UNIT: RMB	
	2010	2009
I. Loss from bad debts	43,807,890.08	38,301,008.42
· Loss from provision for inventories	147,637,481.07	(592,057,870.82)
III. Loss from long-term equity investment impairment	3,311,720.00	722,457.64
IV. Loss from fixed asset impairment	3,378,509.51	-
V. Loss from borrowings	(10,450,000.00)	17,930,000.00
Total	187,685,600.66	(635,104,394.76)

52. Income from change in fair value

Source	UNIT: RMB	
	2010	2009
Transactions: financial assets	9,259,323.78	(112,619,331.9)
Transactional financial liabilities	2,804,251.83	5,215,419.78
Total	12,063,575.63	(107,403,712.11)

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

53. Investment income

(1) Details of investment income:

Item	UNIT: RMB	
	2010	2009
Investment income of long-term equity investment in cost method	407,797,852.78	202,232,477.84
Investment income of long-term equity investment in equity method	444,905,040.66	264,376,702.98
Stock investment income	(4,991,994.89)	492,459,555.16
Bond investment income/(loss)	21,841,070.53	(2,114,184.53)
Fund investment income	(21,834,304.41)	4,314,940.59
Loss from derivative financial instruments to avoid risks	(39,415,758.00)	(8,661,421.83)
Profit/(Loss) in equity transfer investment	897,313.53	-
Others	17,481,320.94	843,791.54
Total	826,681,541.14	953,451,861.75

(2) Top five investors whose investment income from long-term equity investment accounts for the highest proportion of the pre-tax profit on the basis of the cost method:

			UNIT: RMB
Investee	2010	2009	Reason for the change
Henan Longyu Energy Co., Ltd	324,394,553.95	65,639,911.38	Cash dividend
Hainan Zhenglong Coal Co., Ltd	45,847,620.00		Cash dividend
CISDI Engineering Co., Ltd	19,199,112.85	7,486,042.93	Dividends distribution
Baowale Mining Co., Ltd	12,324,680.38	19,341,712.45	Cash dividend
Shanghai Luoyang Mining Port Co., Ltd	4,793,785.60	8,056,841.32	Cash dividend
Total	406,559,752.78	100,524,508.08	

(3) Investment income of long-term equity investment in equity method

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

UNIT: RMB			
Investee	2010	2009	Reason for the change
BNA	313,522,385.06	123,561,749.91	Joint venture profit change
Bao-Island Enterprises	69,402,584.65	77,284,981.70	Joint venture profit change
STAL Precision	52,905,305.01	42,705,533.53	Joint venture profit change
Welding Co	27,291,527.07	13,492,244.13	Joint venture profit change
Baoqiang Shipping	6,720,552.96	5,503,871.72	Joint venture profit change
Total	469,847,354.75	262,549,380.99	

As at December 31, 2010, the Group did not encounter any major restrictions in the remittance of investment income.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

54. Non-operating revenue

UNIT: RMB		
Item	2010	2009
Gain from disposal of non-current assets	9,685,533.95	39,416,680.03
Including gain from disposal of fixed assets	9,685,533.95	39,416,680.03
Government subsidies	507,705,701.77	318,053,634.15
Income from compensations	8,994,839.88	63,113,059.57
Others	63,453,908.57	75,015,886.43
Total	589,839,984.17	495,599,260.18

55. Non-operating expenses

UNIT: RMB		
Item	2010	2009
Loss from disposal of non-current assets	133,386,264.64	381,438,717.93
Including Loss from disposal of fixed assets	133,386,264.64	381,438,717.93
Donations	12,249,565.29	38,848,308.09
Others	33,736,182.89	34,523,079.85
Total	179,372,012.82	454,810,105.87

56. Income tax expenses

UNIT: RMB		
Item	2010	2009
Current income tax expenses	3,725,399,454.34	776,404,045.85
Adjustment to previous taxation	(33,611,326.28)	(36,984,042.37)
Deferred income taxation	73,557,297.86	457,933,674.31
Total	3,715,345,425.92	1,199,353,677.79

Relationship between income tax and total profit

UNIT: RMB		
	2010	2009
Total profit	17,076,233,030.47	7,294,555,395.87
Income tax expenses calculated at 25% (2009: 25%)	4,269,058,257.62	1,823,638,848.96
Adjustment to previous taxation	(33,611,326.28)	(36,984,042.37)
Effect of expenses that are not deductible for tax purposes	70,245,663.57	36,962,548.79
Effect of tax-free income	(212,378,164.87)	(134,410,458.33)
Effect of unrecognized deductible losses and deductible temporary differences for tax purposes	64,515,599.56	7,937,974.62
Effect of using previously unrecognized deductible losses and deductible temporary differences for tax purposes deductible temporary differences for tax purposes	(72,514,465.28)	(83,014,027.49)
Impact of change in tax rate	(5,901,476.08)	(11,022,434.71)
Surcharge preference	(363,142,644.39)	(328,867,753.93)
Others	(926,017.93)	(73,886,977.75)
Total	3,715,345,425.92	1,199,353,677.79

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

57. Earnings per share

In calculating the basic earnings per share, the current net profits belonging to the shareholders of ordinary shares

	UNIT: RMB	
	2010	2009
Net profit for the current period attributable to ordinary shareholders	12,889,083,319.12	5,816,227,393.10
Including net income from continuing operations	2,889,083,319.12	5,816,227,393.10
Net income from discontinued operations	-	-

In calculating the basic earnings per share, the denominator is the weighted average number of ordinary shares issued to the public.

	UNIT: RMB	
	2010	2009
Number of ordinary shares issued to the public in the beginning of the year	17,512,000,000.00	17,512,000,000.00
Add Weighted average number of ordinary shares issued to the public in the year	24,044.00	-
Less Weighted average number of ordinary shares bought back in the year	-	-
Weighted average number of ordinary shares issued to the public at the end of the period	17,512,024,044.00	17,512,000,000.00

Earnings per share

	UNIT: RMB	
	2010	2009
Current net profit attributable to the shareholders of ordinary shares	-	-
The basic earnings per share	0.74	0.33
Net profit from continuing operations for the year attributable to shareholders of the parent	-	-
The basic earnings per share	0.74	0.33
Net profit from discontinued operations for the year attributable to shareholders of the parent	-	-
The basic earnings per share	-	-

As no diluted potentials were detected for its A-shares in 2010, the diluted earnings per share was not disclosed

58. Other comprehensive income

	UNIT: RMB	
Item	2010	2009
1. Gain/(Loss) from financial assets available for sale	60,831,146.09	902,210,153.79
Less: Income tax impact from financial assets available for sale	26,638,178.97	100,606,697.21
Net amount recorded in comprehensive income but transferred to current profits and losses	-	485,077,507.55
Sub-total	34,192,967.12	316,525,949.03
2. Share in investee's other comprehensive income on basis of equity method	(13,412,128.15)	(381,164.80)
Sub-total	(13,412,128.15)	(381,164.80)
3. Difference in foreign currency translation	(35,651,627.04)	(74,027.23)
Sub-total	(35,651,627.04)	(74,027.23)
Total	(14,870,793.07)	316,070,757.00

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

59. Notes to cash flow statements

(1) Other cash received relating to operating activities

UNIT: RMB		
Item	2010	2009
Income from non-operating activities and government grants	2,068,141,410.04	752,365,538.60

(2) Other cash paid relating to operating activities

UNIT: RMB		
Item	2010	2009
Sales expense	1,294,477,609.17	1,79,241,057.38
Administrative expense	1,574,370,349.04	1,388,668,362.82
Others	176,419,629.57	313,130,019.33
Total	2,955,327,587.78	2,911,039,439.53

(3) Other cash received relating to investing activities

UNIT: RMB		
Item	2010	2009
Income from interests	50,545,045.75	33,729,231.67

(4) Other cash paid relating to investing activities

UNIT: RMB		
Item	2010	2009
Settlement loss of derivative instruments	4,713,292.10	

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(V) Notes to Consolidated Financial Statements (continued)

60. Supplementary information to the cash flow statements

(1) Supplementary information to the cash flow statements

	UNIT: RMB	
Supplementary information	2010	2009
1. Reconciliation of net profit to cash flows from operations		
Net profit	13,360,887,604.55	6,095,201,718.08
Add: Provision for impairment losses of assets	187,685,600.66	(635,104,394.76)
Depreciation of fixed assets and investment properties	13,031,861,219.93	12,068,354,085.01
Amortization of intangible assets	205,783,446.80	186,964,148.38
Amortization of long-term deferred expenses	31,272,485.15	25,299,197.38
Net loss on disposal of fixed assets, intangible assets and other long-term assets	123,700,730.69	342,022,037.90
Loss from change in fair value (less profit)	(12,063,575.63)	(07,403,713.41)
Financial expense	759,194,635.36	1,627,273,606.37
Investment loss ("-" for gains)	(926,687,541.14)	(953,451,861.75)
Decrease in deferred income ("-" for increase) tax assets (less increase)	(80,707,316.25)	711,173,216.99
Increase in deferred income ("-" for decrease) tax liabilities	104,116,054.03	(25,123,934.68)
Decrease in inventories ("-" for increase)	(8,712,787,971.53)	6,874,060,906.49
Decrease in operating receivables ("-" for increase)	(4,372,485,203.34)	(3,435,167,862.70)
Increase in operating payables ("-" for decrease)	5,055,744,194.57	232,333,017.99
Net cash flow from operating activities	18,855,526,363.85	23,993,127,987.1
2. Non cash-related significant investment and financing activities		
Liabilities transferred into capital		
Convertible corporate bond due within one year		
Retiring fixed assets through financing		
3. Change of Cash and cash equivalents		
Closing balance of cash	7,887,919,424.23	4,724,082,906.98
Less: Cash balance at the beginning of the year	4,724,082,906.98	5,555,783,514.89
Add: Balance of cash equivalents at year end	50,000,000.00	100,000,000.00
Less: Balance of cash equivalents at the beginning of the year	100,000,000.00	706,781,454.78
Change	3,113,836,517.25	(1,448,482,097.69)

(2) Cash and cash equivalents

	UNIT: RMB	
Item	31 December 2010	31 December 2009
Cash	7,887,919,424.23	4,724,082,906.98
Including Cash reserve	865,587,111	359,934.40
Repayable bank deposit	7,706,180,590.65	4,709,232,466.51
Other repayable monetary funds	180,873,245.47	13,490,506.05
Cash equivalents	50,000,000.00	100,000,000.00
Including Funds from monetary market	50,000,000.00	100,000,000.00
Closing balance of cash and cash equivalent	7,937,919,424.23	4,824,082,906.98

Cash and cash equivalents under restriction of the parent company or the subsidiaries of the Group are not included in the cash and cash equivalents.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions

1. Parent company

	UNIT: RMB
Company	Baosteel Group Corporation
Relationship	Parent company
Type	LLC
Place	Shanghai
Legal Person	Xu Lejiang
Business	Iron & steel manufacturing & processing
Registered capital	51,082,620,998.89
Shareholding in the company (%)	73.97
Voting power in the company (%)	73.97
Final controller of the company	State-owned Assets Supervision and Administration Commission of the State Council (SASAC)
Code	13220082-1

2. Subsidiaries

Refer to Note (IV) for details of the subsidiaries of the Company.

3. Joint ventures and associates

Refer to Note (V) 14 for details of the joint ventures and associates.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

4. Others related parties

Other related parties	Relationship	Code
Baosteel Resources(International) Co.,Ltd. (Baosteel Resources)	Subsidiary of Baosteel Group	#6080030-0
Baosteel Metal Co. Ltd and its subsidiaries (Baosteel Metal and its subsidiaries)	Subsidiary of Baosteel Group	13223304-1
Shanghai Baosteel Engineering & Technology Co., Ltd and its subsidiaries (Engineering & Technology Co. and its subsidiaries)	Subsidiary of Baosteel Group	63083393-9
Hwabao Trust Co., Ltd. (Hwabao Trust)	Subsidiary of Baosteel Group	63124192-7
Hwabao Investment Co., Ltd. (Hwabao Investment)	Subsidiary of Baosteel Group	13222881-6
Baosteel Group Baoshan Hotel (Baoshan Hotel)	Subsidiary of Baosteel Group	13342754-2
Baosteel Development Co. Ltd and its subsidiaries (Baosteel Development and its subsidiaries)	Subsidiary of Baosteel Group	13343894-6
Baosteel Group Shanghai No.2 Steel & Iron Co., Ltd and its subsidiaries ("No. 2 Steel and its subsidiaries")	Subsidiary of Baosteel Group	13320566-7
Baosteel Group Shanghai No.1 Steel & Iron Co., Ltd and its subsidiaries (No. 1 Steel and its subsidiaries)	Subsidiary of Baosteel Group	13220760-1
Baosteel Group Shanghai Pipes Co., Ltd. (Shanghai Pipes)	Subsidiary of Baosteel Group	63057927-2
Baosteel Group Shanghai Meishan Co., Ltd and its subsidiaries (Meishan Steel and its subsidiaries)	Subsidiary of Baosteel Group	13226493-X
Baosteel Group Shanghai Pudong Steel & Iron Co., Ltd and its subsidiaries (Pudong Steel and its subsidiaries)	Subsidiary of Baosteel Group	13321291-0
Baosteel Group Shanghai No.5 Steel & Iron Co., Ltd and its subsidiaries (No. 5 Steel and its subsidiaries)	Subsidiary of Baosteel Group	13220240-5
Baosteel Group Xinyang Bay Iron & Steel Co., Ltd and its subsidiaries (Xinyang Bay and its subsidiaries)	Subsidiary of Baosteel Group	22860110-1
Baosteel Group Resource Co., Ltd and its subsidiaries (Baosteel Resource and its subsidiaries)	Subsidiary of Baosteel Group	79144036-X
Shanghai Baosteel Industrial Examination Co., Ltd and its subsidiaries (Examination Co. and its subsidiaries) Brother companies	Subsidiary of Baosteel Group	13349253-9
Nanyang Baon Steel Wires Co., Ltd. (Baon Wires)	Subsidiary of Baosteel Group	60897903-4
Shanghai Baosteel Equipment Examination & Maintenance Co., Ltd. (Examination & Maintenance Co.)	Subsidiary of Baosteel Group	63083350-9
Shanghai Institute of Steel and Iron (Institute of Steel and Iron)	Subsidiary of Baosteel Group	13342720-0
Zhangjiang Longteng Logistics Co., Ltd. (Zhangjiang Longteng)	Subsidiary of Baosteel Group	79779551-6
Ningbo Iron & Steel Co., Ltd. (Ningbo Steel)	Subsidiary of Baosteel Group	74497613-7
Guangdong Iron & Steel Group Corporation (Guangdong Steel)	Subsidiary of Baosteel Group	67708763-2
Bao Island Enterprises Limited	Joint venture	38783-0
BNA	Joint venture	71785178-5
Welding Co., Ltd.	Associated Company	75571733-3
Tianjin BCM	Associated Company	60089497-6
Baoyang Shipping	Associated Company	63179113-6
Henan Pingbao	Associated Company	76314008-7

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

5. Related transactions

Purchases or sales of goods, rendering or receiving of services

(1) Sales to related parties

UNIT: RMB Thousand

Related party	Type of transaction	Content of transaction	Price base	2010		2009	
				Amount	Percentage (%)	Amount	Percentage (%)
Baosteel Group	Sales	Energy & supplementary materials	Market price	9,755	-	12,544	0.01
No.1 Steel and its subsidiaries	Sales	Iron & steel products & supplementary	Market price	192,288	0.10	150,802	0.10
No.2 Steel and its subsidiaries	Sales	Iron & steel products	Market price	106,310	0.05	143,747	0.10
No.3 Steel and its subsidiaries	Sales	Energy etc.	Market price	14,773	0.01	12,530	0.01
Pudong Steel and its subsidiaries	Sales	Supplementary materials	Market price	478	-	71,765	0.05
Baosteel Development and its subsidiaries	Sales	Iron & steel products, supplementary materials	Market price	2,733,155	1.35	2,038,300	1.37
Engineering & Technology Co. and its subsidiaries	Sales	Iron & steel products, energy, and supplementary materials	Market price	119,164	0.06	53,858	0.04
Baosteel Metal and its subsidiaries	Sales	Iron & steel products, energy	Market price	1,493,304	0.74	949,571	0.64
BVA	Sales	Iron & steel products, energy, and supplementary materials	Market price	10,264,078	5.08	7,718,220	5.20
Meishan Steel and its subsidiaries	Sales	Iron & steel products, energy, and supplementary materials	Market price	1,553,608	0.77	950,731	0.64
Bacon Wires	Sales	Iron & steel products	Market price	1,129	-	577	-
Examination & Maintenance	Sales	Iron & steel products, energy	Market price	55,644	0.03	59,893	0.04
Examination Co. and its subsidiaries	Sales	Iron & steel products, energy	Market price	727,445	0.11	164,356	0.11
Baosteel Resources and its subsidiaries	Sales	Raw materials	Market price	8,996,604	4.45	7,097,335	4.41
Wuxing Co.	Sales	Iron & steel products	Market price	509,714	0.25	235,616	0.16
Tianjin BCM	Sales	Iron & steel products	Market price	19,685	0.01	53,137	0.10
Zhanjiang Longteng	Sales	Raw material	Market price	1,093,221	0.54	180,750	0.12
Ningbo Steel	Sales	Iron & steel products	Market price	35,512	0.02	-	-
Others	Sales	Supplementary materials	Market price	13,828	-	21,746	0.01
Total				27,439,015	13.57	15,015,571	10.11

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(2) Purchases from related parties

UNIT: RMB Thousand

Related party	Type of transaction	Content of transaction	Price base	2010		2009	
				Amount	Percentage (%)	Amount	Percentage (%)
No. 1 Steel and its subsidiaries	Purchase	Supplementary materials	Market price	284,858	0.16	182,342	0.14
No. 2 Steel and its subsidiaries	Purchase	Iron & steel products	Market price	188	-	2,828	-
No. 5 Steel and its subsidiaries	Purchase	Energy & supplementary materials	Market price	500	-	353	-
Pudong Steel and its subsidiaries	Purchase	Supplementary materials	Market price	-	-	650	-
Engineering & Technology Co. and its subsidiaries	Purchase	Equipment	Market price	1,425,675	0.80	1,316,373	0.98
Baosteel Development and its subsidiaries	Purchase	Iron & steel products, supplementary materials	Market price	1,957,348	1.10	1,079,194	0.80
Baosteel Metal and its subsidiaries	Purchase	Supplementary materials	Market price	53,981	0.03	42,229	0.03
BMA	Purchase	Iron & steel products	Market price	11,164,905	6.28	8,396,783	6.25
Examination Co. and its subsidiaries	Purchase	Supplementary materials	Market price	7,014	0.00	9,422	0.01
Examination & Maintenance	Purchase	Supplementary materials	Market price	220,307	0.12	205,884	0.15
Meshan Steel and its subsidiaries	Purchase	Raw material, Supplementary materials	Market price	1,177,332	0.66	1,245,278	0.93
Baosteel Resources and its subsidiaries	Purchase	Raw material	Market price	8,318,178	4.68	5,031,714	3.75
Baosteel Resources (International)	Purchase	Raw material	Market price	2,505,273	1.41	2,474,677	1.94
Xinjiang Baim Steel and its subsidiaries	Purchase	Iron & steel products	Market price	1,415,756	0.80	1,184,669	0.88
Ningbo Steel	Purchase	Iron & steel products	Market price	1,092,432	0.61	-	-
Zhanjiang Longteng	Purchase	Iron & steel products	Market price	1,166,900	0.66	-	-
Others	Purchase	Energy and supplementary materials	Market price	177,197	0.10	120,873	0.09
Total				30,967,774	1.741	21,293,269	1.585

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

((3) Transportation & technical service

Related party	Type of transaction	Content of transaction	Price base	UNIT: RMB Thousand	
				2010	2009
				Amount	Amount
Baosteel Group	Sales of service	Technical service	Negotiated price	13,443	53,672
No. 1 Steel and its subsidiaries	Sales of service	Technical service	Negotiated price	226	-
No. 5 Steel and its subsidiaries	Sales of service	Technical service	Negotiated price	1,205	-
Welding Co.	Sales of service	Technical service	Negotiated price	731	58
Hwasao Trust	Sales of service	Technical service	Negotiated price	-	350
Examination Co. and its subsidiaries	Sales of service	Technical service	Negotiated price	858	4,150
Xinjiang Bayi Steel and its subsidiaries	Sales of service	Technical service	Negotiated price	1,183	15,300
Pudong Steel and its subsidiaries	Sales of service	Technical service	Negotiated price	1	3,893
Baosteel Development and its subsidiaries	Sales of service	Transportation, technical service	Negotiated price	10,725	8,231
Engineering & Technology Co. and its subsidiaries	Sales of service	Technical service	Negotiated price	22,135	6,961
Baosteel Metal and its subsidiaries	Sales of service	Transportation, technical service	Negotiated price	5,102	1,856
Meishan Steel and its subsidiaries	Sales of service	Transportation, technical service	Negotiated price	15,883	13,323
Baosteel Resources and its subsidiaries	Sales of service	Transportation, technical service	Negotiated price	27,164	10,909
Examination & Maintenance	Sales of service	Technical service	Negotiated price	436	4,890
BNA	Sales of service	Transportation, technical service	Negotiated price	60,970	51,652
Others	Sales of service	Transportation, technical service	Negotiated price	8,452	2,648
Total				168,324	177,893

(4) Services received

Related party	Type of transaction	Content of transaction	Price base	UNIT: RMB Thousand	
				2010	2009
				Amount	Amount
Baosteel Group	Purchase of services	Education & training	Negotiated price	32,363	34,407
BNA	Purchase of services	Processing	Negotiated price	269,774	145,951
Examination & Maintenance	Purchase of services	Engineer, examination & maintenance	Negotiated price	940,401	767,617
Engineering & Technology Co. and its subsidiaries	Purchase of services	Engineer, examination & maintenance	Negotiated price	473,832	446,742
Meishan Steel and its subsidiaries	Purchase of services	Comprehensive logistics, engineer, transportation, examination & maintenance	Negotiated price	1,015,367	831,093
No. 1 Steel and its subsidiaries	Purchase of services	Comprehensive logistics	Negotiated price	377,533	484,443
Pudong Steel and its subsidiaries	Purchase of services	Transportation	Negotiated price	72	101,594
Bao-Island Enterprises	Purchase of services	Transportation	Negotiated price	373,056	286,709
Examination Co. and its subsidiaries	Purchase of services	Examination & maintenance	Negotiated price	568,564	553,480
Baosteel Development and its subsidiaries	Purchase of services	Comprehensive logistics, engineer, transportation, examination & maintenance	Negotiated price	1,488,936	1,153,626
No. 5 Steel and its subsidiaries	Purchase of services	Comprehensive logistics, transportation	Negotiated price	143,120	124,889
Others	Purchase of services	Transportation	Negotiated price	97,412	120,029
Total				5,780,430	5,050,580

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(b) Other major related transactions

		UNIT: RMB Thousand	
Category		2010	2009
Leases paid for plants and land	Note1	239,701	421,745
Income from leasing plants	Note1	27,163	36,540
Income from financial services	Note2	174,329	113,938
Expenses on financial services	Note3	146,517	104,329
Interests paid for Phase 3 assets	Note4	-	6,000
Interests paid for entrusted (via Finance Co.) loans	Note5	-	33,056
Expenses on common R&D	Note6	719,020	-

Note1: When founded, the Company signed a twenty-year agreement with Baosteel Group for the lease of the plant site. and 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 use of the plant site for assets in custody due to acquisitions. In 2010, the Group made an actual rental payment for RMB234,186,471 (2009 RMB364,412,336) to Baosteel Group.

The Group leased houses to subsidiaries as Baoshan Hotel and Baosteel Development and its subsidiaries at negotiated prices.

Note2: 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.

Note3: 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.

Note4: In accordance with the Supplementary Agreement of the Acquisition of Assets for Baosteel Phase-3 Construction, the deferred interest related to acquisition payments by the Group to Baosteel Group shall be paid in the last five working days of December each year from 2007 to 2009.

Note5: 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.

Note6: In April 2010, the Company and Baosteel Group jointly signed "Baosteel COREX-3000 Key Technique Platform Construction and Research Agreement" and "Baosteel Special Steel Research Center (Platform) Technique and Product Research Agreement". According to the agreements, the patents, technical secrets and achievements thus obtained will be jointly owned by Baoshan Iron & Steel and Baosteel Group. Each party's investment shall account for 50% of the total.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

6. Receivables and payables of related parties

(1) Notes receivable

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Development and its subsidiaries	118,672	385,786
No. 2 Steel and its subsidiaries	-	84,056
Meishan Steel and its subsidiaries	262,182	475,641
No. 5 Steel and its subsidiaries	-	2,852
Baosteel Resources	300,000	878,672
Tianjin BCM	20,148	44,732
BNA	442,278	248,659
Zhangyang Longteng	452,617	-
Baosteel Metal	70,571	-
Guangdong Steel	10,227	-
Others	4,538	4,768
Total	1,681,233	2,125,166

(2) Accounts receivable

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	6,299	16,225
Baosteel Development and its subsidiaries	88,191	67,294
Meishan Steel and its subsidiaries	68,437	93,947
Pudong Steel and its subsidiaries	7,439	5,061
No. 5 Steel and its subsidiaries	5,698	5,720
Xinjiang Bayi Steel and its subsidiaries	2,434	32,774
Baosteel Resources and its subsidiaries	7,063	28,481
Hwabao Trust	6,153	10,734
Baosteel Metal and its subsidiaries	22,573	18,838
Engineering & Technology Co. and its subsidiaries	95,677	86,889
Examination Co. and its subsidiaries	41,805	102,762
Examination & Maintenance	13,773	25,194
Zhangyang Longteng	384	158,149
BNA	391,392	606,109
Welding Co.	39,973	22,347
Ningbo Steel	46,475	-
Others	11,641	27,289
Total	855,407	1,307,813

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(3) Advance receivables

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Development and its subsidiaries	10,990	14,796
Meshan Steel and its subsidiaries	22,981	3,055
Xinjiang Bayi Steel and its subsidiaries	134,629	146,159
Baosteel Resources and its subsidiaries	417,370	182,016
Engineering & Technology Co. and its subsidiaries	38,899	264,948
Examination & Maintenance	1,014	4,192
BNA	326,654	762,470
Ningbo Steel	374,360	200,668
Others	690	2,473
Total	1,572,587	1,580,777

(4) Other receivables

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	199,170	-
Meshan Steel and its subsidiaries	107,421	161,545
Engineering & Technology Co. and its subsidiaries	825	1,058
Welding Co.	1,008	1,610
Others	3,151	2,217
Total	311,575	166,430

(5) Loans granted and cash advances

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Development and its subsidiaries	143,254	-
Pudong Steel and its subsidiaries	50,000	1,200,000
Xinjiang Bayi Steel and its subsidiaries	1,000,000	1,000,000
Baosteel Resources and its subsidiaries	871,231	1,007,939
Baosteel Metal and its subsidiaries	114,343	32,622
Engineering & Technology Co. and its subsidiaries	316,000	226,000
Examination & Maintenance	50,000	60,000
Ningbo Steel	550,000	76,800
Henan Pingbao	180,000	180,000
Others	230,000	17,000
Total	3,504,878	3,800,361

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(6) Receipt of deposits and deposits from other banks

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	8,480,245	5,787,826
No. 5 Steel and its subsidiaries	51,850	153,159
Hwabao Investment	1,822	300,096
Hwabao Trust	232,837	610,309
Engineering & Technology Co. and its subsidiaries	18,445	46,148
Baosteel Institute	32,200	31,263
Others	88,620	81,518
Total	8,906,019	7,010,319

(7) Notes payable

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Development and its subsidiaries	-	16,656
Meishan Steel and its subsidiaries	-	109,246
Xinjiang Bai Steel and its subsidiaries	70,523	269,930
Baosteel Resources and its subsidiaries	-	471,534
Engineering & Technology Co. and its subsidiaries	30,500	2,519
Examination & Maintenance	-	648,16
BNA	621,344	227,993
Others	8,000	11,209
Total	730,367	1,173,903

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(8) Accounts payable

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	8,264	290,698
Baosteel Development and its subsidiaries	448,518	476,444
No. 1 Steel and its subsidiaries	47,175	43,841
Meishan Steel and its subsidiaries	481,741	515,383
Pudong Steel and its subsidiaries	30	6,899
No. 5 Steel and its subsidiaries	20,525	26,715
Baosteel Resources and its subsidiaries	605,985	432,341
Engineering & Technology Co. and its subsidiaries	422,167	430,100
Examination Co. and its subsidiaries	64,041	114,419
Examination & Maintenance	105,224	97,135
Bao-Island Enterprises	13,660	5,171
BNA	202,445	188,258
Baoyang Shipping	15,883	24,134
Baosteel Resources(International)	398,044	391,420
Zhangyang Longteng	208,751	-
Others	58,025	67,460
Total	3,140,581	3,117,445

(9) Advance receivables

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	24	7,008
Baosteel Development and its subsidiaries	143,557	313,717
No. 2 Steel and its subsidiaries	3,830	14,781
No. 1 Steel and its subsidiaries	666	18,409
Meishan Steel and its subsidiaries	61,358	137,166
Pudong Steel and its subsidiaries	153	153
No. 5 Steel and its subsidiaries	143	1,419
Baosteel Resources and its subsidiaries	835	5,181
Baosteel Metal and its subsidiaries	235,078	195,543
Engineering & Technology Co. and its subsidiaries	86,377	-
Tianjin BCM	37,719	32,082
Others	4,790	13,315
Total	574,633	738,774

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VI) Related Party Relationships and Transactions (continued)

(10) Other payables

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Development and its subsidiaries	2,571	3,375
Moshan Steel and its subsidiaries	2,353	2,301
Baoyue Metal and its subsidiaries	700	1,202
Engineering & Technology Co and its subsidiaries	5,502	5,771
Others	59	144
Total	11,185	12,793

(11) Interests payable

Item	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Baosteel Group	29,980	26,757
No. 5 Steel and its subsidiaries	453	1,093
Others	1,240	1,319
Total	31,673	29,164

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 (V)40 for information about long-term payables to the controller.

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(VII) Contingencies

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

(VIII) Commitments

1. Significant commitments

(1) Capital commitments

	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Contracted but not confirmed in the financial statement		
Contracted but not provided	19,278,707	8,933,081
Approved by the Board but not contracted	2,933,866	9,264,779
Total	22,212,573	18,197,860

(2) Operating lease commitments

As of the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases.

	UNIT: RMB Thousand	
	31 December 2010	31 December 2009
Minimum rents for unchangeable leases as specified in lease agreements with leases		
1 year and within 1 year	267,519	263,921
2 years and 1-2 years	259,178	243,470
3 years and 2-3 years	253,566	238,227
Over 3 years	1,705,403	1,923,925
Total	2,485,666	2,669,543

(IX) Other Events After the Balance Sheet Date

Dividends after the balance sheet date

As proposed at the eleventh meeting of the Fourth Board of Directors convened from March 29 to 30, 2010, the Board of Directors has proposed a cash dividend payout of RMB3.0 per 10 shares (pre-tax), with total of dividend payable of RMB5,253,614,426.40 based on the total volume of 17,512,048,088 Company shares. The proposal has not been reviewed and approved by the Shareholders' General Meeting.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters

1. Assets/liabilities measured at fair value

UNIT: RMB					
Item	31 December 2009	Gains and losses from change in fair value	Accumulated fair value recorded in equity	Impairment in the period	31 December 2010
Financial assets					
1. Financial assets measured at fair values with its variation recorded into the profits and losses of the current period	546,377,068.35	9,259,323.78	-	-	297,133,851.72
2. Financial assets available for sale	1,056,020,521.34	-	34,192,967.12	-	1,403,992,935.22
Sub-total of financial assets	1,602,397,589.69	9,259,323.78	34,192,967.12	-	1,701,126,786.94
Financial liabilities	6,285,024.95	2,804,251.85	-	-	3,480,773.10

2. Financial assets and liabilities in foreign currency

UNIT: RMB		
Item	31 December 2009	31 December 2010
Financial assets		
1. Loans and receivables (including trade receivable, other receivable, and advance payable)	3,540,930,681.03	2,900,763,877.48
2. Derivative financial assets	-	11,507,631.72
Sub-total of financial assets	3,540,930,681.03	2,912,271,509.20
Financial liabilities	1,098,405,532.65	27,967,209,334.29

3. Pension plan and its change

In accordance with the "Reply to Baosteel Group's Application for Trial Employer Pension Plan" (SASAC [2008]1768), by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), and the "Announcement of Proportion in Employer Pension Plan" by the Human Resource Department of the Group, the system of pension plan was practice in the Group on 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 pension is managed by Baosteel Group's Hwabao Trust Co. Ltd.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

4. Others

4(1) Borrowing cost

Item	UNIT: RMB	
	The Capitalization amount of loan expenses of the period	Rate of capitalization
Construction-in-progress	215,519,231.64	4.374%-5.6187%
Fixed assets	2,326,455.00	4.374%-5.6187%
Subtotal	217,845,686.64	
Borrowing cost recorded in the profits and losses of the period	1,597,733,798.70	
Total	1,815,579,485.34	

4(2) Segment reporting

The accounting policy for segment reporting has been changed since 2009 in accordance with "China Accounting Standards Interpretation No. 3". In the meantime, the Group stopped to execute the requirements stipulated in the *Accounting Standards for Enterprises No. 35 - Segment Reports* regarding the recognition of segment by region and by business, and the disclosure of information according to major and minor reporting forms.

In the light of the internal structure, the requirements for management and the internal reporting system of the Group, the business of the Group is divided into three reporting segments which are classified based on the Group's business structure. The Group's management carries out regular evaluation of the operational results of these segments so as to allocate resources and conduct the performances of these segments. There are segment of iron & steel manufacturing, segment of sales of iron & steel products, and segment for others. The manufacturing segment includes all the units for iron and steel production, the sales segment includes all trading units, and the segment for others includes finance, chemical, and information.

subsidiaries in the business segments:

- (1) Iron & steel manufacturing: the Company, Meishan Steel, Ningbo Baoxin, Lubao Steel Tube, Huangshi Coating & Galvanizing, Yanbao Steel Tube, Baoyin Special Steel, and Baotong steel and other iron and steel manufacturing subsidiaries;
- (2) Sales of iron & steel products: Baosteel International and its subsidiaries, Special Metal Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-land Enterprises, Bao Brazil Trading and other trading subsidiaries;
- (3) Others: Finance Co., Chemical Branch of the Company, Baosight Software, No.5 Steel Gas, and others

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

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

As day-to-day activities of the Finance Co. are financial in nature, the investment income of Finance Co. has been included in the segment business income. Financial expenses, loss from asset impairment, profit and loss from changes in fair value and investment income (excluding Finance Co.) have been excluded from the segment business profit. The deferred income tax assets are not included in the segment assets, while short-term borrowings, current portion of non-current assets, long-term borrowings and deferred income liabilities have not been included in the segment liabilities.

Segment information is prepared and presented under the accounting policies of internal reporting to the management, which is in conformity with the accounting policies used for preparing and presenting the Group's financial statements.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

(1) Segment report

	Iron & steel manufacturing		Sales of iron & steel		Others		Unappropriated items	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating revenue								
External transaction income	33,466,058	20,680,540	153,318,944	123,987,123	5,632,877	3,915,149	-	-
Transaction income among segments	140,970,361	105,844,277	7,854,999	5,836,591	7,072,549	5,808,836	-	-
Total business revenue of segments	174,436,419	126,524,817	171,134,443	129,823,714	12,705,426	9,723,985	-	-
Business cost	160,776,399	119,847,627	168,634,378	128,212,402	11,635,423	8,991,159	-	-
Business profit	13,660,020	6,682,190	2,500,065	1,611,312	1,070,003	732,826	-	-

	Iron & steel manufacturing		Sales of iron & steel		Others		Unappropriated items	
	2010	2009	2010	2009	2010	2009	2010	2009
Total assets	203,939,910	188,621,277	38,895,491	34,746,541	18,773,417	15,870,738	-	-
Total liabilities	41,134,947	37,015,764	25,930,302	22,752,535	12,159,848	9,792,401	-	-
Complementary information:								
Depreciation or amortization expenses	12,687,559	12,686,617	295,327	288,512	286,031	305,488	-	-
Loss from asset impairment in the period	86,109	683,297	133,704	(268,844)	76,155	(10,069)	-	-
Capital expenses	10,824,404	18,140,371	808,062	523,361	463,408	911,923	-	-

(2) External transaction income by region of the source and non-current assets by location

UNIT: RMB Thousand		
Item	2010	2009
External transaction income from domestic market	182,396,673	134,627,422
External transaction income from international market	20,021,206	13,955,400
Sub-total	202,417,879	148,582,812

UNIT: RMB Thousand		
Item	31 December 2010	31 December 2009
Non-current assets in the domestic market	136,237,082	138,780,838
Non-current assets in the international market	210,531	221,223
Writing off	-	(975,649)
Sub-total	136,447,613	138,026,412

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

Income from external transactions includes:

UNIT: RMB Thousand		
Item	2010	2009
Investment income of Finance Co.	4,428	57,543

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

Items not contained in segment business income:

UNIT: RMB Thousand		
Item	2010	2009
Financial expenses	806,575	1,675,503
Losses from assets impairment/(reversal)	187,686	(635,104)
Losses and profits from changes in fair value	(12,064)	107,404
Investment income (excluding Finance Co.)	(822,253)	(895,909)
Total	159,944	251,894

Items not contained in segment assets:

UNIT: RMB Thousand		
Item	31 December 2010	31 December 2009
Deferred income tax assets	1,135,371	1,054,670

Items not contained in segment liabilities:

UNIT: RMB Thousand		
Item	31 December 2010	31 December 2009
Short-term borrowings	23,611,246	24,274,430
Current portion of non-current liabilities	3,536,710	2,982,960
Long-term borrowings	8,586,976	5,294,932
Long-term payables	2,542,058	5,092,441
Bonds payables	18,474,795	18,067,156
Deferred income tax liabilities	396,226	265,472
Total	57,148,011	55,977,391

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

UNIT: RMB Thousand

Write-off among segments		Total	
2010	2009	2010	2009
		202,417,879	148,582,812
(155,858,409)	(117,489,704)		
(155,858,409)	(117,489,704)	202,417,879	148,582,812
(155,454,029)	(115,969,036)	185,592,171	141,077,152
(404,380)	(1,520,668)	16,825,708	7,505,660

UNIT: RMB Thousand

Write-off among segments		Total	
2010	2009	2010	2009
(46,679,085)	(39,150,443)	214,929,733	200,088,113
(31,650,502)	(25,614,611)	47,574,595	43,946,089
		13,268,917	13,280,517
(58,282)	(1,039,488)	187,686	(635,104)
		12,095,874	19,575,655

4(3) Financial instruments and risk analysis

The financial instruments of the Group mainly include monetary funds, transactional financial assets, loans granted and cash advances, short-term borrowings, acceptance of deposits and deposits from or to other financial institutions, as well as bond payables. 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.

Accounting policies of the Group concerning derivative financial instruments are specified in Note (f) 9.

1. Risk management objectives and policies

The Group's risk management objectives are to achieve proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other equity investors. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyse the industry's exposure to various risks, establish appropriate bottom line for risk tolerance and implement risk management, and monitor various risks in a timely and reliable manner to ensure risks are under control within certain limits.

1.1 Market risks

Market risks are related to potential change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

1.1.1 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 amount of iron ores import of the Group is primarily settled in dollars, which results in a relatively great adverse balance of trade deficit in US dollar. With a view to the US dollar shortfall, the Company uses the prime RMB financing cost rate at the current period as a benchmark for choosing either RMB financing or US dollar financing. In the meantime, the Company observes the trend of RMB and USD exchange fluctuation closely and makes dynamic estimation of the exchange risk of liabilities in US dollars. In view of more bilateral fluctuations in the exchange rate of RMB against USD and changes in the trend of unilateral RMB appreciation, with a view to evade the risk of exchange rate fluctuation, the Company conducts financing activities in USD matched with forward exchange contracts.

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.

1.1.2 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 swap, 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

Interest rate risks of the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

Bonds	UNIT: RMB	
	31 December 2010	31 December 2009
	financial assets for sale	financial assets for sale
Within 1 year	150,362,590.00	-
Over 1 year	-	10,351,920.00
Total	150,362,590.00	10,351,920.00
Actual rate (annual)	4.37%-4.88%	4.80%

Other financial assets	31 December 2010			
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset
Within 1 year	-	-	-	-
Over 1 year	-	-	3,931,800,234.92	-
Total	-	-	3,931,800,234.92	-
Actual rate (annual)	-	-	1.46%-6.30%	-

Financial liabilities	31 December 2010				
	Borrowings	Assets sold under agreements to repurchase	Acceptance of deposits	Bank payable	Long-term payable
Within 1 year	74,779,122,877.03	-	8,908,340,779.32	-	7,858,833,680.00
Over 1 year	8,586,976,200.00	-	-	18,474,795,282.20	2,542,058,246.12
Total	32,866,099,027.03	-	8,908,340,779.32	18,474,795,282.20	5,400,891,926.22
Actual rate (annual)	0.659%-5.04%	-	0.36%-5.8%	2.99%-5.62%	4%

1.1.3. Other Price risks

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 the 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 2010, the Group was exposed to equity price risks from individual equity investments which belong to transactional equity investment (Note (V) 3) and investment available for sale (Note (V) 13). The exchange traded investment of the Group is at Shanghai Stock Exchange and is measured on basis of market quota on the balance sheet date.

The stock index on the day nearest to the balance sheet date at the following stock exchange and the highest and lowest closing prices in the year is as follows:

	31 December 2010	Highest/Lowest 2010	31 December 2009	Highest/Lowest 2009
Shanghai—A share indexes of Shanghai Stock Exchange	2,940	3,443/2,478	3,437	3,651/1,936
Shenzhen—A share indexes of Shenzhen Stock Exchange	351	1,455/965	1,261	1,296/600

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

UNIT: RMB

31 December 2009				
	Funds lent to other financial institutions	Purchases of resale financial assets	Loans granted	Entrusted asset
	-	-	-	-
	-	-	4,132,276,993.30	-
	-	-	4,132,276,993.30	-
	-	-	1.26%-5.76%	-

UNIT: RMB

31 December 2009					
	Borrowings	Assets sold under agreements to repurchase	Acceptance of deposits	Bank payable	Long-term payable
	24,388,556,120.29	-	7,018,610,678.45	-	2,868,833,680.10
	5,294,932,134.33	-	-	18,067,156,259.62	5,092,440,941.36
	29,683,488,254.62	-	7,018,610,678.45	18,067,156,259.62	7,961,274,621.46
	1.706%-5.913%	-	0.36%-2.25%	2.99%-5.67%	4%

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.

UNIT: RMB Thousand

2010	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease in capital reserve
Investments at following stock exchanges:			
Shanghai—Investment available for sale	728,650	-	36,432
—Investment held for sale	-	-	-
Shenzhen—Investment available for sale	350,980	-	17,549

UNIT: RMB Thousand

2009	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease in capital reserve
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

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

1.2. Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make payment of any principal or interest when due in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure.

The Group is exposed to credit risks primarily associated with its trade receivables, payments in advance, and loans granted and cash advances. The 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 2010 only 21% of the receivables were due from the top five debtors, the Group is not found to be exposed to significant intensive credit risks.

1.3. 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. The major capital source of the Group includes issuing bonds, mid-term notes and bank loans. The Group issued, on June 15, 2008, RMB10 billion bonds with the duration of 6 years and on May 23, 2009, and on June 30, 2009, RMB10 billion 3-year mid-term notes. Its long-term borrowing is RMB8.5 billion. The management of the Company believes that there was no major liquidity risk.

2. Fair value

2.1 Methods and assumptions used by the Group to estimate the fair value of a financial instrument:

- 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.
- Investment funds and equity securities: the Group adopts the market quoted price to determine the fair value of the said investment, while those of some unmarketed investments are determined reasonably by its cost.
- The book values of all assets and liabilities approximate their fair values.

2.2 Fair value hierarchy

For those financial assets and financial liabilities which are measured subsequently at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(X) Other Significant Matters (continued)

	31 December 2010				UNIT: RMB
	Level 1	Level 2	Level 3	Total	
Transactional financial assets					
- Transactional financial investment	-	235,626,220.00	-	235,626,220.00	
- Transactional fund investment	50,000,000.00	-	-	50,000,000.00	
- Derivative financial assets	-	11,507,631.72	-	11,507,631.72	
AFS financial assets					
- Equity instrument	1,079,630,345.22	-	-	1,079,630,345.22	
- Bond instrument	150,362,590.00	-	-	150,362,590.00	
- Others	-	174,000,000.00	-	174,000,000.00	
Total	1,279,992,935.22	421,133,851.72	-	1,701,126,786.94	
Transactional financial liabilities					
- Derivative financial liabilities	-	3,480,773.10	-	3,480,773.10	
Total	-	3,480,773.10	-	3,480,773.10	
UNIT: RMB					
	31 December 2009				
	Level 1	Level 2	Level 3	Total	
Transactional financial assets					
- Transactional fund investment	115,024,049.15	-	-	115,024,049.15	
- Transactional equity investment	41,473,019.20	-	-	41,473,019.20	
- Others	-	389,880,000.00	-	389,880,000.00	
AFS financial assets					
- Equity instrument	1,015,666,601.34	-	-	1,015,666,601.34	
- Bond instrument	-	10,353,920.00	-	10,353,920.00	
- Others	-	30,000,000.00	-	30,000,000.00	
Total	1,172,163,669.69	430,233,920.00	-	1,602,397,589.69	
Transactional financial liabilities					
- Derivative financial liabilities	-	6,285,024.95	-	6,285,024.95	
Total	-	6,285,024.95	-	6,285,024.95	

4(4) 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 m², for which Pudong Steel has paid some initial expenses but not the land transfer expense, for which the Company needs to pay RMB2.8 billion as preliminarily estimated. Baosteel Group promises:

- 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;
- In the event of the total actual expense exceeding RMB2.8 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).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XI) Notes to Company's Financial Statements

1. Accounts receivable

(1) Accounts receivable by category

UNIT: RMB

Category	31 December 2010				31 December 2009			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
Receivables with significant single amounts	3,873,816,863.73	65	194,965,226.92	54	3,469,446,348.67	57	173,472,317.43	47
Insignificant receivables but recognizing provision for bad debts individually	77,271,717.36	1	77,271,717.36	22	76,877,597.78	1	76,877,597.78	21
Accounts receivable recognizing provision for bad debts classified into groups	1,964,216,466.85	34	86,440,785.12	24	2,550,296,361.90	42	115,897,295.93	32
Total	5,915,305,047.94	100	358,677,729.40	100	6,096,620,308.35	100	366,247,211.14	100

Ageing analysis of the trade receivables as follows:

UNIT: RMB

Age	31 December 2010				31 December 2009			
	Amount	Rate (%)	Bad debt provision	Book value	Amount	Rate (%)	Bad debt provision	Book value
Within 1 year	5,739,686,851.86	97	275,981,633.45	5,463,705,218.41	5,936,609,199.92	97	284,996,929.84	5,651,612,270.08
1-2 years	30,732,486.93	1	4,147,333.41	26,585,153.52	82,299,835.37	1	4,238,645.26	78,061,190.11
2-3 years	67,127,280.65	1	1,277,045.18	65,850,235.47	833,675.28	1	208,178.48	832,496.80
More than 3 years	77,758,428.50	1	77,771,717.36	48,711.14	76,877,597.78	1	76,803,457.56	74,140.22
Total	5,915,305,047.94	100	358,677,729.40	5,556,627,318.54	6,096,620,308.35	100	366,247,211.14	5,730,373,097.21

- (2) 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:

UNIT: RMB

Item	Carrying amount	Bad debt provision	Provision rate (%)	Reasons
Notes receivable with large sums	3,873,816,863.73	194,965,226.92	5	Note 1
Notes receivable with longer ages	77,271,717.36	77,271,717.36	100	Note 2
Total	3,951,088,581.09	272,236,944.28		

Note 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%.

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

- (3) Disclosure of accounts receivable from shareholders holding over 5% (inclusive) of the Company's shares.

UNIT: RMB

Company	31 December 2010		31 December 2009	
	Amount	Bad debt provision	Amount	Bad debt provision
Baosteel Group	246,903.83	12,345.19	1,916,265.75	595,813.29

- (4) Top five entities of accounts receivable

UNIT: RMB

Company	Relationship with the Company	Amount	Duration	Proportion (%)
Entity 1	Subsidiary	1,378,371,710.95	Within 1 year	23
Entity 2	Subsidiary	1,059,619,972.63	Within 1 year	18
Entity 3	Subsidiary	562,638,794.92	Within 1 year	10
Entity 4	Subsidiary	484,631,823.84	Within 1 year	8
Entity 5	Joint venture	388,554,561.39	Within 1 year	7
Total		3,873,816,863.73		

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XII) Notes to Company's Financial Statements (continued)

2. Other receivables

(1) Other receivables by category

UNIT: RMB

Category	31 December 2010				31 December 2009			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
Receivables with significant single amounts	336,103,750.20	87	9,948,976.30	47	204,410,276.37	82	-	-
Insignificant receivables but recognizing provision for bad debts individually	192,145.60	-	192,145.60	-	-	-	-	-
Accounts receivable recognizing provision for bad debts classified into groups	50,244,822.93	13	11,349,581.12	53	43,691,467.83	18	9,240,915.13	100
Total	386,540,718.73	100	21,490,703.02	100	248,101,744.20	100	9,240,915.13	100

Aging analysis of other notes receivable:

UNIT: RMB

Aging	31 December 2010				31 December 2009			
	Amount	Rate (%)	Bad debt provision	Book value	Amount	Rate (%)	Bad debt provision	Book value
Within 1 year	309,852,583.70	81	11,483,011.62	298,369,572.08	188,966,003.71	76	4,893,608.85	184,072,394.86
1-2 years	20,551,998.18	5	1,797,151.05	18,754,847.13	13,780,460.07	6	4,134,138.03	9,646,322.04
2-3 years	13,363,991.25	3	8,018,394.75	5,345,596.50	45,355,280.42	18	213,168.25	45,142,112.17
More than 3 years	42,772,145.60	11	192,145.60	42,580,000.00	-	-	-	-
Total	386,540,718.73	100	21,490,703.02	365,050,315.71	248,101,744.20	100	9,240,915.13	238,860,829.07

- (2) 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:

UNIT: RMB

Item	Carrying amount	Bad debt provision	Provision rate (%)	Reasons
Receivable with significant single amounts	336,103,750.20	9,948,976.30	3	Note1
Notes receivable with longer ages	192,145.60	192,145.60	100	Note2
Total	336,295,895.80	10,141,121.90		

Note1: The significant amount of other receivables are mainly receivables of R&D cost from Baosteel Group, customs deposits and estimation of tax payable on purchase in related transactions, the latter two of which have low risk. Therefore, the Company only made preparation for impairment loss for a part of the balance.

Note2: A full amount of provision was prepared due to the age as well as the difficulty in recovering.

- (3) Disclosure of other receivables from shareholders holding over 5% (inclusive) of the Group shares.

UNIT: RMB

Name	31 December 2010		31 December 2009	
	Amount	Bad debt provision	Amount	Bad debt provision
Baosteel Group	198,769,904.31	9,948,976.30	76,735.04	3,941.57

- (4) Top five entities of other receivables

UNIT: RMB

Name	Relationship with group	Amount	Aging	Proportion (%)
Entity 1	Related party	198,769,904.31	Within 1 year	51
Entity 2	Third party	56,602,380.26	Within 1 year	15
Entity 3	Third party	47,560,000.00	More than 3 years	12
Entity 4	Third party	18,609,970.94	Within 1 year	5
Entity 5	Third party	14,561,494.69	Within 1 year	4
Total		336,103,750.20		

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XII) Notes to Company's Financial Statements (continued)

3. Investments in joint ventures and associates

Investee	Type	Place of incorporation	Legal representative	Nature of business	Registered capital		Proportion of ownership interest held by the entity (%)	Proportion of voting power held by the entity (%)
					Currency	('000)		
1. Joint venture								
BNA	LLC	Shanghai	Dai Zhihao	Manufacturing	RMB	3,000,000	50%	50%
Bao-Island Enterprises	LLC	Hongkong	N/A	Ship chartering	HKD	3,300	50%	50%
2. Associated entities								
STAL Precision	LLC	Shanghai	Wang Xiaodong	Manufacturing	USD	96,560	40%	40%

4. Long-term equity investment

(1) Details of long-term equity investments are as follows:

Investee	Accounting method	Initial investments	Opening balance	Increase/decrease in the year	Closing balance
Subsidiary					
Luzao Steel Tubes	cost method	243,248,705.24	361,404,905.16	-	361,404,905.16
Huangshi Coating & Galvanizing	cost method	12,254,475.04	40,658,477.39	-	40,658,477.39
Baosteel International	cost method	4,735,670,804.11	6,013,886,552.67	-	6,013,886,552.67
Meenian Steel	cost method	6,609,321,102.70	7,438,982,965.14	1,500,000,000.00	8,938,982,965.14
Ningbo Baomin	cost method	1,786,187,133.16	1,199,965,377.57	183,589,800.00	1,383,555,177.57
Baosheng Software	cost method	24,213,064.59	275,664,363.08	-	275,664,363.08
Baosteel America	cost method	42,567,875.48	187,562,180.98	-	187,562,180.98
Howa Trading	cost method	154,073,767.03	221,975,780.12	-	221,975,780.12
Baosteel Europe	cost method	93,801,781.59	328,631,981.58	-	328,631,981.58
Baosteel Singapore	cost method	76,419,517.09	154,883,364.09	-	154,883,364.09
Bao-Island Enterprises	cost method	29,882,599.80	81,867,650.27	-	81,867,650.27
Bao Brand Trading	cost method	526,327.52	728,647.73	-	728,647.73
Baosteel No. 5 Gas	cost method	117,90,067.55	120,755,597.59	-	120,755,597.59
Special Metal	cost method	50,000,000.00	50,000,000.00	-	50,000,000.00
Baosteel Chemicals	cost method	3,006,227,819.74	3,006,227,819.74	-	3,006,227,819.74
Finance Co.	cost method	372,864,751.93	568,270,003.65	-	568,270,003.65
Baoyin Tubes	cost method	130,000,000.00	130,000,000.00	-	130,000,000.00
Yanbao Tubes	cost method	640,000,000.00	1,600,000,000.00	-	1,600,000,000.00
Nantong Steel	cost method	518,520,310.51	948,520,310.51	-	948,520,310.51
Sub-total		18,859,970,203.08	22,729,986,000.27	1,683,589,800.00	24,413,575,800.27
Joint venture					
BNA	equity method	1,500,000,000.00	1,640,656,034.85	143,694,826.47	1,784,350,861.32
Bao-Island Enterprises	equity method	143,084,132.00	483,952,089.10	54,837,669.40	538,789,758.50
Sub-total		1,643,084,132.00	2,124,608,123.95	198,532,495.87	2,323,140,619.82
Associated entities					
STAL Precision	equity method	122,004,541.93	478,567,716.81	52,905,305.01	531,473,021.82
Other investment					
Baovale Mining Co., Ltd.	cost method	-	103,282,213.00	-	103,282,213.00
Shanghai Luoyang Mining Port Co., Ltd.	cost method	-	88,734,096.00	-	88,734,096.00
Others	cost method	-	980,000.00	-	980,000.00
Sub-total		-	192,996,309.00	-	192,996,309.00
Total		-	25,526,155,150.03	1,935,027,600.88	27,461,182,750.91

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Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

UNIT: RMB

Investee's total assets at year end	Investee's total liabilities at year end	Investee's total net assets at year end	Investee's total operating revenue for the current year	Investee's net profit for the current year
5,484,956,133.86	1,848,463,664.06	3,636,492,469.80	12,320,924,754.46	567,245,908.54
1,434,543,047.00	349,122,253.20	1,077,579,517.00	744,225,912.50	138,805,169.30
1,571,506,852.62	242,824,298.08	1,328,682,554.54	1,131,167,861.38	132,263,262.53

UNIT: RMB

Percentage of equity held (%)	Percentage of voting power (%)	Explanation of the voting right not consistent with proportion of ownership interest	Provision for impairment loss	Impairment loss of the period	Cash dividends received in the period
79.82	79.82		-	-	-
39.37	Above 50	Note1	-	-	-
100	100		-	-	785,867,120.42
77.04	77.04		-	-	-
54	54		-	-	-
55.5	55.5		-	-	43,666,821.00
100	100		-	-	-
100	100		-	-	-
100	100		-	-	-
100	100		-	-	-
100	100		-	-	20,478,300.00
100	100		-	-	-
94.5	94.5		-	-	-
100	100		-	-	2,042,347.19
100	100		-	-	210,441,324.18
62.1	62.1		-	-	31,050,000.00
58.5	58.5		-	-	-
80	80		-	-	-
95.82	95.82		-	-	-
			-	-	1,093,545,912.79
50	50		-	-	169,827,558.59
50	50		-	-	-
			-	-	169,827,558.59
40	40		-	-	-
50	Note2	Note2	-	-	12,324,680.38
12	12		-	-	4,793,785.60
Tiny	Tiny		-	-	23,100.00
			-	-	17,141,565.98
			-	-	1,280,515,037.36

Note1: The Company holds less than 50% of the voting power based on its shareholding on Huangshi Coating & Galvanizing. However, the Company holds over 50% of the voting power in the Board of Directors of this entity. The Company has actual controlling power over the entity. Therefore, the entity was included in the consolidated financial statements.

Note2: As the Company does not exert actual control or significant influence over the operating policies and financial decisions of 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XII) Notes to Company's Financial Statements (continued)

5. Operating revenue and operating cost

(1) Operating revenue

Item	UNIT: RMB	
	2010	2009
Revenue from principal businesses	160,393,311,819.55	115,611,725,520.67
Revenue from other businesses	621,398,807.10	676,647,985.07
Total	161,014,710,626.65	116,288,373,505.74
Operating cost	143,237,546,345.70	105,771,765,958.70

(2) Principal businesses (by industry)

Category	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Iron & steel manufacturing	160,393,312	142,741,893	115,611,726	105,083,929

(3) Principal businesses (by product)

Product	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Iron & steel	160,393,312	142,741,893	115,611,726	105,083,929

(4) Principal businesses (by region)

Region	UNIT: RMB Thousand			
	2010		2009	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	146,788,688	129,831,261	107,078,822	97,402,155
Overseas	13,604,624	129,0632	8,532,904	7,681,774
Total	160,393,312	142,741,893	115,611,726	105,083,929

(5) Revenue from top five clients

Item	UNIT: RMB	
	Operating revenue	Proportion (%)
Revenue from top five clients	76,599,596,626.55	48%

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Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XI) Notes to Company's Financial Statements (continued)

6. Investment gains

(1) Details of invest gains are as follows:

UNIT: RMB		
Item	2010	2009
Investment gains from long-term equity investment on the basis of the cost method	1,110,687,478.77	1,060,613,835.38
Investment gains from long-term equity investment on the basis of the equity method	435,830,274.72	243,552,265.14
Loss from disposing derivative instruments	(35,329,597.40)	(4,764,392.18)
Total	1,511,188,156.09	1,299,401,708.34

(2) 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:

UNIT: RMB			
Investee	2010	2009	Reason for change
Baosteel International	785,867,120.42	574,761,350.07	Cash dividend
Baosteel Chemical	210,441,324.18	285,892,490.73	Cash dividend
Baosheng Software	43,666,821.00	29,111,214.00	Cash dividend
Finance Co.	31,050,000.00	24,200,000.00	Cash dividend
Bao-Island Enterprises	20,478,300.00	-	Cash dividend
Total	1,091,503,565.60	1,013,965,054.80	

(3) Investment gains from long-term equity investment on the basis of the equity method:

UNIT: RMB			
Investee	2010	2009	Reason for change
BNA	313,527,385.06	123,561,749.91	Joint venture profit change
Bao-island Enterprises	69,402,584.65	77,284,981.70	Joint venture profit change
STAL Precision	52,905,305.01	42,705,533.53	Associated company profit change
Total	435,830,274.72	243,552,265.14	

As at December 31, 2010, the Group did not encounter any major restrictions in the remittance of investment income.

7. Bank credit-granting quota

As at 31 December 2010 the remaining bank credit-granting quota of the Company was RMB83566 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.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2010

(XII) Notes to Company's Financial Statements (continued)

8. Supplementary information to the cash flow statements

(1) Supplementary information to the cash flow statements

UNIT: RMB		
Item	2010	2009
1. Reconciliation of net profits to cash flows arising from operating activities		
Net profit	11,483,156,644.17	5,076,871,428.16
Add: Provision for impairment losses of assets	123,354,017.34	495,685,046.06
Depreciation of fixed assets and	10,500,427,206.92	10,905,019,030.32
Amortization of intangible assets	92,016,627.23	94,516,892.43
Amortization of long-term deferred expenses	15,372,171.54	13,675,804.20
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	88,181,643.72	85,948,605.84
Losses on fixed assets not usable any more ("-" for gains)	-	-
Losses on change of fair value ("-" for gains)	(11,021,542.86)	114,598,750.74
Financial expenses ("-" for gains)	512,756,668.33	1,647,263,364.48
Losses arising from investment ("-" for gains)	(1,511,188,156.09)	(1,299,401,708.34)
Decrease of deferred tax assets ("-" for increase)	(24,093,254.62)	796,144,510.67
Increase of deferred tax liabilities ("-" for decrease)	101,203,995.67	(33,897,933.76)
decrease in inventories ("-" for increase)	(7,405,469,091.35)	2,569,363,730.78
Decrease (increase) in operating receivables ("-" for increase)	82,363,855.08	(7,662,197,908.67)
Increase in operating payables ("-" for decrease)	2,857,305,178.92	4,963,779,983.74
Net cash from operating activities	16,904,365,964.20	17,767,369,597.65
2. Non-cash related significant investment and financing activities		
Liabilities transferred into capital	-	-
Convertible corporate bond due within one year	-	-
Renting fixed assets through financing	-	-
3. Change of Cash and cash equivalents		
Closing balance of cash	4,076,704,419.19	1,767,579,044.85
Less: Cash balance at the beginning of the year	1,767,579,044.85	3,182,690,342.86
Add: Balance of cash equivalents at year end	-	-
Less: Balance of cash equivalents at the beginning of the year	-	-
Change of cash and cash equivalents	2,309,125,374.34	(1,415,111,298.01)

Notes to the Financial Statements (continued)
For the Year Ended 31 December 2010

(XII) Approval of Financial Statements

The Company's and consolidated financial statements were approved by the Board of Directors and authorized for issue on March 30, 2011.

(XIII) Supplementary Information to Financial Statements

1 List of non-recurring profit and loss

Item	UNIT: RMB	
	Amount	
Profit or loss on disposals of non-current assets	(122,803,417.16)	
Government subsidy recognised in profit and loss for the current year (except government subsidy that is highly business related and determined based on a fixed scale according to the national unified standard)	507,705,701.77	
Investment income from changes in fair value of held-for-trading financial assets and liabilities and disposals of financial assets, liabilities and available-for-sale financial assets except effective hedging transactions related to the Company's normal business	8,067,779.35	
Other non-operating net income	26,463,006.27	
Impact on income tax	(98,370,715.15)	
Impact on minority interest (after tax)	(17,280,949.10)	
Total	303,781,399.98	

2 ROE and EPS

The calculation of ROE and EPS has been prepared by Baoshan Iron & Steel Co. Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering No. 9 – Calculation and Disclosure of ROE and EPS (Revised 2010) issued by China Securities Regulatory Commission.

Profit for the report period	Weighted average ROE (%)	EPS (RMB)
Net profit attributable to ordinary shareholders of the Company	12.95	0.74
Net profit attributable to ordinary shareholders of the Company excluding non-recurring	12.64	0.72

3 Analysis of changes in main consolidated financial statement items

UNIT: RMB				
Item	2010	2009	Change by %	Cause for the changes
1 Monetary funds	9,200,675,786.05	5,558,276,152.91	65%	Baosteel Group increase its deposit in the Finance Co. Because of the high cost, the recovering demands from downstream industries, and the optimization of internal product mix, the comprehensive sales price of the Company's steel products rose by more than 17% y-o-y. In the meantime, the Company's sales volume increased remarkably, and the sales volume of steel products was 2832 thousand tons more than the previous year.
2 Operating revenue	202,149,152,364.77	148,326,363,909.94	36%	Prices for raw materials and fuel such as the imported iron ore, coke and coal and waste steel increased, and the Company's sales volume enlarged than the previous year.
3 Operating costs	177,816,743,212.39	134,332,458,305.02	32%	RMB exchange rate against US dollars rose by 3% over the year. The exchange gains from liabilities in US dollar increased RMB0.78 billion. The Company adopted the strategy of US dollar financing at low interest rate, reducing the net interest expenses by RMB0.05 billion.
4 Financial expenses	806,574,502.66	1,675,503,461.87	(52%)	Profit of the year increased greatly.
5 Income tax	3,715,345,425.92	1,199,353,677.79	210%	

XI. Documents on Record for Reference

2010年3月30日

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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 are available and their manuscripts

Chairman He Wenbo

Baoshan Iron & Steel Co., Ltd

30 March 2011



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