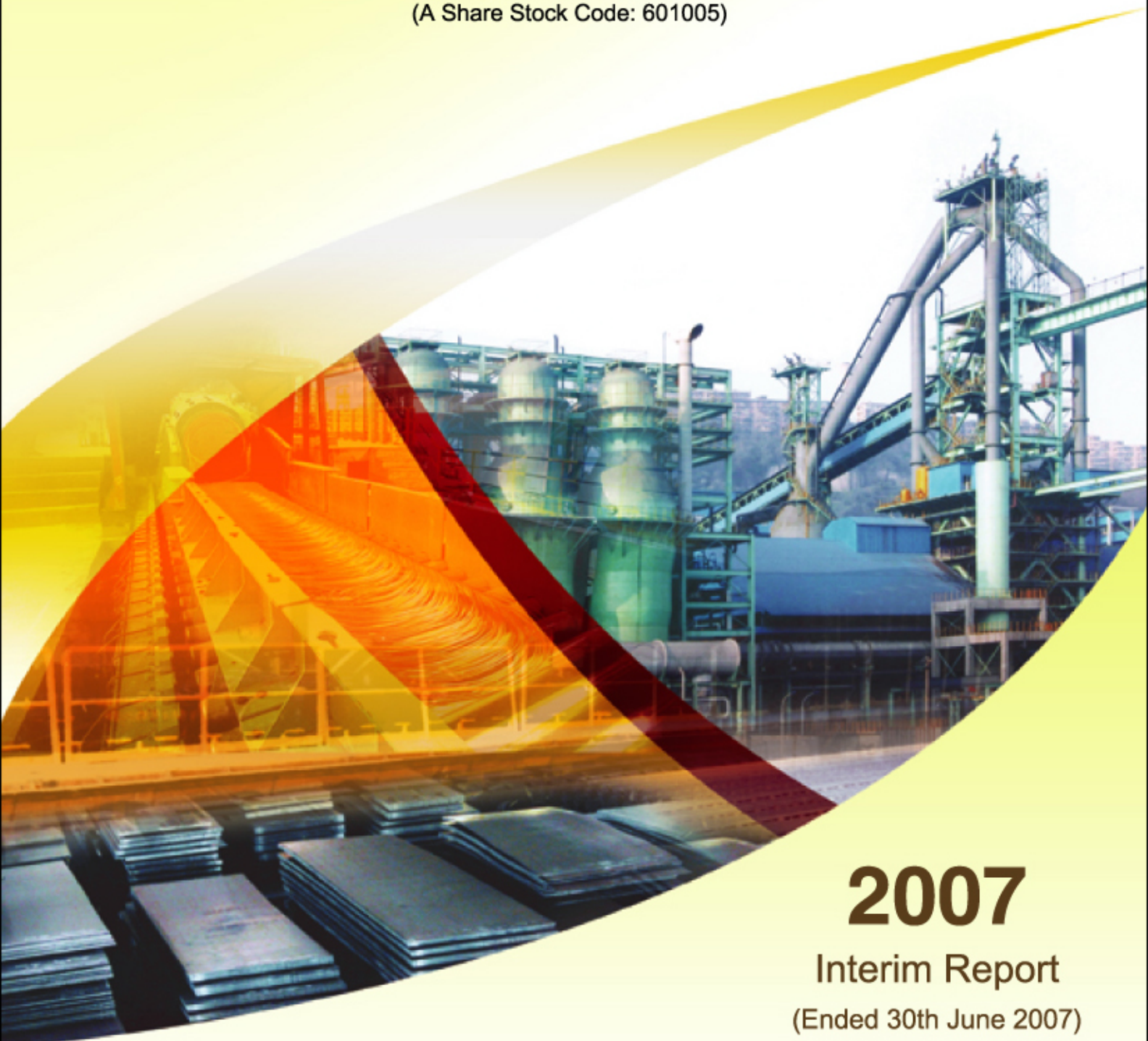




**Chongqing Iron & Steel Company Limited**  
**重慶鋼鐵股份有限公司**

(H Share Stock Code: 1053)  
(A Share Stock Code: 601005)



**2007**

Interim Report  
(Ended 30th June 2007)

### IMPORTANT NOTICE

The Board of Directors, the Supervisory Committee and directors, supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in or material omissions from this report, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents contained herein.

Mr. Wang Xian Fei, the Independent Director was absent from the board meeting and had appointed Mr. Sun Yu, the Independent Director to attend the meeting and vote on his behalf.

Mr. Luo Fuqin, the Chairman of the Company, Ms. Song Ying, the Financial Controller and the manager of financial department, have declared that they guarantee the truthfulness and completeness of the financial statements in the 2007 Interim Report.

The financial statements in this interim report have not been audited, but they have been reviewed by the Audit Committee of the Board of Directors.

### CONTENTS

I. Company Information	2
II. Changes in Share Capital and Shareholding of Substantial Shareholders	5
III. Profiles of Directors, Supervisors and Senior Management	8
IV. Report of the Board of Directors	10
V. Significant Events	17
VI. Financial Statement	22
VII. Documents Available for Inspection	90

## COMPANY INFORMATION

### 1. Company Profile

Chinese name of the Company:	重慶鋼鐵股份有限公司(“重鋼股份公司”)
English name:	Chongqing Iron & Steel Company Limited (“CISL”)
Company’s legal representative:	Luo Fu Qin
Secretary to the Board of Directors:	You Xiao An
Securities representative:	Peng Guoju
Correspondence address, registered address and office address:	No. 30, Gangtie Road, Dadukou District, Chongqing, the PRC
Postal code:	400084
Telephone:	86-23-68845030
Facsimile:	86-23-68849520
E-mail:	cqgtdms@cta.cq.cn
Website:	<a href="http://www.cqgt.cn">http://www.cqgt.cn</a>
Place of listing of the Company’s Shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Stock code:	601005(A shares)/1053(H shares)
Name of newspapers designated for dissemination of company information:	China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, The Standard
Website designated by CSRC for information disclosure:	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Place for preparation and reference of interim reports:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited

### 2. Key financial data and indices

Pursuant to the requirements of “Notification on the completion of disclosures of 2007 Interim Report of a listed company” (《關於做好上市公司2007年半年度報告披露工作的通知》)(請貴公司確認) promulgated by the Shanghai Stock Exchange, listed companies whose income statement and cash flow statement not yet prepared and disclosed in the corresponding period last year shall not disclose comparative figures and relevant indicators of increase and decrease for the corresponding period last year in the income statement and cash flow statement in this interim report. The Company was listed on the Shanghai Stock Exchange in the first half of the year, thereby comparative figures and relevant indicators of increase and decrease for the corresponding period last year were not disclosed.

## COMPANY INFORMATION

## 2. Key financial data and indices (Continued)

(1) Key financial data and indices prepared in accordance with PRC Accounting Standards (RMB'000)

Items	As at 30th June 2007
Total assets	10,627,871
Shareholders' interests	5,034,644
Net asset per share (RMB)	2.90

Items	Jan~Jun 2007
Operating profit	291,043
Total profit	286,502
Net profit	263,926
Net profit after extraordinary items	268,466
Basic earnings per share (RMB)	0.16
Diluted earnings per share (RMB)	0.16
Return on net asset (%)	5.24%
Net cash flow from operating activities	203,802
Net cash flow per share from operating activities(RMB)	0.13

Extraordinary items and amount in the reporting period (RMB'000)

Extraordinary items	Amount
Non-operating income	(2,531)
Non-operating expenses	7,071
Net loss from extraordinary items	4,540

## COMPANY INFORMATION

### 2. Key financial data and indices *(Continued)*

- (2) Explanations to the differences in net profit and net assets between the accounting statements prepared in accordance with PRC Accounting Standards and Hong Kong Accounting Standards (RMB'000)

	PRC Accounting Standards	Hong Kong Accounting Standards
Net profit	263,926	262,744
Net assets	5,034,644	4,957,259
Explanation to the difference	Net profits	Net assets
Financial statements prepared in accordance with PRC Accounting Standards	263,926	5,034,644
Adjustment under Hong Kong Accounting Standards		
Reversal of income tax expenses credit under Hong Kong Financial Reporting Standards ("HKFRS") for purchase of domestic manufactured equipment to the income tax expenses under PRC Accounting Standards	—	(77,305)
Effect of other adjustment	(1,182)	(80)
Financial statements prepared in accordance with Hong Kong Accounting Standards	262,744	4,957,259

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### 1. Changes in share capital (shares)

	Prior to the change		Increase/decrease (+,-) of the change				After the change		
	Numbers of share	Percentage (%)	Issue of new share	Bonus share	Conversion from reserve	Others	Subtotal	Numbers of share	Percentage (%)
I. Shares subject to trading moratorium									
1. State owned legal person shares	845,000,000	61.09	—	—	—	—	—	845,000,000	48.76
II. Shares not subject to trading moratorium									
1. Renminbi denominated ordinary shares	—	—	350,000,000	—	—	—	350,000,000	350,000,000	20.19
2. Overseas listed foreign shares	538,127,200	38.91	—	—	—	—	—	538,127,200	31.05
<b>Total shares</b>	<b>1,383,127,200</b>	<b>100</b>	<b>350,000,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>350,000,000</b>	<b>1,733,127,200</b>	<b>100</b>

### 2. Numbers of shareholders and their shareholding (shares)

**Total number of shareholders** As at the end of the reporting period, there are 119,207 shareholders of the Company, including 118,992 holders of A share and 215 holders of H share.

#### Shareholding of the top ten shareholders

Name of shareholder	Type of share holder	Percentage	Number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State owned shareholder	48.76%	845,000,000	845,000,000	23,460,000
HKSCC NOMINEES LIMITED	Foreign shareholder	30.27%	524,632,870	0	Unknown
UBS AG	Foreign shareholder	2.49%	43,117,491	0	Unknown
HSBC NOMINEES (HONG KONG) LIMITED	Foreign shareholder	0.45%	7,802,600	0	Unknown
Shenzhen Lisha Co., Ltd.	Others	0.25%	4,398,428	0	Unknown
Shenzhen Shan Kai Yuan Trade Co., Ltd.	Others	0.20%	3,535,800	0	Unknown
Xiong Yu Zhi	Others	0.11%	1,980,000	0	Unknown
Jiang Kai E	Others	0.11%	1,960,000	0	Unknown
Zeng Shu Yu	Others	0.11%	1,860,000	0	Unknown
Tai Kang Life Insurance Co., Ltd.-traditional common insurance products-019L-CT001 HU	Others	0.05%	879,412	0	Unknown

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### 2. Numbers of shareholders and their shareholding (shares) (Continued)

Particulars of the top ten holders of shares not subject to trading moratorium

Name of shareholder	Number of shares not subject to trading moratorium	Share class
HKSCC NOMINEES LIMITED	524,632,870	Foreign shares listed overseas
UBS AG	43,117,491	Foreign shares listed overseas
HSBC NOMINEES (HONG KONG) LIMITED	7,802,600	Foreign shares listed overseas
Shenzhen Lisha Co., Ltd.	4,398,428	Renminbi denominated ordinary shares
Shenzhen Shan Kai Yuan Trade Co., Ltd.	3,535,800	Renminbi denominated ordinary shares
Xiong Yu Zhi	1,980,000	Renminbi denominated ordinary shares
Jiang Kai E	1,960,000	Renminbi denominated ordinary shares
Zeng Shu Yu	1,860,000	Renminbi denominated ordinary shares
Tai Kang Life Insurance Co., Ltd.-traditional common insurance products-019L-CT001 HU	879,412	Renminbi denominated ordinary shares
Fortune Trust & Investment Co., Ltd.	879,412	Renminbi denominated ordinary shares

Explanation of the connected relationship or party acting in concert among the aforesaid shareholders.

There is no connected relationship or party acting in concert between Chongqing Iron & Steel (Group) Company Limited and the aforesaid shareholders. The Company is not aware of any connected relationship or party acting in concert among the other aforesaid shareholders.

On 29th January 2007, Chongqing Iron & Steel Company Limited (Company or the Company) was approved by CSRC to issue 350,000,000 Renminbi denominated ordinary shares in PRC. Upon the completion of the issue, the total share capital of the Company amounted to 1,733,127,200 shares, including 845,000,000 domestic shares held by Chongqing Iron & Steel (Group) Company Limited (the parent company), the promoter, accounting for 48.76% of the total share capital ; 350,000,000 domestic shares (A shares) listed domestically, accounting for 20.19% of the total share capital; and 538,127,200 foreign shares (H shares) listed overseas, accounting for 31.05% of the total share capital. On 28th February , 2007, the A shares of the Company listed on Shanghai Stock Exchange (Shanghai Exchange). 845,000,000 A shares held by the parent company shall not be transferred within 36 months commencing from the listing date.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### 2. Numbers of shareholders and their shareholding (shares) *(Continued)*

During the reporting period, 23,460,000 shares held by the parent company were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding not less than 5% shares in the Company were pledged, frozen or in custody.

HKSCC Nominees Limited held 524,632,870 H shares of the Company on behalf of a number of clients. UBS AG was set out in accordance with shares held by it reported to the Company and was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO").

### 3. Particulars of the top ten holders of shares subject to trading moratorium and trading moratorium (shares)

No.	Name of shareholders subject to trading moratorium	Number of shares subject to trading moratorium	Available time for listing	Number of newly issued tradable shares	Trading moratorium
1	Chongqing Iron & Steel (Group) Company Limited	845,000,000	28th February 2010	No	Being locked within 36 months from the listing date of A shares



## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Shareholdings of Directors, Supervisors and Senior Management

As at the end of reporting period, Directors, Supervisors and Senior Management of the Company didn't hold shares of the Company.

### 2. Changes in Directors, Supervisors and Senior Management

On June 26, 2007, Mr. Tu De Ling resigned from the positions as a director, chief accountant, and a member of the Professional Committee of the Board and the Board accepted his resignation, effective from 26 June 2007.

On 26 June 2007, Miss Yuan Xue Bing and Miss Lu Kang Mei resigned from their offices as the supervisors of the Company.

On 29 June 2007, the Board of the Company appointed Ms. Song Ying as the Chief Financial Officer of the Company.

### 3. Interests of directors and supervisors

As at 30th June 2007, interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) that is required to be recorded in the register maintained in accordance with Section 352 of the Ordinance, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are as follows:

Interests in Chongqing Iron & Steel Group Doorlead Realty Co.,Ltd. (originally named Chongqing Hengda Steel Industry Company Limited.):

Name (Note 1)	Number of held shares
Yuan Jin Fu	2,400 shares
Chen Shan	800 shares
Sun Yi Jie	800 shares
Chen Hong	1,600 shares

*Note 1. As indicated by the aforesaid data, the interests held by directors and supervisors in Chongqing Hengda Steel Industry Company Limited had been transferred into the parent company in December 2002.*

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 3. Interests of directors and supervisors *(Continued)*

Save as disclosed above, as at 30th June 2007, none of the Directors, Supervisors or chief executives had any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations that is required to be recorded in the register maintained in accordance with Section 352 of the Ordinance, or any interest required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

None of the Directors, Supervisors, senior management or their spouses or their children less than 18 years old were granted any rights to subscribe for any shares of the Company during the Reporting Period.

None of the Company, its fellow subsidiaries and parent company was involved in any arrangements whereby the directors or supervisors of the Company may purchase shares or debenture of the Company or any associated corporate for benefit.

None of the directors and supervisors of the Company directly or indirectly had any material interests in any material contract during the reporting period.

## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook

In the first half of 2007, the national economy of China kept steady growth momentum and domestic steel saw flourishing demand. Steel price has been rising slightly as it did at the end of last year. The Company incurred higher cost and less profit for steel production due to the appreciation of such raw materials as iron ore, coking coal, and ferroalloy, especially another price increase of 9.5% in imported iron ore from last year. By adjusting its marketing strategy and seizing the opportunities in the steel market, the Company put its production capacity into full play, lowered its cost by improving working procedure and put more efforts on the development of high added value products. Accordingly, steady growth in operation and favourable profits were achieved. In the first half of 2007, the Company's sales revenue amounted to RMB5,723.4 million, representing an increase of 29.48% from the same period of last year. In accordance with China Accounting Standards, the net profit amounted to RMB263,925,800 in the first half of 2007; earnings per share was RMB0.16. In accordance with Hong Kong Accounting Standards, net profit amounted to RMB262,744,000 in the first half of 2007, representing an increase of 825.64%; earnings per share was RMB0.163, representing a year-on-year increase of 676.19% .

- Strengthening management for production scale expansion

In the first half of the year, the Company implemented the requirement of "Press ahead production and maximize the potential production capacity" and focused on steel & iron smelting while organizing production deliberately and balancing production plan for each month. Meanwhile, it effectively managed the production in steel rolling systems based on steel contracts and ensured the timely delivery of steel contract. As a result, the output of major products of the Company showed a noticeable increase as compared with the same period of last year. In the first half of the year, the Company produced 679,200 tonnes of coking coal, 1,458,100 tonnes of pig iron, 1,675,600 tonnes of steel and 1,601,000 tonnes of steel products, up 6.07%, 17.11%, 17.04% and 18.71% year-on-year respectively, reaching a historical high.

- Seizing opportunities for marketing growth

Facing the favourable situations in steel products market during the first half of the year, the Company strengthened the market investigation and timely adjusted its product prices for the purpose of maximizing profit. Meanwhile, the Company enhanced the cooperation with strategic customers and communication with clients. In the first half of the year, it sold 1,582,200 tonnes of steel products, up 14.62% from same period last year.

## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook *(Continued)*

- Reducing consumption and cost for improvement of technical and economic indicators

In the first half of the year, the Company pressed ahead the reduction of cost and consumption during the production process. As a result, the major technical and economic indicators were improved considerably. In particular, 38 of 59 sub-indicators in 45 comparable technical and economic indicators recorded a breakthrough in historical standards with the indicator refreshing rate of 64.40% while 47 indicators showed considerable improvement with indicator improvement rate of 77.66%. Of which, the utilization coefficient of blast furnace up 8.23% and the energy consumption in sintering, iron smelting, steel rolling procedures declined 3.45%, 8.05% and 0.91% respectively, and the comprehensive energy consumption per tonne of steel down 12.99% as compared with the same period last year.

- Improving quality for market reputation

During the first half of the year, the Company made amendment, supplement and improvement to the quality system handbook, procedure documents and quality handbook of quality inspection centre. Meanwhile, the Company made amendments to 104 internal control standards and strengthened further the quality inspection and acceptance of raw materials and auxiliary materials while enhancing the whole process monitoring. Accordingly, the quality control during production process and the quality stability of products were secured. For 24 targets of quality appraisal established by the Company at the beginning of the year, 21 targets were achieved with a target completion rate of 87.50%, representing a noticeable increase over the same period of last year. Also, quality disputation per tonne saw a significant decrease.

- Developing profitable products to address market needs

The Company made efforts on the development of profitable products to meet the market demand. In the first half of 2007, four products were successfully developed by the Company including PC steel bar 30MnSi, 18# I-beam steel, CGQ550D steel plate, A32 (quixin) 40# flat-bulb steel. The output of new products and products with special requirement reached 349,190 tonnes, realizing an output value of RMB1,131,585,000, leading to an increase of 14.20% and 19.50% respectively over the same period of last year.

- Advancing the technological renovations to sharpen competitive edge

In the first half of the year, the Company carried out renovation projects such as medium plate roller's heat treatment, blast furnace pulverized coal injection system, high strength wire roller, coking system, 50MW gas-steam combined generating units, 30,000 cubic meters converter gas tank capacity expansion, power system for 500MW gas turbine engine. As a result, the Company's market competitive edge has been strongly enhanced.

## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook *(Continued)*

#### OUTLOOK

In the second half of 2007, as China continues to adopt macro control measures, China's economy will maintain steady development. In addition to large-scale investment in fixed assets under construction, downstream steel-consuming industries such as machinery, home appliance, shipbuilding, automobile, petrochemicals will maintain a relatively rapid growth, leading a steady growth of the steel market. As such, on the market front, the Company will keep a close eye on specialised market demand, make timely adjustment to its product mix and enlarge the market share of profitable products. At the same time, the Company is to optimize ore proportioning plan by increasing the proportion of domestic low price ores. Furthermore, the Company set to make efforts on reducing consumption and exploring potentials while strengthening fund management, controlling expenses, enhancing cost accounting and cost control. Pressing ahead meticulous management and maintaining balanced production according to the contract, the Company attached more importance on equipment operation and maintenance to improve the equipment utilization and lay a favourable conditions for production growth. The Company continue to tackle key issues of quality weakness and improve the quality of product and service further.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

As at 30th June 2007, in accordance with Hong Kong Accounting Standards, the Company achieved revenue from principal operation of RMB5,723,400,000, representing a year-on-year increase of 29.48%. Profit before tax amounted to RMB285,320,000, representing a year-on-year increase of 714.30%.

## REPORT OF THE BOARD OF DIRECTORS

## 1. Business review and outlook (Continued)

## (1) Principal operation of the Company during the reporting period under the Hong Kong Accounting Standards

In the first half of 2007, the Company's principal revenue amounted to RMB5,723,400,000, of which RMB2,644,840,000 was derived from the south-west region, representing a year-on-year increase of 20.36%, and RMB3,078,560,000 was derived from other regions, representing a year-on-year increase of 38.48%.

Region	Revenue from principal operations RMB0'000	Year-on-year increase/decrease in turnover (%)
South-west region	264,484	20.36
Other regions	307,856	38.48
<b>Total</b>	<b>572,340</b>	<b>29.48</b>

In the first half of 2007, the Company's principal revenue amounted to RMB5,723,400,000, of which RMB5,439,190,000 was derived from sales of steel products, representing 95.03% of the total revenue, up 30.35% over the same period of last year, and RMB284,210,000 was derived from sales of coking by-products, cutting steel leftover and hydroelectricity, which accounted for 4.97% of the total revenue, up 14.73% from the same period of last year.

Revenue	first half of 2007		first half of 2006		Year-on-year Increase/decrease (%)
	RMB0'000	Percentage (%)	RMB0'000	Percentage (%)	
Steel plates	251,052	43.86	197,610	44.70	27.04
Steel sections	145,001	25.33	112,374	25.42	29.03
Wire rods	65,666	11.47	51,122	11.56	28.45
Steel billets	64,725	11.31	43,001	9.73	50.52
Cool rolled plates	17,475	3.05	13,163	2.98	32.76
<b>Subtotal</b>	<b>543,919</b>	<b>95.03</b>	<b>417,270</b>	<b>94.40</b>	<b>30.35</b>
Others	28,421	4.97	24,773	5.60	14.73
<b>Total</b>	<b>572,340</b>	<b>100</b>	<b>442,043</b>	<b>100</b>	<b>29.48</b>

## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook *(Continued)*

#### (1) Principal operation of the Company during the reporting period under the Hong Kong Accounting Standards *(Continued)*

In the first half of 2007, the sales revenue of the Company's steel products (billets) increased by RMB1,266,490,000 as compared with the same period of last year, which was attributable to an increase in production and sales volume and price. In the first half of 2007, the Company sold 1,582,200 tonnes of steel products (billets), representing an increase of 14.62% over the same period of last year which increased sales revenue by RMB575,150,000. Meanwhile, the average selling prices of steel products (billets) was RMB3,438 per tonne, representing an increase of 13.73% from the same period of last year which increased sales revenue by RMB691,340,000.

Sales volume	In the first half of 2007 (10,000 tonnes)	In the first half of 2006 (10,000 tonnes)	Year-on-year	
			Increase decrease (%)	Increase in revenue (RMB'000)
Steel plates	61.21	62.12	-1.46	-2,895
Steel sections	48.07	38.73	24.12	27,100
Wire rods	22.23	18.13	22.61	11,561
Steel billets	22.58	15.50	45.68	19,642
Cool rolled plates	4.13	3.56	16.01	2,108
<b>Total</b>	<b>158.22</b>	<b>138.04</b>	<b>14.62</b>	<b>57,515</b>

Selling price	In the first half of 2007 (RMB/tonne)	In the first half of 2006 (RMB/tonne)	Year-on-year	
			Increase decrease (%)	Increase in revenue (RMB'000)
Steel plates	4,101	3,181	28.93	56,337
Steel sections	3,017	2,902	3.96	5,527
Wire rods	2,954	2,820	4.76	2,983
Steel billets	2,866	2,774	3.32	2,082
Cool rolled plates	4,232	3,698	14.43	2,204
<b>Total</b>	<b>3,438</b>	<b>3,023</b>	<b>13.73</b>	<b>69,134</b>

## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook *(Continued)*

#### (2) Operating results of the Company during the reporting period under Hong Kong Accounting Standards

In the first half of 2007, the Company's profit before tax amounted to RMB285,320,000, representing an increase of RMB250,280,000 over the same period of last year, of which:

- (i) Gross profit from principal operations amounted to RMB642,940,000 representing an increase of RMB341,250,000 over the same period of last year, mainly due to the increase in the price of steel products.

In the first half of 2007, the average selling price of steel products (billets) was 3,438/tonne, representing an increase of 13.73% over the same period of last year, which increased profit by RMB691,340,000. However, due to the appreciation of such raw materials as ore, coal and scrap steel which decreased profit by RMB350,090,000, the profit growth of Company was lowered.

- (ii) Other loss amounted to RMB6,740,000, up RMB21,400,000 over the same period of last year.

It was mainly attributable to the provision for assets impairment according to the accounting policy in the first half of 2007.

- (iii) Sales and marketing costs amounted to RMB110,930,000, representing an increase of RMB25,910,000 over the same period of last year, which was mainly attributable to an increase in shipbuilding inspection expenses as a result of the expanded sales volume of ship plates.
- (iv) Administrative expenses amounted to RMB132,150,000, representing an increase of RMB 32,290,000 over the same period of last year, which was attributable to the decreased wages of the Company as a result of shrunk profitability in the same period of last year.
- (v) Finance costs amounted to RMB107,800,000, representing an increase of RMB11,370,000 as compared with the same period of last year, which was mainly attributable to an increase in interest expense as a result of the increased long term and short term loans and raised interest rate.



## REPORT OF THE BOARD OF DIRECTORS

### 1. Business review and outlook *(Continued)*

#### (3) Use of Proceeds

The Company raised net proceeds of RMB968,050,500 by A share issuing in February 2007. As at the reporting date, RMB400,000,000 was utilized on an accumulated basis, all of which was used for land purchase, relocation and settlement, infrastructure renovation and other relevant expenses concerning hot rolling plate-strip project in Chang Shou Yan Jia Industrial Park. Investment by used proceeds was in line with schedule and has not yet recorded any gains. As at the reporting date, the remaining proceeds was RMB568,050,500 and would be used for its initial purposes as set out in the prospectus.

#### (4) Financial status of the Company during the reporting period under the Hong Kong Accounting Standards

- (i) As at 30th June 2007, the Company's total assets amounted to RMB10,627,790,000 and the total liabilities amounted to RMB5,670,530,000 with gearing ratio of 53.36% ; The current assets amounted to RMB5,013,780,000 while the current liabilities amounted to RMB5,092,770,000. The current assets/current liabilities ratio was 98.45%.
- (ii) In the first half of 2007, due to the increase in sales of the Company, net cash from operating activities amounted to RMB203,800,000. Together with the net cash flow from financing activities of RMB1,369,300,000 as a result of A share issue, the Company's current cash and cash equivalent increased by RMB1,031,740,000 after deducting net cash outflow from investment project of RMB541,360,000 as a result of saving energy and material consumption and improving asset function by the Company, As at 30th June 2007, The Company's bank balances and cash amounted to RMB1,409,390,000.

## 1. Corporate Governance

In accordance with the requirements of relevant laws and regulations, the Company established a corporate governance mechanism of checks and balances among the shareholders' general meeting, the Board of Directors, Supervisory Committee and the management. As a result, the shareholders' general meeting, the Board of directors, Supervisory Committee and the management defined their responsibility clearly.

During the reporting period, according to the Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies issued by CSRC and the Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Chongqing Listed Companies issued by Chongqing Office of CSRC, the Company carried out a special campaign for the corporate governance ("Special Campaign for the Corporate Governance"). On 29 April 2007, the Company set up an organization responsible for the Special Campaign for the Corporate Governance and formulated corresponding work plans and arrangements. On 28 June 2007, Self-examination Report on Corporate Governance, Chongqing Iron & Steel Company Limited Management Rules on Proceeds Management and Chongqing Iron & Steel Company Limited Management Rules on Information Disclosure were approved by the 4th meeting of the fourth Board of the Company. Accordingly, corporate governance structure and quality of corporate governance were improved and strengthened further.

During the reporting period, the Company has taken the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of list rules of the stock exchange of Hong Kong limited ("Listing Rules of the Stock Exchange") as the code for securities transactions by its directors and supervisors. After special enquiries to all directors and supervisors, the Company confirms that all directors and supervisors had complied with the requirements of the above code concerning the securities transactions.

The Board is also of the opinion that during the reporting period, the Company has complied with the stipulations of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

## SIGNIFICANT EVENTS

### 2. A Share Issue Successful

On 29th January 2007, as approved by the document zhenjianfaxinzhi [2007] No 23 issued by CSRC, the Company issued 350,000,000 ordinary shares denominated in Renminbi in the PRC. The issuing price was RMB2.88 per share. This issue adopted the combination of off-line placement to target placees and on-line fund subscription. 70,000,000 shares were placed to off-line target placees and 280,000,000 shares were issued to on-line subscribers. Total proceeds raised from this issue was RMB1,008,000,000. Excluding the issue expense of RMB39,949,500, the net proceeds was RMB968,050,500. Zhong Lei Certified Public Accountants verified the proceeds from this issue, and issued zhongleiyianzhi [2007] No. 8001 Capital Verification Report. As approved by the document shangzhengshangzhi [2007] No. 38 issued by Shanghai Stock Exchange, the shares under this issue were listed on the Shanghai Stock Exchange on 28th February 2007. Thus, the Company completed successfully its initial public offering of A shares in the PRC.

### 3. Profit Distribution Plan and its Implementation

- (1) The implementation of profit distribution plan of the Company in the first half of the year: Based on the total issued shares of the Company of 1,733,127,200 shares, the Company declared a cash dividend of RMB0.10 per share (tax inclusive), totalling RMB173,312,700, to all shareholders. The dividend for H shares was paid in Hong Kong dollars. The plan was considered and approved at the 2006 annual general meeting of the Company on 18 June 2007. The Company made announcement in the PRC and overseas on the next business day. Registration date of A shares was on 4th July 2007. Ex-dividend date was 5th July 2007 and the dividend was paid on 12th July 2007. Book close date of H shares was from 18th May 2007 to 18 June 2007 (both days inclusive). The dividend check for H shares was dispatched to each H shareholders by mail on or before 12th July 2007. The dividend distribution of A shares and H shares were completed.
- (2) The Company will not declare profit distribution, nor will it transfer the surplus reserves into share capital.

### 4. Material Litigation or Arbitration

During the reporting period, the Company did not involve in any material litigation or arbitration.

### 5. Material Assets Acquisitions, Sale or Disposal and Merger and Acquisition

During the reporting period, the Company did not involve in any Material assets acquisitions, sale or disposal and merger and acquisition during the reporting period or the same occurred in previous periods but extending to the reporting period.

## 6. Connected Transactions

- (1) From 1st January 2007 to 30th June 2007, all the continuing connected transactions carried out in the ordinary course of business between the Company and the parent company and its subsidiaries (excluding the Company) (“Parent Group”) was settled by cash and had no adverse impacts to the Company’s profit.
  - (i) During the reporting period, the payment under the new service and supply agreement ( “Service and Supply Agreement”) entered into between the Company and the parent company includes RMB512,593,400 and RMB963,770,300 for the connected transaction concerning the sales and provision of service by the Company to the Parent Group and procurement as well as the purchase and acceptance of service from the Parent Group, and RMB45,607,200 for the advance payment by the Company to the parent company during the reporting period.
  - (ii) During the reporting period, under the lease agreement (“Lease Agreement”) in respect of the land leased by the Company from the parent company, the Company paid land rent RMB9,000,000 to the parent company.

The aforesaid continuing connected transactions are on the terms of the relevant transaction agreement, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

- (2) Material Contracts Entered into with the Parent company.

As at 30th June 2007, except the Service and Supply Agreement and Lease Agreement as described above, no material contracts has been entered into between the Company and the parent shareholders.

## 7. Appropriation of Funds

As at 30th June 2007, except the ordinary course of business between the Company and related parties, there is no other creditor’s rights and debt between the Company and related parties. Also, no holding shareholders and its subsidiaries appropriated the Company’s funds for non-operating purpose.

## 8. Material Custody, Contracting or Leasing

The Company was not involved in any material custody, contracting or leasing of assets of other parties or vice versa, nor did it entrust any party for cash asset management during the reporting period or occurred in previous periods but extending to the reporting period.

## SIGNIFICANT EVENTS

### 9. Undertaking

None of the company or shareholders holding 5% or more of its share capital made undertakings which may have significant impact to the operating results and financial conditions of the Company during the reporting period or occurred in previous but extending to the reporting period.

### 10. Purchase, Sale or Redemption of the Securities of the Company

During the reporting period, the Company did not purchase, sell or redeem any securities of the Company.

### 11. Designated Deposits and Overdue Time Deposits

As at 30th June 2007, the company had not placed any designated deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the period.

### 12. Change in Appointment of Auditors

Approved by the annual general meeting of the Company on 28 June 2007, the Company ceased the appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian Certified Public Accountants as the domestic and international auditors, and appointed KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively for 2007. The change in appointment of the auditors is for the interest of the Company. There was no divergence between the Company and the former auditors. The Company has implemented the necessary procedures in respect of change in appointment of auditors according to the requirements of relevant laws and regulations, listing rules in listing place and article of association.

### 13. Staff

As at 30th June 2007, the Company had 11,595 employees, including 9,737 production operators, 192 sales staff, 806 technical staff, 102 financial staff and 758 management staff.

The Company has placed emphasis on staff skill training and knowledge upgrade. During the reporting period, total 6,408 staff received training, covering 59.16% of the staff.

**14. Temporary announcements indexes in respect of other material events during the reporting period**

- (1) On 29th January 2007, the announcements regarding CSRC approval of A share listing and A share issue were published in Hong Kong Wen Wei Po, The Standard and the web site of Hong Kong Stock Exchange.
- (2) On 27th February 2007, the announcement regarding completion of the A share issue was published in Hong Kong Wen Wei Po, The Standard and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange
- (3) On 27th February 2007, the announcement regarding listing announcement on initial public offering A shares was published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange.
- (4) On 20th March 2007, the announcement regarding change of factory site of plate-strip project-hot rolling project was published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange.
- (5) On 25th May 2007, the announcement regarding reminder announcement on listing of off-line offering A shares of the Company (3 months lock-in period ) was published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange.
- (6) On 27th June 2007, the Notice of 2007 first extraordinary general meeting held by the Board was published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, The Standard and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange.
- (7) On 29th June 2007, the announcement regarding Self-examination Report on Corporate Governance, Chongqing Iron & Steel Company Limited Management Rules on Proceeds Management and Chongqing Iron & Steel Company Limited Management Rules on Information Disclosure approved by the 4th meeting of the fourth Board of the Company was published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### Balance Sheet

30th June 2007

Unit: RMB

Assets	Closing balance	Opening balance
Monetary fund	1,409,386,287.47	377,642,185.73
Notes receivable	597,938,027.85	350,504,490.76
Accounts receivable	335,195,929.11	179,397,782.52
Prepayment	584,692,194.80	147,156,138.71
Other receivables	23,366,224.41	11,005,212.04
Inventories	2,063,197,914.20	2,146,967,559.02
<b>Total current assets</b>	<b>5,013,776,577.84</b>	<b>3,212,673,368.78</b>
Long-term equity investment	5,000,000.00	5,000,000.00
Fixed assets	4,934,888,544.93	4,767,864,527.16
Construction in progress	544,396,033.97	671,925,810.16
Constructive material	39,827,208.56	108,218,078.37
Intangible assets	26,521,489.62	10,215,492.56
Deferred income tax assets	5,361,317.00	2,938,018.00
Other non-current assets	58,100,000.00	62,600,000.00
<b>Total non-current assets</b>	<b>5,614,094,594.08</b>	<b>5,628,761,926.25</b>
<b>Total assets</b>	<b>10,627,871,171.92</b>	<b>8,841,435,295.03</b>

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

## Balance Sheet (Continued)

30th June 2007

Unit: RMB

Liabilities and shareholder's equity	Closing balance	Opening balance
Short-term loan	2,455,621,750.00	1,826,653,250.00
Notes payable	—	110,000,000.00
Accounts payable	1,087,712,845.60	1,073,646,565.42
Advances from customers	865,678,422.34	668,165,205.38
Remuneration payable to employees	18,404,298.36	16,296,311.04
Taxes payable	26,201,050.64	32,175,566.37
Dividend payable	173,312,720.00	—
Other payables	94,840,029.53	90,640,192.97
Non-current liabilities due within one year	371,000,000.00	521,000,000.00
<b>Total current liabilities</b>	<b>5,092,771,116.47</b>	<b>4,338,577,091.18</b>
Long-term loan	325,000,000.00	295,000,000.00
Specific payable	15,982,164.90	15,981,167.96
Deferred income	1,000,000.00	—
Other non-current assets	158,473,917.96	215,896,614.99
<b>Total non-current liabilities</b>	<b>500,456,082.86</b>	<b>526,877,782.95</b>
<b>Total liabilities</b>	<b>5,593,227,199.33</b>	<b>4,865,454,874.13</b>
Share capital	1,733,127,200.00	1,383,127,200.00
Capital reserve	1,164,383,536.47	546,333,036.47
Surplus reserve	461,926,124.01	461,926,124.01
Undistributed profits	1,675,207,112.11	1,584,594,060.42
<b>Total shareholder's equity</b>	<b>5,034,643,972.59</b>	<b>3,975,980,420.90</b>
<b>Total liabilities and shareholder's equity</b>	<b>10,627,871,171.92</b>	<b>8,841,435,295.03</b>

Company's legal representative  
Luo Fu QinFinancial Controller  
Song YingPerson in-charge-of Accounting  
Song Ying



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### Income Statement

Jan~Jun 2007

Unit: RMB

Items	Jan~Jun 2007
1. Operating income	5,741,852,210.91
Less: Operating cost	(5,080,950,274.45)
Costs of sales	(110,932,041.97)
Administrative expenses	(133,828,964.32)
Finance costs	(104,405,748.42)
Losses from assets impairment	(20,692,441.46)
2. Operating profits (loss represented as"-")	291,042,740.29
Add: Non-operating income	2,530,520.80
Less: Non-operating expenses	(7,070,788.40)
3. Total profits	286,502,472.69
Less: Income tax expenses	(22,576,701.00)
4. Net profits	263,925,771.69
5. Earnings per share	
(1) Basic earnings per share	0.16
(2) Diluted earnings per share	0.16

Company's legal representative  
Luo Fu Qin

Financial Controller  
Song Ying

Person in-charge-of Accounting  
Song Ying

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

## Cash Flow Statement

Jan~Jun 2007

Unit: RMB

	Jan~Jun 2007
1. Net cash flow from operating activities	
Cash received from sales of goods and rendering of services	6,299,817,057.09
Other cash received relating to operating activities	4,909,884.97
Subtotal of cash inflow from operating activities	6,304,726,942.06
Cash paid for goods and services	(5,032,565,849.34)
Cash Paid to and on Behalf of Employees	(363,907,637.11)
Taxes paid	(8,233,041.18)
Other cash paid relating to operating activities	(696,218,309.31)
Subtotal of cash outflow from operating activities	(6,100,924,836.94)
Net cash flow from operating activities	203,802,105.12
2. Net cash flow from investing activities	
Net cash returned from disposal of fixed assets	4,127,203.25
Other cash received relating to investing activities	3,814,624.54
Subtotal of cash inflow from investing activities	7,941,827.79
Cash paid to purchase fixed assets, intangible assets, and other long-term assets	(549,297,066.33)
Subtotal of cash outflow from investing activities	(549,297,066.33)
Net cash flow from investing activities	(541,355,238.54)
3. Net cash flow from financing activities	
Cash received to introduce investments	968,050,500.00
Cash received from receipt of borrowings	1,976,172,853.04
Other cash received relating to financing activities	1,466,642.95
Subtotal of cash inflow from financing activities	2,945,689,995.99
Cash paid for repayment of liabilities	(1,467,204,353.04)
Cash paid for repayment of interest	(109,188,407.79)
Subtotal of cash outflow from financing activities	(1,576,392,760.83)
Net cash flow from financing activities	1,369,297,235.16
4. Effect on cash due to change in foreign currency exchange rate	—
5. Net increase in cash and cash equivalents	1,031,744,101.74
Add: opening balance of cash and cash equivalent	377,642,185.73
6. Closing balance of cash and cash equivalent	1,409,386,287.47

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### Cash Flow Statement (Continued)

Jan~Jun 2007

Unit: RMB

Supplementary information:	Jan~Jun 2007
1. Reconciliation of net profit to cash flow from operating activities	
Net profit	263,925,771.69
Add: Provision for assets impairment	10,986,496.41
Depreciation of fixed assets, depreciation and depletion of oil and gas assets, and depreciation of consumable biological assets	148,009,156.86
Losses (gains) from disposal of fixed assets, intangible assets and other long-term assets (gain represented as "-")	4,800,745.37
Finance costs (gain represented as "-")	103,908,137.25
Decrease in inventories (increase represented as "-")	70,203,224.85
Decrease in receivables under operating activities (increase represented as "-")	(449,667,965.54)
Increase in payables under operating activities (decrease represented as "-")	51,636,538.23
Net cash flow from operating activities	203,802,105.12
2. Material investment and financing activities not relating to cash flows	—
3. Changes in cash and cash equivalents	
Closing balance of cash and cash equivalent	1,409,386,287.47
Less: opening balance of cash and cash equivalents	(377,642,185.73)
Net increase in cash and cash equivalents	1,031,744,101.74

Company's legal representative  
Luo Fu Qin

Financial Controller  
Song Ying

Person in-charge-of Accounting  
Song Ying

Statement of Changes in Equity

Jan~Jun 2007

Unit: RMB

Items	Paid in capital (or share capital)	Capital reserve	Amount of current period		Undistributed profits	Total equity
			Less: Treasury share	Surplus reserve		
I. Balance at the end of last year	1,383,127,200.00	546,333,036.47	—	461,926,124.01	1,600,132,641.42	3,991,519,001.90
Add: Changes of accounting policy	—	—	—	—	(15,538,581.00)	(15,538,581.00)
Correction to errors in previous period	—	—	—	—	—	—
II. Balance at the beginning of this year	1,383,127,200.00	546,333,036.47	—	461,926,124.01	1,584,594,060.42	3,975,980,420.90
III. Amount increase/decrease during this year(decrease represented as "-")	350,000,000.00	618,050,500.00	—	—	90,613,051.69	1,058,663,551.69
(I) Net profit	—	—	—	—	263,925,771.69	263,925,771.69
(II) Gains and losses directly charged to owner's equity	—	—	—	—	—	—
1. Changes in fair value of available-for-sale financial assets, net	—	—	—	—	—	—
2. Impact from the changes in other equity interest of the investee by equity method	—	—	—	—	—	—
3. Impact from income tax relating to the owner's equity	—	—	—	—	—	—
4. Others	—	—	—	—	—	—
Subtotal of above item (I) and item (II)	—	—	—	—	263,925,771.69	263,925,771.69
(III) Shareholder's investment and reduction of capital	350,000,000.00	618,050,500.00	—	—	—	968,050,500.00
1. Capital invested by owners	350,000,000.00	618,050,500.00	—	—	—	968,050,500.00
2. Amount of share-based payment accounted for owner's equity	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
(IV) Profit distribution	—	—	—	—	(173,312,720.00)	(173,312,720.00)
1. Transfer of surplus reserve	—	—	—	—	—	—
2. Distribution to owners (or shareholders)	—	—	—	—	(173,312,720.00)	(173,312,720.00)
3. Others	—	—	—	—	—	—
(V) Internal carryforward of owner's equity	—	—	—	—	—	—
1. Transfer of capital reserve fund to capital(share capital)	—	—	—	—	—	—
2. Recovery of the loss by surplus reserve	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
IV. Balance at the end of the period	1,733,127,200.00	1,164,383,536.47	—	461,926,124.01	1,675,207,112.11	5,034,643,972.59

Company's legal representative  
Luo Fu Qin

Financial Controller  
Song Ying

Person in-charge-of Accounting  
Song Ying

## FINANCIAL REPORT

*The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards*

### Notes to Financial Statements

(Unit: RMB)

#### I. Company Information

With Chongqing Iron & Steel Company (Group) Limited (重慶鋼鐵(集團)有限責任公司) (the “Holding Company”) as the sole promoter, Chongqing Iron & Steel Company Limited (the “Company”) was established as part of the restructuring (“Restructuring”) of the Holding Company in August 1997.

The Company is principally engaged in the manufacture and sale of medium-gauge steel plates, steel billets, steel sections, wire rods and coking by-products.

Pursuant to the Restructuring plan, the Company was established on 11st August 1997 and took over the principal iron and steel business and the relevant assets and liabilities and one of the subsidiaries of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. (“Hengda”), whereupon the Company issued 650,000,000 state-owned shares of Renminbi (“RMB”)1 each to the Holding Company. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 17th October 1997.

In 2002, the Company acquired all assets and liabilities of Hengda and disposed of its entire interest of 230,898,000 legal person shares in Hengda (representing 69.51% of Hengda’s total share capital) to the Holding Company. Following the disposal of Hengda, the Company does not have any subsidiary.

The Company’s A shares were listed on the Shanghai Stock Exchange (“SSE”) on 28th February 2007.

#### II. Basis of preparation

The financial statements were prepared in accordance with Accounting Standards for Business Enterprises and other relevant provisions as promulgated by the Ministry of Finance of the PRC.

The preparation of the Company’s financial statements was based on the assumption of sustainable operation by the Company from the end of this reporting period to 30th June 2008.

#### III. Statement on compliance with Accounting Standards for Business Enterprises

The preparation of the Company’s financial statements complies with the requirements of Accounting Standards for Business Enterprises and it truly and completely reflects the Company’s financial status, operating results and cash flow.

#### IV. PREPARATION OF CONSOLIDATED STATEMENT

From 1st January 2003 to 30th June 2007, there wasn't any subsidiary under the Company, as a result, no consolidated financial statement was prepared.

#### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

##### 1 Accounting period

The accounting period of the Company starts on 1st January and ends on 31st December.

##### 2 Recording currency

The recording currency of the Company is the RMB.

##### 3 Measurement attributes

At the preparation of the Company's financial statement, Historical Cost Measurement is generally adopted, excluding the following assets and liabilities:

- (1) Financial assets held for trading, please refer to Note V (6)
- (2) Available-for-sale financial assets, please refer to Note V (6)
- (3) Financial liabilities held for trading, please refer to Note V (6)

##### 4 Foreign currency accounting

Foreign currency transactions are translated into RMB at the spot exchange rates at the transaction dates.

At the balance sheet date, exchange differences arising from settlement or the translation at the spot exchange rate at the balance sheet date for each foreign currency item shall be recognized into the loss and gain in current period; exchange gains and losses arising from relevant borrowings shall be treated according to the criterion for capitalized amount of borrowing costs. For nonmonetary items denominated in foreign currencies and measured by historical cost, spot exchange rate at the transaction date shall be adopted for translation and amount in recording currency remain unchanged.

## FINANCIAL REPORT

*The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards*

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 5 Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises all cash in hand and call deposits. Cash equivalents refer to short— term and highly— liquid investments with original maturities of these months or less that are readily convertible to known amounts and which are subject to an insignificant risk of changes in value.

#### 6 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. It covers financial asset, financial liability and equity instrument.

The financial assets of the Company comprise cash, bank deposits, accounts receivables, bills receivables and equity investments. The financial liabilities consist of borrowings, accounts payables and bills payables while the equity instrument involves mainly share capital.

##### (1) Recognition and Measurement of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are measured at fair value for initial recognition. For financial assets or financial liabilities at fair value through profit or loss, transaction costs shall be recognized immediately in profit or loss for the current period. For financial assets or financial liabilities being classified in other categories, transaction costs shall be included in the initial recognized amount.

##### 1) Financial asset and financial liability at fair value through profit or loss (including financial asset or financial liability held for trading)

It includes financial assets and financial liabilities held by the Company for the purpose of selling or repurchasing in the near term, financial assets and financial liabilities designated as at fair value through profit and loss as well as derivatives. However, it excludes the derivatives designated as effective hedging instruments, the derivatives classified as financial guarantee contract, and the derivatives linked to equity instrument investment which have no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

Subsequent to initial recognition, the financial assets and financial liabilities at fair value through profit or loss are measured at fair value. The gain or loss arising from the change in fair value is included into the current profit or loss.

V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

6 Financial Instruments (Continued)

(1) Recognition and Measurement of Financial Assets and Financial Liabilities (Continued)

2) Held-to-maturity investments

The non-derivative financial assets with fixed maturity and fixed or determinable recoverable amount where the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. After the initial recognition, held-to-maturity investments are carried at amortised cost applying the effective interest method.

3) Receivables

Receivables are non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market.

4) Available-for-sale financial assets

The non-derivative financial assets designated as available-for-sale at initial recognition and financial assets not classified in any of the other categories are classified as available-for-sale financial assets.

The equity instrument investments which have no quoted price in an active market nor a reliably measured fair value are measured at cost subsequent to initial recognition.

Except the aforesaid equity instrument investments without a reliably measured fair value, other available-for-sale financial assets are measured at fair value subsequent to initial recognition. In respect of gains and losses arising from changes in fair value, except that the impairment losses and exchange differences arising from monetary financial assets denominated in foreign currencies are included into the current profit or loss, other gains and losses shall be recognised directly in capital surplus until the available-for-sale assets are derecognized, at which time the cumulative gain or loss previously recognized in capital surplus should be transferred to current profit or loss.

5) Other financial liabilities

Other financial liabilities are financial liabilities other than financial liabilities at fair value through profit or loss.



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 6 Financial Instruments (Continued)

##### (2) Impairment of Financial Assets

The Company assesses at the balance sheet date whether there is any objective evidence that the financial assets other than those at fair value through profit or loss are impaired. If any such evidence exists, a provision for impairment is made.

##### (3) Determination of the Fair Value

For financial assets or liabilities traded in an active market, fair value is determined by the Company based on the quoted price in such market. For financial instruments where there is no active market, fair value is determined using valuation techniques.

##### (4) Hedging

A hedged item is an item that exposes the Company to risk of changes in fair value or cash flows and is designated as being hedged.

A hedging instrument is a derivative designated for hedging purpose whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. Non— derivative financial assets or non— derivative financial liabilities are also used by the Company as hedging instruments to hedge off foreign currency risks.

##### (5) Hybrid Financial Instruments

The hybrid financial instruments of the Company are convertible bonds. Relevant liability and equity components are split when the convertible bonds are initially recognised. Firstly, the future cash flow of the liabilities is discounted to determine the initial recognised amount of the liabilities, and then, the initial recognised amount of the equity is recognised based on the difference of issue proceeds less such initial recognised amount of liabilities. Transaction costs occurred on the issue of the convertible bonds are apportioned between the liability and equity components according to relative proportions of the initial recognised amounts.

Following the initial recognition, the liabilities not designated as at fair value through profit or loss are measured based on amortised cost using the effect interest rate method. The component of equity is not re— measured subsequent to the initial recognition.

**V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** (Continued)**7 Provision for Bad Debts of Accounts Receivable**

The accounts receivable when there is objective evidence that they will not be able to be collected in the case of cancellation, bankruptcy, insolvency and insufficient cash flows of the debtors are recognised as bad debts to write off provision for impairment of such bad debts accordingly.

Special provision for bad debts of the accounts receivable due from related parties, accounts receivable due from non-related parties whose recoverability is obviously different from other accounts receivables and other receivables are identified and made on an individual basis. For the accounts receivable due from non-related parties with no special provision for bad debts, a general provision for bad debts is made based on aging analysis according to ratios as follows:

Aging	Ratio
Within 3 months	0%
4 — 12 months	5%
1 — 2 years	25%
2 — 3 years	50%
Over 3 years	100%

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 8 Inventories

Inventories include raw materials, work in progress, finished goods and spare parts, and are presented at the lower of cost and net realisable value.

Inventories are recorded at actual cost. The cost of inventories is accounted for using the weighted average method. Cost of finished goods and work in progress comprise material costs, direct labour and an allocation of indirect production overhead expenditures incurred based on normal operating capacity.

Provision for inventories is calculated based on the lower of cost and net realisable value on an individual basis. As for certain inventories with similar use and relating to the manufactured and sold product series in the same region which is difficult to be differentiated from other items of the product series in revaluation, provision for decline in value is consolidated. As for inventories with low price and large quantities, provision for decline in value is provided according to different classes of the inventories.

Net realisable value is the estimated selling price of inventories in the ordinary course of business, less the estimated costs to completion and the estimated costs necessary to conclude the sale.

The Company adopts perpetual inventory system.

#### 9 Long-term equity investments

Long-term equity investments refer to equity investments that the Company intends to hold for more than one year.

For long-term equity investment in an investee over which the investor has no control, joint control or material impacts, without public quotation in an active market nor a fair value to be measured reliably, when it is initially recognised, if it is acquired by cash payment, the initial investment cost is the actual payment for purchase; if it is acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; if it is acquired by long-term equity investment from investors, the initial investment cost is the value agreed under the investment contracts or agreements. The above-mentioned long-term equity investment is subsequently measured through cost method.

Provision for impairment of the long-term equity investment accounted for through cost method, without public quotation in an active market nor a fair value to be measured reliably is made pursuant to Note V-6 (2).

## V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 10 Fixed assets and depreciation

Fixed assets refer to tangible assets used in production, held for rental to others, or held for management purposes, which have useful lives of more than one year and have relatively high unit price.

Fixed assets purchased or constructed were initially recorded at cost. Fixed assets being revalued during the Restructuring of the Company in 1997 are recorded at the revalued amount approved by the State Assets Management Bureau.

Depreciation of fixed assets is calculated on the straight-line method to write off the cost or revalued amount of the assets to their residual values over their estimated useful lives. When a provision for impairment loss (refer to Note 5-13) has been made for a fixed asset, the depreciation rate and depreciation charge for the fixed asset are recalculated based on the asset's carrying amount and its remaining useful life.

The estimated useful lives, estimated residual values expressed as a percentage of cost and annual depreciation rates are as follows:

	Estimated useful lives	Net estimated residual values	Annual depreciation rates
Plant and buildings	40 — 45 years	3%— 20%	2% to 2.43%
Machinery and other equipment	8 — 22 years	0%— 3%	4.41% to 12.5%
Motor vehicles	8 years	3%	12.13%

When fixed assets are sold, transferred, disposed of or destroyed, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight— line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

At the end of each year, the Company regularly check the service life of fixed assets and estimated net residual value. In case of any difference between the actual service life and estimated service life of fixed assets, estimated net residual value will be adjusted.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 11 Construction in progress

Construction in progress represents fixed assets under construction or installation and is stated at cost. Cost comprises construction cost and other direct costs, original cost of plant and equipment and installation costs. Borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets are capitalized as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

#### 12 Intangible assets

Intangible assets include land use rights and trademark use rights.

##### (a) Land use rights

Land use rights obtained through payment of land transfers fees are recorded at actual cost and are amortised on a straight-line basis over the estimated useful lives of 50 years.

##### (b) Patent and trademark use rights

Cost of patent and trademark use rights invested by the Holding Company during the Restructuring were accounted for based on the revalued amount approved by the State Assets Management Bureau and are amortized over 10 years.

Intangible assets were recorded in Balance Sheet as cost after reduction of accumulative amortization and impairment provisions (refer to Note V-13).

In respect of intangible assets with economic benefits time unable to be forecasted, the Company regarded it as intangible assets with uncertain service life. As of the balance sheet date, there weren't intangible assets with undertain service life.

Research and development expenditure of intangible assets in the Company is divided into expenditure in research stage and expenditure in development stage. Expenditure in research stage was recorded in the gains and losses of the current period at occurrence. Expenditure in development stage was recognized as intangible assets when its cost can be reliably measured and releted economic benefits of the project is possible to flow into the Company, otherwise, it shall be included into the gains and losses of the current perid.

## V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 13 Provision for assets impairment

In accordance with internal and external information, the Company determined whether there exists any impairment sign in the following assets or not at balance sheet date, including:

- Fixed assets
- Construction in progress
- Intangible assets with certain service life

In respect of assets with impairment sign, the Company made impairment test to estimate the reclaimed amount of assets.

An asset group is a minimal asset portfolio, whose cash inflow is basically independent of other assets or asset groups. An asset group consists of assets related to the creation of cash inflow. An asset group is identified mainly based on whether it can generate cash inflows, and also on the management or supervision modes on the Company's production and operation, and decision— making approach for assets use or disposal.

The recoverable amount of an asset (or asset group) is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset (or asset group).

The net amount of the fair value less costs of disposal of an asset (asset group) is determined based on the amount of the agreed selling price in an arm's— length transaction less costs of disposal directly attributable to the asset (asset group). The present value of the future cash flows expected to be derived from the asset (or asset group) is determined based on the future cash flows expected to be derived from the continuing use and from the final disposal of the asset (or asset group) discounted at an appropriate discount rate determined by taking into account such factors as the expected future cash flows, the useful life and discount rate.

According to the measurement results of the recoverable amount, where the recoverable amount of an asset (asset group) is less than its carrying amount, the latter should be written down immediately to the recoverable amount. The amount written down is recognised as impairment loss of the asset and included into current profit or loss against a provision for impairment of assets.

Any impairment loss recognised is not reversed in subsequent accounting periods.

## FINANCIAL REPORT

*The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards*

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 14 Borrowing Costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized and included into the cost of that asset.

Borrowing costs are capitalized conditional upon all of the following three criteria:

- (1) capital expenditure has been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition or construction or production necessary for the assets to come into an expected usable state has been carried out.

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. The borrowing costs incurred during these periods shall be recognized as expenses for the current period until the acquisition, construction or production of a qualifying asset is resumed. Capitalization of borrowing cost shall be ceased when acquisition, construction or production of the qualifying asset has prepared the asset for its intended use or sale.

Save as aforesaid, other borrowing costs are recognized as finance costs in the period in which they are incurred.

#### 15 Provisions

Provisions are recognised when the Company has a present obligation as a result of product quality guarantee, external guarantee and pending litigation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are stated at the best estimated amount based on the relevant experience in the previous years.

## V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 16 Employee salaries

Employee salaries mean different types of remuneration and other relevant expenditure for employee's service. Except benefit for dismissal, the Company recognized remuneration payable to employees as liabilities and correspondingly increased assets cost or current expenses in the accounting period when the staff rendered service.

#### (1) Retirement benefit

In accordance with relevant laws and regulations of the PRC, the Company shall pay pension insurance to local social basic insurance agency at the basis and proportion locally stipulated for pension insurance.

#### (2) Public housing reserve and other social insurance

The Company shall pay public housing reserve and premium for basic medical insurance, unemployment insurance, injury insurance, and maternity insurance for registered staff in accordance with the provisions of relevant laws, rules and policies

### 17 Dividends distribution

Distribution of cash dividends is recognized as a liability in the period when the profit appropriation plan is approved by the General Meeting of Shareholders.

### 18 Revenue recognition

#### (1) Sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the products are transferred to the customer, when the Company neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the enterprises and when the relevant amount of revenue and costs can measure sales revenue reliably.

#### (2) Other revenues are recognised on the following bases:

Revenue from transportation services is recognised after providing relevant services.

Interest income is recognised on a time basis taking into account deposit balances and effective yield.

Leasing income is recognised using the straight-line method over the lease term.



## FINANCIAL REPORT

*The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards*

### V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 19 Government grant

Government grants are transfer of monetary assets or non— monetary assets from the government to the Company at no consideration, excluding capital contribution from the government as an investor. Special grant such as investment subsidy granted by government that are required to be included in capital reserve pursuant to the State's relevant regulations are categorized as capital contribution instead of government grants.

Government grant is recognized when, and only when the conditions are met and it can be received.

The government grant in the form of a transfer of a monetary asset shall be measured at the amount received or receivable. The government grant in the form of a transfer of a non— monetary asset shall be measured at fair value.

A government grant related to an asset shall be recognized as deferred income, and evenly credited to profit or loss over the useful life of the related asset. A government grant related to income shall be accounted for as follows: if the grant is a compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred by the Company, the grant shall be recognized immediately in profit or loss for the current period.

#### 20 Operating leases

Leases in which all risks and rewards arising from asset ownership are not transferred in substance to the lessee are classified as operating leases. Lease payments under operating leases are recognized as period expense on a straight-line basis over the lease term.

**V. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** (Continued)

**21 Income tax**

Save that the income tax impacts on transactions or matters to be directly included to shareholders' equity are recognized in shareholders' equity, the current income tax and the deferred income tax of the Company are included in the current profit and loss account as income tax expenses or gains.

A deductible temporary difference or taxable temporary difference is recognised as deferred income tax assets or deferred income tax liabilities respectively. Temporary difference is the difference between the carrying amount of assets or liabilities and their tax bases, including deductible tax loss and tax credit which can be carried forward. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

On each balance sheet date, the current income tax liabilities (or assets) arising from the current and preceding periods are measured based on the estimated payable (or returnable) amount of income tax calculated pursuant to the tax laws.

On each balance sheet date, the carrying amount of deferred income tax assets and liabilities are measured based on the estimated mode for their recognition or settlement pursuant to prevailing tax laws and regulations, using the applicable tax rate for the expected period to recover such assets or settle such liabilities.

**22 Connected Party**

A party under control or common control or significant influence exercised by or with control or common control or significant influence on the Company, or in concert with the Company under control or common control or significant influence exercised by another party is deemed as a related party. A related party can be a natural person or a corporate entity. An enterprise merely under common control of the State but without any other related party connections does not constitute a related party of the Company.

## FINANCIAL REPORT

*The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards*

### VI. EXPLANATIONS TO ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING ESTIMATES

Retrospective adjustments have been made to the financial instruments items in accordance with provisions of Accounting Standard for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises.

Accounting treatment of financial assets, financial liabilities, and equity instruments was originally based on historical cost, but at present, they are classified on the principle of Note V-6 and respectively treated on the basis of fair value, amortized cost or cost.

On 1st January 2007, the undertaken financial liabilities (excluding derivative instruments as hedging instruments) were divided into financial liabilities at fair value through profit or loss of current period and other financial liabilities. In respect of financial liability at fair value through profit or loss of current period, the fair value on 1st January 2007 was adopted as its book value; in respect of difference between fair value and original book value, retrospective adjustments were adopted to adjust the items listed in the statement dated 1 January 2007 and those in the comparative statement for 2006.

According to the holding purpose, long— term advances of RMB410,000,000 from Jiangsu Yangzijiang Shipyard Co., Ltd. as at 31 December 2006 was classified into finance liabilities by the Company. On 1 January 2007, RMB425,539,581 of the fair value for long— term financial liabilities were determined based on the net present value of expected earnings under contract discounted at neternal rate of return. Meanwhile, the difference between fair value and its book value resulted in a decrease of RMB7,463,456 in undistributed profits at the beginning of the period and a decrease of RMB8,075,125 in gains and losses of current period.

## VII. MAJOR TAXES

## 1. Enterprise income tax

	Jan~Jun 2007 RMB'000
Enterprise income tax (1)	25,000,000.00
Reduction in income tax arising from the purchase of domestic manufactured equipment (2)	—
Income Taxes payable	25,000,000.00
Deferred income tax (3)	(2,423,299.00)
Income tax	22,576,701.00

- (1) The Company is approved as a foreign—invested joint stock limited company under the approval ([1998] Wai Jing Mao Zi Er Han Zi No. 748) issued by the Ministry of Foreign Trade and Economic Cooperation of the PRC on 7th December 1998. As a production enterprise with foreign investment established at the riverside of Yangtse River, the Company was originally entitled to a preferential income tax rate of 24% in accordance with “The Notice issued by the State Tax Bureau on Taxation Policy Concerning Foreign Invested Enterprises for Further Opening of Frontier, Coastal, Inland and Riverside Cities” (Guo Shui Fa [1992] No. 218). In April 2003, the Company obtained the “Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited” (Yu Guo Shui Han [2003] No. 57) issued by the State Administration of Taxation of Chongqing on 17th February 2003 and the “Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited” (Da Dukou Guo Shui Han [2003] No. 8) issued by the State Administration of Taxation of Da Dukou District, Chongqing on 21st February 2003. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and the income tax rate is reduced to 15% for the period from 2001 to 2010. In accordance with the preferential tax policy that production enterprise with foreign investment is exempted from local income tax under the Notice on Issuing Some Policies for Encouraging Foreign Investment by the People’s Government of Chongqing Municipality (Y FF(2001) No.14) dated 17 April 2001, the Company was exempted from local income tax.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VII. MAJOR TAXES (Continued)

#### 1. Enterprise income tax (Continued)

- (2) The Company purchased certain domestic manufactured equipment during the period from 2004 to 2005. In accordance with Cai Shui Zi [2000] No. 49 “The Notice concerning the Reduction in Corporate Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises” issued by the Ministry of Finance and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company’s enterprise income tax.

In accordance with the approval (Da Dukou Guo Shui Han [2006] No.3) on application for income tax reduction lodged by the Company relating to the purchase of domestic manufactured equipment in 2005 and the application form for the income tax reduction lodged by the Company relating to purchase of domestic manufactured equipment in 2006 both approved by the State Administration of Taxation of Da Dukou District, Chongqing, the Company is entitled to a tax reduction of RMB170,821,000 during the period from 2005 to 2006. Of them, RMB50,922,030.15 was utilised to offset the Company’s payable enterprise income tax liability for 2006. The remaining RMB99,417,096.00 approved in 2004 and 2005 can be utilised to prospectively offset the additional enterprise income tax of each next year over the year in which the domestic manufactured equipment is purchased for a term not more than 5 years.

- (3) Deferred income tax is the impact balance of income tax adjusted based on the prevailing applicable tax rate arising from timing difference, including the following items:

	Jan~Jun 2007 RMB'000
Deferred income tax	
— Provision for diminution in value of inventories and provision for bad debts of accounts receivables	2,034,595.74
— Provision for impairment of fixed assets	388,703.26
	<b>2,423,299.00</b>

## VII. MAJOR TAXES (Continued)

### 2 Value added tax

The Company is subject to value added tax with sales output rate of 17%. Input VAT from purchase of raw materials can be netted off against output VAT from sales. VAT payable is the net difference between output VAT and deductible input VAT.

### 3 Business tax

Business tax for the Company's rental income is payable at 5% of the taxable turnover.

## VIII. NOTES TO THE FINANCIAL STATEMENTS

### 1 Cash and bank balances

	Currency	Closing balance			Opening balance		
		Amount in original currency	Exchange rate	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
Cash	— RMB	455,847.75	1	455,847.75	784,399.31	1	784,399.31
Bank balance	— RMB	1,333,570,906.85	1	1,333,570,906.85	302,911,388.05	1	302,911,388.05
	— US\$	1,105,358.25	7.6155	8,417,855.78	35,312.71	7.8087	275,746.36
	— HK\$	42,408.85	0.9744	41,321.49	41,068.00	1.0047	41,261.02
Other							
cash and	— RMB	56,277,907.34	1	56,277,907.04	73,316,392.61	1	73,316,392.60
bank balances	— US\$	1,394,845.85	7.6155	10,622,448.56	40,083.29	7.8087	312,998.39
				1,409,386,287.47			377,642,185.73

There was RMB35,405,755.90 of deposit in bank balances as at 30th June 2007, and RMB63,870,391.00 as at 31st December 2006. The deposit is designed for the purpose of letter of credit and bills.

The increase in cash and bank balances was mainly attributable to the A share listing of the Company in February 2007, which raised proceeds RMB968,000,000.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 Notes receivable

Type	Closing balance	Opening balance
Bank acceptance	<b>597,938,027.85</b>	350,504,490.76

#### 3 Accounts receivable

Type	Closing balance	Opening balance
Amounts due from third parties (1)	<b>188,668,214.48</b>	107,736,714.99
Amounts due from related parties (2)	<b>146,527,714.63</b>	71,661,067.53
	<b>335,195,929.11</b>	179,397,782.52

##### (1) Amounts due from third parties

Type	Closing balance	Opening balance
Amounts due from third parties	<b>337,851,151.83</b>	258,684,261.41
Less: General provision for bad debts	<b>(149,182,937.35)</b>	(150,947,546.42)
	<b>188,668,214.48</b>	107,736,714.99

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 Accounts receivable (Continued)

(1) Amounts due from third parties (Continued)

By aging structure:

	Closing balance	Opening balance
Within 3 months	<b>184,986,875.97</b>	100,351,035.08
4— 12 months	<b>2,781,357.55</b>	1,351,157.58
1— 2 years	<b>555,648.06</b>	6,900,158.96
2— 3 years	<b>483,578.64</b>	1,853,921.98
Over 3 years	<b>149,043,691.61</b>	148,227,987.81
Subtotal	<b>337,851,151.83</b>	258,684,261.41
Less: Provision for bad debt	<b>(149,182,937.35)</b>	(150,947,546.42)
	<b>188,668,214.48</b>	107,736,714.99

The increase of RMB79,166,890.42 in amounts due from third parties over the beginning of the year was mainly due to the increase in sales in the first half year.

Analysis to top five customers: On 30th June 2007, the amounts due from top five debtors among the amounts due from the third parties totalled RMB172,991,779.01(2006:RMB93,356,000.00), accounting for 51.20%(2006: 36.09%) of amounts due from third parties.



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 Accounts receivable (Continued)

(2) Amounts due from related parties:

Type	Closing balance	Opening balance
Amounts due from related parties	<b>156,606,495.50</b>	81,739,848.40
Less: Specific provision for bad debts	<b>(10,078,780.87)</b>	(10,078,780.87)
	<b>146,527,714.63</b>	71,661,067.53

By aging structure

Type	Closing balance	Opening balance
Within 3 months	<b>112,873,686.71</b>	57,337,370.61
4— 12 months	<b>29,236,569.41</b>	9,945,788.80
1— 2 years	<b>599,775.42</b>	33,600.00
Over 3 years	<b>13,896,463.96</b>	14,423,088.99
Subtotal	<b>156,606,495.50</b>	81,739,848.40
Less: Provision for bad debts	<b>(10,078,780.87)</b>	(10,078,780.87)
	<b>146,527,714.63</b>	71,661,067.53

Amounts due from related parties increased by RMB74,866,647.10 from the beginning of the year, mainly attributable to the increase in sales in the first half year.

Analysis to top five customers: As at 30th June 2007, the amounts due from the top five debtors among the amounts due from third parties totalled RMB129,617,780.38 (2006: RMB70,141,000.00), accounting for 82.77%(2006:85.81%) of amounts due from related parties.

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4 Other receivables

	Closing balance	Opening balance
Within one year	20,484,827.53	12,230,608.58
1~2 years	8,188,669.03	3,046,500.00
Over 2 years	6,411,129.85	7,446,505.95
Subtotal	35,084,626.41	22,723,614.53
Less: Provision for bad debt	(11,718,402.00)	(11,718,402.49)
	23,366,224.41	11,005,212.04

The balance of other accounts receivable includes no any amounts due from shareholders carrying 5% or more shareholdings in the Company.

Changes in provision for bad debts of other accounts receivable

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Provisions for bad debt of other accounts receivable	11,718,402.00	—	—	11,718,402.00

## 5 Prepayments

	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	583,780,870.74	99.84%	145,509,348.33	98.88%
1~2 years	358,307.00	0.07%	594,887.00	0.40%
Over 2 years	553,017.06	0.09%	1,051,903.38	0.72%
	584,692,194.80	100%	147,156,138.71	100%

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 6 Inventories

Items	Closing balance			Opening balance		
	Cost	Provisions for impairment	Net value	Cost	Provisions for impairment	Net value
Raw materials	1,344,801,214.57	1,161,947.14	1,343,639,267.43	1,454,704,295.23	7,206.60	1,454,697,088.63
Work in process	346,978,668.32	1,419,491.58	345,559,176.74	384,402,833.57	612,752.11	383,790,081.46
Finished products	207,750,786.35	5,961,200.00	201,789,586.35	152,498,505.97	3,843,339.00	148,655,166.97
Spare parts	229,625,337.57	57,415,453.89	172,209,883.68	207,753,597.25	47,928,375.29	159,825,221.96
	<b>2,129,156,006.81</b>	<b>65,958,092.61</b>	<b>2,063,197,914.20</b>	<b>2,199,359,232.02</b>	<b>52,391,673.00</b>	<b>2,146,967,559.02</b>

Provisions for impairment of inventories	31st December 2006	Increase in the period	Decrease in the period	30th June 2007
Raw materials	7,206.60	1,154,740.54	—	<b>1,161,947.14</b>
Work in process	612,752.11	806,739.47	—	<b>1,419,491.58</b>
Finished products	3,843,339.00	2,117,861.00	—	<b>5,961,200.00</b>
Spare parts	47,928,375.29	9,487,078.60	—	<b>57,415,453.89</b>
	52,391,673.00	13,566,419.61	—	<b>65,958,092.61</b>

#### 7 Available-for-sale financial assets

Not available.

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 8 Long-term equity investment

## (1) Details of long-term equity investment

	Closing balance	Opening balance
Other equity investment	5,000,000.00	5,000,000.00
Less: Provisions for impairment	—	—
	<b>5,000,000.00</b>	<b>5,000,000.00</b>

## (2) Details of long— term equity investment accounted for using cost method:

Name of the investee	Primary investment amount	Booking balance at the beginning of the year	Increase in the period	Decrease in the period	Booking balance at the end of the period
Xiamen Shipbuilding Industry Co., Ltd.	5,000,000.00	5,000,000.00	—	—	5,000,000.00

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 9 Fixed assets

Items	Machinery and other equipments	Motor vehicles	Plant and buildings	Total
<b>Cost</b>				
Opening balance	5,050,203,948.65	23,652,000.00	2,422,582,000.00	7,496,437,948.65
Increase in the period	—	1,099,440.00	—	1,099,440.00
Transfer from construction in progress	323,187,408.91	208,084.00	11,726,542.53	335,122,035.44
Other transfer	380,912.87	(120,000.00)	2,379,436.06	2,640,348.93
Decrease in the period	(23,844,019.01)	(136,056.50)	(4,409,608.93)	(28,389,684.44)
Reclassification of land use rights	—	—	(17,584,000.00)	(17,584,000.00)
Closing balance	5,349,928,251.42	24,703,467.50	2,414,694,369.66	7,789,326,088.58
<b>Accumulative depreciation</b>				
Opening balance	(1,895,038,000.00)	(16,960,000.00)	(806,246,411.91)	(2,718,244,411.91)
Depreciation in the current period	(59,492,194.12)	(2,845,402.82)	(85,266,559.92)	(147,604,156.86)
Decrease in the period	16,942,805.95	131,974.80	2,596,413.05	19,671,193.80
Reclassification of land use rights	—	—	873,002.94	873,002.94
Closing balance	(1,937,587,388.17)	(19,673,428.02)	(888,043,555.84)	(2,845,304,372.03)
<b>Provisions for impairment</b>				
Opening balance	(10,212,969.47)	(8,391.77)	(107,648.34)	(10,329,009.58)
Provisions of the period	—	—	—	—
Disposal of the period	1,195,837.96	—	—	1,195,837.96
Closing balance	(9,017,131.51)	(8,391.77)	(107,648.34)	(9,133,171.62)
<b>Net amount</b>				
Closing balance	3,403,323,731.74	5,021,647.71	1,526,543,165.48	4,934,888,544.93
Opening balance	3,144,952,979.18	6,683,608.23	1,616,227,939.75	4,767,864,527.16

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 10 Construction in progress

Opening balance	671,925,810.16
Increase in the period	216,335,965.32
Transfer from fixed assets in the period	(335,122,035.44)
Other transfer— out	(8,743,706.07)
<b>Closing balance</b>	<b>544,396,033.97</b>

## 11 Intangible assets

Items	Land use right	Trademark right	Total
<b>Cost</b>			
Opening balance	10,080,000.00	6,478,000.00	16,558,000.00
Reclassification of land use rights	17,584,000.00	—	17,584,000.00
Decrease in the period	—	—	—
<b>Closing balance</b>	<b>27,664,000.00</b>	<b>6,478,000.00</b>	<b>34,142,000.00</b>
<b>Accumulative amortization</b>			
Opening balance	(245,000.00)	(6,097,507.44)	(6,342,507.44)
Reclassification of land use rights	(873,002.94)	—	(873,002.94)
Amortization of the period	(105,000.00)	(300,000.00)	(405,000.00)
<b>Closing balance</b>	<b>(1,223,002.94)</b>	<b>(6,397,507.44)</b>	<b>(7,620,510.38)</b>
<b>Net book value</b>			
<b>Closing balance</b>	<b>26,440,997.06</b>	<b>80,492.56</b>	<b>26,521,489.62</b>
Opening balance	9,835,000.00	380,492.56	10,215,492.56

## 12 Deferred income tax assets

	Closing balance	Opening balance
Provision for bad debts	<b>3,455,601.74</b>	1,421,006.00
Provisions for impairment of fixed assets	<b>1,905,715.26</b>	1,517,012.00
	<b>5,361,317.00</b>	2,938,018.00

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 13 Provision for assets depreciation

Items	Opening balance	Reversal/ provision of the period	Writ-off in the period	Closing balance
Provision for bad debt	172,744,729.78	(1,384,085.60)	(380,523.60)	<b>170,980,120.58</b>
Provision for impairment of fixed assets	10,329,009.58	—	(1,195,837.96)	<b>9,133,171.62</b>
Provisions for impairment of inventories	52,391,673.00	13,566,419.61	—	<b>65,958,092.61</b>
Provisions for impairment of Construction in progress	—	8,510,107.45	(8,510,107.45)	—
	235,465,412.36	20,692,441.46	(10,086,469.01)	<b>246,071,384.81</b>

#### 14 Short-term loan

Items	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
Guaranteed loans— RMB	1,512,000,000.00	1	1,512,000,000.00	1,095,088,000.00	1	1,095,088,000.00
Secured loans— RMB	399,000,000.00	1	399,000,000.00	643,000,000.00	1	643,000,000.00
Unsecured loans— RMB	487,000,000.00	1	487,000,000.00	30,000,000.00	1	30,000,000.00
Unsecured loans— USD	7,500,000.00	7.6829	57,621,750.00	7,500,000.00	7.8087	58,565,250.00
			2,455,621,750.00			1,826,653,250.00

The secured loan was pledged by certain fixed assets and land use rights of the Company and land use rights owned by the holding company.

The guaranteed loans were guaranteed by Chongqing Iron & Steel (Group) Company Limited.

VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Notes payable

Type	Closing balance	Opening balance
Bank acceptance	—	110,000,000.00

16 Accounts payable

The balance of accounts payable at the end of the year includes no any amounts due from shareholders holding 5% or more shareholdings in the Company.

17 Advances from customers

The balance of accounts payable at the end of the year includes no any amounts due from shareholders holding 5% or more shareholdings in the Company.

18 Remuneration payable to employees

Items	Opening balance	Provision in the period	Payment in the period	Closing balance
I. Wage, bonus, allowance, and subsidy	16,296,311.04	230,383,927.80	(233,339,432.26)	13,340,806.58
II. Employee benefits	—	6,186,050.34	(6,186,050.34)	—
III. Social insurance premium	—	91,872,565.24	(89,203,465.24)	2,669,100.00
Including: 1. Basic pension insurance premiums	—	50,384,825.82	(50,380,328.43)	4,497.39
2. Medical insurance premium	—	34,139,089.60	(34,139,089.60)	—
3. Unemployment insurance premium	—	4,629,005.87	(1,964,403.26)	2,664,602.61
4. Injury insurance premium	—	1,722,408.00	(1,722,408.00)	—
5. Maternity insurance premium	—	997,235.95	(997,235.95)	—
IV. Public housing reserve	—	17,860,981.36	(17,860,981.36)	—
V. Labour union expenditure and personnel education	—	9,440,409.64	(7,046,017.86)	2,394,391.78
VI. Compensation for cancellation of labor relationship	—	226,569.36	(226,569.36)	—
VII. Transportation allowance and awards for technical contribution	—	5,173,413.07	(5,173,413.07)	—
	16,296,311.04	361,143,916.81	(359,035,929.49)	18,404,298.36



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 19 Taxes payable

Type	Closing balance	Opening balance
1. Value— added tax	21,690,040.37	52,865,601.43
2. Enterprise income tax	3,129,102.64	(21,870,897.36)
3. Business tax	31,907.63	26,039.93
4. Stamp duty	1,350,000.00	1,154,822.37
	<b>26,201,050.64</b>	<b>32,175,566.37</b>

#### 20 Other payables

The balance of other payables at the end of the year includes no any amounts due from shareholders holding 5% or more shareholdings in the Company.

#### 21 Non-current liabilities due within one year

Long— term loan due within one year	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
Guaranteed loans— RMB	116,000,000.00	1.00	116,000,000.00	386,000,000.00	1.00	386,000,000.00
Secured loans— RMB	255,000,000.00	1.00	255,000,000.00	135,000,000.00	1.00	135,000,000.00
	<b>371,000,000.00</b>	<b>1.00</b>	<b>371,000,000.00</b>	<b>521,000,000.00</b>	<b>1.00</b>	<b>521,000,000.00</b>

Please refer to Note 22 for matters concerning pledges and guarantees.

#### 22 Long-term loan

Items	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
Guaranteed loans	120,000,000.00	1.00	120,000,000.00	75,000,000.00	1.00	75,000,000.00
Secured loans— RMB	145,000,000.00	1.00	145,000,000.00	220,000,000.00	1.00	220,000,000.00
Unsecured loans— RMB	60,000,000.00	1.00	60,000,000.00	—	1.00	—
	<b>325,000,000.00</b>	<b>1.00</b>	<b>325,000,000.00</b>	<b>295,000,000.00</b>	<b>1.00</b>	<b>295,000,000.00</b>

The secured loan was pledged by certain fixed assets and land use rights of the Company and land use rights owned by the holding company.

The guaranteed loans were guaranteed by Chongqing Iron & Steel (Group) Company Limited.

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 23 Specific payables

Items	Opening balance	Increase in the period	Closing balance
1-5# coke ovens' coke pushing and dedusting in coal charging	1,500,000.00	—	1,500,000.00
Reconstruction of blow-back deduster in each forwarding station	450,000.00	—	450,000.00
Reconstruction of LF oven's deduster	300,000.00	—	300,000.00
Recovery and reconstruction of chemical products	4,930,000.00	—	4,930,000.00
Reconstruction of waste water Treatment as a whole	460,000.00	—	460,000.00
Steel section and sheet metal applicable to wheels of carrier vehicle	200,000.00	—	200,000.00
Research and development of information integration and application in metallurgical industry	700,000.00	—	700,000.00
Auto control of sintering matching system	150,000.00	—	150,000.00
Disaster treatment in Three-Gorge Reservoir Area	301,167.96	996.94	302,164.90
Reconstruction of sewage treatment system	6,990,000.00	—	6,990,000.00
	15,981,167.96	996.94	15,982,164.90

Specific payables refer to the fiscal special grant for the environment treatment engineering and pollution prevention and treatment project. The grants is allocated from Chongqing Financial Bureau and Environmental Protection Administration (YCJ [2005] No.450 and 476, YCQ[2005] No.171). As of 30th June 2007, the actual amount of grants amounted to RMB15,980,000. The above project was still in progress as of 30th June 2007.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 24 Deferred income

Balance as at 31st December 2006	—
Increase in the period	1,000,000.00
<hr/>	
Balance as at 30th June 2007	1,000,000.00

Deferred income mainly refers to government's subsidy to be used for the reconstruction of projects. Since all these projects were in progress or not commencing, the Company didn't amortize income in the period.

#### 25 Share capital

Items	Opening balance	Share holdings	Issue of new share	Opening balance	Share holdings
I. Shares subject to trading moratorium	845,000,000.00	61.09%	—	845,000,000.00	48.76%
State owned legal person shares	845,000,000.00	61.09%	—	845,000,000.00	48.76%
II. Shares not subject to trading moratorium	538,127,200.00	38.91%	350,000,000.00	888,127,200.00	51.24%
1. Renminbi dominated ordinary shares	—	0%	350,000,000.00	350,000,000.00	20.19%
2. Foreign shares listed overseas	538,127,200.00	38.91%	—	538,127,200.00	31.05%
III. Total shares	1,383,127,200.00	100%	350,000,000.00	1,733,127,200.00	100%

As approved by China Securities Regulatory Commission on 29th January 2007, the Company issued 350,000,000 A shares of Renminbi dominated ordinary shares (including: 70,000,000 A shares subject to trading moratorium, the lock-up period was three months commencing from the date of listing and trading of the online issued shares on the Shanghai Stock Exchange. As at 30 June 2007, part of the A shares were no longer subject to circulation). After the issue of A shares, total share capital amounted to 1,733,127,200 shares. As approved by Shanghai Stock Exchange, the newly issued shares started trading on Shanghai Stock Exchange on 28th February 2007. As at 30th June 2007, total capital of the Company amounted to 1,733,127,200 shares.

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 26 Capital reserve

Items	Balance at the beginning of the year	Increase in this year	Decrease in the period	Closing balance
Share capital premium	276,205,730.00	618,050,500.00	—	894,256,230.00
Other capital reserve	270,127,306.47	—	—	270,127,306.47
	546,333,036.47	618,050,500.00	—	1,164,383,536.47

## 27 Surplus reserve

Items	Balance at the beginning of the year	Increase in this year	Decrease in the period	Closing balance
Legal surplus reserve	461,926,124.01	—	—	461,926,124.01

## 28 Undistributed profits

- (1) Undistributed profits disclosed in the 2006 Annual Report amounted to RMB1,600,132,641.42;
- (2) In accordance with Accounting Standard for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises, the undistributed profits at the beginning of the year was decreased by RMB15,538,581 for January to June 2007.
- (3) Undistributed profits amounted to RMB1,584,594,060.42 after adjustment at the beginning of 2007.
- (4) Undistributed profits amounted to RMB1,675,207,112.11 after adjustment on 30th June 2007.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 29 Operating revenue and cost

##### (1) Operating revenue

	Amount of the period
Revenue from principal operations	5,723,398,946.51
Other operating revenue	18,453,264.40
	5,741,852,210.91

##### (2) Operating cost

	Amount of the period
Cost of principal operations	5,065,415,636.74
Other operating cost	15,534,637.71
	5,080,950,274.45

##### (3) Analysis of sales to top five customers

For the six months ended 30th June 2007, the Company's sales to the top five customers amounted to RMB910,010,294.59, accounting for 15.90% of the Company's principal revenue.

## VIII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 30 Non-operating income

	Amount of the period
Gains from disposal of fixed assets	1,483,805.60
Others	1,046,715.20
	2,530,520.80

## 31 Non-operating expenses

	Amount of the period
Loss from disposal of fixed assets	6,841,488.40
Others	229,300.00
	7,070,788.40

## 32 Income tax expenses

	Amount of the period
Income tax expenses	22,576,701.00

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

#### (I) Summary of related parties

1 Related party which has related relationship with the Company

(1) The company's shareholders which can exercise control over the Company

Company	Registered address:	Principal Operations	Relationship with the Company	Economic nature	Legal representative
Chongqing Iron & Steel (Group) Company Limited	No.1, Building No1, Dayan Village III, Dadukou District, Chongqing	Mainly engaged in assets management, investment, property exchange, manufacture and sale of metallic material, machinery, cast steel and standard spare parts, electric appliance, computer and accessories, electronic components, apparatus, measuring instruments, textiles, clothes, wood products, fire resistant material, chemical products (excluding dangerous articles) within the authorized scope	Parent Company	State-owned enterprise	Dong Lin

(2) Registered capital and changes for the company's shareholders which can exercise control over the Company

Company	31st December 2006	Increase for the year	Decrease for the year	30th June 2007
Chongqing Iron & Steel (Group) Company Limited	1,579,040,000.00	—	—	1,579,040,000.00

**IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS** (Continued)

**(I) Summary of related parties** (Continued)

1 Related party which has related relationship with the Company (Continued)

(3) Changes in shares held by the company's shareholders which can exercise control over the Company

Company	31st December 2006		Increase for the year		Decrease for the year		30th June 2007	
	Amount	%	Amount	%	Amount	%	Amount	%
Chongqing Iron & Steel (Group) Company Limited	845,000,000.00	61.09	—	—	—	—	845,000,000.00	48.76

Decrease in sharholdings held by Chongqing Iron & Steel (Group) Company Limited was attributable to the A share issue by the Company in 2007. (Note VIII-25)

2 Related parties in which the Company has no control

Name of related party	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under the same parent company
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	Under the same parent company
Chongqing Iron & Steel Group Transportation Company Limited	Under the same parent company
Chongqing Iron & Steel Group Electronic Company Limited	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	Under the same parent company
Chongqing Xinteng Metallurgical Burden Materials Company Limited	Under the same parent company



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

#### (I) Summary of related parties (Continued)

2 Related parties in which the Company has no control

Name of related party	Relationship with the Company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	Under the same parent company
Chongqing Iron & Steel Group Material Trading Company Limited	Under the same parent company
Chongqing San Gang Steel Company Limited	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Under the same parent company
Chongqing Si Gang Steel Company Limited	Under the same parent company
Chongqing San Feng Environment Industrial Co Ltd	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	Under the same parent company
Chongqing San Huan Construction Supervisory and Consultantcy Co Ltd	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company	Under the same parent company
Chongqing Xingang Handling and Transportation Company Limited	Under the same parent company

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

#### (II) Related party transactions

The material connected transactions with Chongqing Iron & Steel (Group) Company Limited and its subsidiaries (hereafter refer to “Chongqing Iron & Steel Group”):

	<i>Note</i>	January to June 2007 RMB
Sale of steel and ancillary products		422,861,060.36
Sale of water, electricity, natural gas	(1)	88,407,488.48
Provision of comprehensive service	(2)	840,431.68
Rental income	(3)	484,435.01
Purchase of ore and spare parts	(4)	706,372,803.96
Purchase of industrial gas	(4)	128,033,909.26
Purchase of fixed assets	(5)	14,170,598.00
Acceptance of comprehensive service	(6)	114,658,699.64
Expenditures for lease	(7)	9,534,302.26
Social welfare expenses paid through the Holding Company to schemes administered by the PRC government	(8)	27,433,584.45
Staff welfare expenses and supplementary retirement benefit contribution paid to defined contribution retirement schemes administered by the Holding Company		18,173,621.19

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

Set out below are purchases and acceptance of service.

Related party	January to June 2007	Percentage in similar transactions
Chongqing Iron & Steel Group Transportation Company Limited		
Purchase of ore and spare parts	476,880.09	0.07%
Acceptance of comprehensive service	23,495,763.87	20.40%
Chongqing Iron & Steel Group Electronic Company Limited		
Purchase of fixed assets	299,000.00	2.11%
Purchase of ore and spare parts	11,585,019.10	1.64%
Acceptance of comprehensive service	24,225,027.97	21.03%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited		
Purchase of ore and spare parts	37,398,953.06	5.29%
Acceptance of comprehensive service	371,849.52	0.32%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited		
Purchase of industrial gas	120,639,640.08	94.22%
Acceptance of comprehensive service	23,605.11	0.02%
Chongqing Iron & Steel Group Mining Company Limited		
Purchase of ore and spare parts	374,720,653.17	53.05%
Acceptance of comprehensive service	3,003,980.91	2.61%
Chongqing Iron & Steel Group Construction and Engineering Company Limited		
Purchase of ore and spare parts	5,064,845.87	0.72%
Acceptance of comprehensive service	56,662,317.09	49.19%
Chongqing Iron & Steel Group Iron Company Limited		
Purchase ore and spare parts	259,857,134.81	36.79%
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited		
Purchase of ore and spare parts	3,357,338.90	0.48%
Chongqing Si Gang Steel Company Limited		
Purchase of ore and spare parts	2,166,703.54	0.31%

**IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS** (Continued)

**(II) Related party transactions** (Continued)

Set out below are sales and provision of services.

Related party	January to June 2007	Percentage in similar transactions
Chongqing Iron & Steel Group Transportation Company Limited		
Sale of water, electricity, natural gas	2,296,030.50	2.60%
Sale of steel and ancillarys products	106,467.41	0.03%
Chongqing Iron & Steel Group Electronic Company Limited		
Sale of water, electricity, natural gas	184,281.58	0.21%
Sale of steel and ancillarys products	279,226.94	0.07%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited		
Sale of water, electricity, natural gas	4,315,946.60	4.88%
Sale of steel and ancillarys products	11,177,082.15	2.64%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited		
Sale of water, electricity, natural gas	76,164,326.33	86.15%
Sale of steel and ancillarys products	259,933.45	0.06%
Chongqing Iron & Steel Group Mining Company Limited		
Sale of water, electricity, natural gas	2,364,566.39	2.67%
Sale of steel and ancillarys products	5,154,364.68	1.22%
Chongqing Iron & Steel Group Construction and Engineering Company Limited		
Sale of water, electricity, natural gas	1,612,151.04	1.82%
Sale of steel and ancillarys products	1,168,633.03	0.28%
Rental income	435,574.21	89.91%
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited		
Sale of steel and ancillarys products	28,831,164.80	6.82%
Chongqing Si Gang Steel Company Limited		
Sale of steel and ancillarys products	169,014,446.67	39.97%
Chongqing Iron & Steel Group Steel Pipe Company Limited		
Sale of steel and ancillarys products	90,846,708.66	21.48%

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

#### (II) Related party transactions (Continued)

- (1) Sales to Chongqing Iron & Steel Group were made at prices determined by reference to those charged to other third party customers of the Company or the prices as prescribed by the relevant Chongqing government departments.
- (2) Fees received for supporting services mainly represent fees charged to Chongqing Iron & Steel Group for internal railway services at prices determined by reference to a profit mark-up above the cost of providing such service.
- (3) Fees received for lease rental mainly represents fee charged to Chongqing Iron & Steel Group for the lease of the Company's factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.
- (4) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of Chongqing Iron & Steel Group or a profit mark-up above the cost of providing such products, or the prices offered by suppliers of such spare parts.
- (5) Purchase of property, plant and equipment was made at prices determined by reference to the prices offered by suppliers of such equipment.
- (6) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by Chongqing Iron & Steel Group. These services were charged at prices determined by reference to transactions of a similar nature contracted with other third party customers of Chongqing Iron & Steel Group or a profit mark-up above the cost of providing such services as agreed between the Company and Chongqing Iron & Steel Group, or prices prescribed by the relevant Chongqing government departments.
- (7) Fees paid for lease rental mainly represents fee charged to the Company by Chongqing Iron & Steel Group for the lease of the Chongqing Iron & Steel Group's factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.
- (8) For welfare fees paid through the parent company, the parent company charged no any commissions.

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

(III) Balances of related parties

1 Accounts receivable

Related party	30th June 2007
Chongqing Iron & Steel Group Transportation Company Limited	563,093.39
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	5,621,208.90
Chongqing Iron & Steel Group Gas Company Limited	2,699,623.96
Chongqing Iron & Steel Group Mining Company Limited	4,390,169.44
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	7,384,870.28
Chongqing Iron & Steel Group Refractory Materials Company Limited	3,081,618.63
Chongqing Si Gang Steel Company Limited	52,644,695.49
Chongqing Iron & Steel Group Iron Company Limited	11,000,000.00
Chongqing Iron & Steel Group Steel Pipe Company Limited	24,810,027.19
Chongqing Iron & Steel Group Export and Import Company Limited	746,474.71
Chongqing Iron & Steel Group Yingsite Mould Company Limited	2,852,145.87
Chongqing Xinteng Metallurgical Burden Materials Company Limited	1,704,823.12
Chongqing San Gang Steel Company Limited	33,777,187.42
Chongqing Iron & Steel Group San Feng Industrial Company	5,224,513.07
Chongqing Xingang Handling and Transportation Company Limited	106,044.03
	156,606,495.50

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

#### (III) Balances of related parties (Continued)

2 Other payables

Related party	30th June 2007
Chongqing Iron & Steel Group Logistics Services Company Limited	222,877.37
Chongqing Iron & Steel Group Electronic Company Limited	691,971.51
Chongqing Iron & Steel Group Construction and Engineering Company Limited	6,467,812.70
Chongqing Iron & Steel Group Design and Research Institute	38,900.00
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	323,860.44
Chongqing Iron & Steel Group Company Limited	37,757,617.66
Chongqing San Huan Construction Supervisory and Consultantcy Co Ltd	228,200.00
Chongqing San feng Environment Industrial Co Ltd	228,900.00
Chongqing Iron & Steel Group Material Trading Company Limited	4,646.00
	45,964,785.68

### X. CONTINGENCIES

As at 30th June 2007, the Company had no significant contingencies.

## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

## XI. COMMITMENTS

### (1) Capital Commitments for property, machinery and equipment

	As at 30th June 2007
Contracted but not provided for	259,549,773.51
Authorised but not contracted for	1,158,282,087.90
	1,417,831,861.41

### (2) Commitments for operating lease

As at 30th June 2007, the least amounts payable for lease by the Company are as follows:

	As at 30th June 2007
Within 1 year	17,957,407.55
Between 1 and 5 years	81,194,161.66
Over 5 years	66,932,812.71
	166,084,381.92

## XII. EVENTS AFTER THE BALANCE SHEET DATE

Nil



## FINANCIAL REPORT

The 2007 financial statements (unaudited) of the Company and under PRC Accounting Standards

### XIII. OTHER SIGNIFICANT EVENTS

Nil

### XIV. SUPPLEMENTARY INFORMATION

#### (1) Extraordinary items

January to June 2007	
Non – operating income	(2,530,520.80)
Non – operating expenses	7,070,788.40
	4,540,267.60

#### (2) Related indicators

Items	Return on net assets		Earnings per share	
	Fully diluted	weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	5.24%	5.55%	0.16	0.16
Net profit after extraordinary items attributable to ordinary shareholders of the Company	5.33%	5.65%	0.17	0.17

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

The Board of Directors of the Company hereby announces the unaudited interim results of the Company for the six months ended 30th June 2007 together with the comparative figures for the corresponding period in 2006. The consolidated results has not been audited by the auditor of the Company, but has been reviewed by the Audit Committee of the Company.

## CONDENSED INTERIM BALANCE SHEET

		30th June 2007	31st December 2006
		Unaudited	Audited
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible and intangible assets	5	5,519,112	5,532,413
Land use right		26,441	26,914
Available-for-sale financial asset		5,000	5,000
Deferred income tax assets		5,361	2,938
Trade and other receivables	6	58,100	62,600
<b>Total non-current assets</b>		5,614,014	5,629,865
<b>Current assets</b>			
Inventories		2,063,198	2,146,968
Trade and other receivables	6	1,541,192	688,061
Prepayment for income tax		—	21,871
Restricted cash		35,406	63,870
Cash and cash equivalents		1,373,980	313,772
<b>Total current assets</b>		5,013,776	3,234,542
<b>Total assets</b>		10,627,790	8,864,407

The notes on pages 78 to 89 form an integral part of this condensed interim financial information.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### CONDENSED INTERIM BALANCE SHEET (CONTINUED)

	Note	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	1,733,127	1,383,127
Other reserves		1,572,255	954,204
Retained earnings			
— Proposed interim / final dividend		—	173,313
— Others		1,651,877	1,389,133
<b>Total equity</b>		<b>4,957,259</b>	<b>3,899,777</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	8	325,000	295,000
Deferred income		78,304	77,304
Trade and other payables	9	174,456	233,038
<b>Total non-current liabilities</b>		<b>577,760</b>	<b>605,342</b>
<b>Current liabilities</b>			
Borrowings	8	2,826,622	2,347,653
Income tax payable		3,129	—
Trade and other payables	9	2,263,020	2,011,635
<b>Total current liabilities</b>		<b>5,092,771</b>	<b>4,359,288</b>
<b>Total liabilities</b>		<b>5,670,531</b>	<b>4,964,630</b>
<b>Total equity and liabilities</b>		<b>10,627,790</b>	<b>8,864,407</b>
<b>Net current liabilities</b>		<b>(78,995)</b>	<b>(1,124,746)</b>
<b>Total assets less current liabilities</b>		<b>5,535,019</b>	<b>4,505,119</b>

The notes on pages 78 to 89 form an integral part of this condensed interim financial information.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

## CONDENSED INTERIM INCOME STATEMENT

	Note	Six months ended 30th June	
		2007 Unaudited RMB'000	2006 Audited RMB'000
Sales	4	5,723,399	4,420,427
Cost of goods sold		(5,080,464)	(4,118,740)
<b>Gross profit</b>		<b>642,935</b>	<b>301,687</b>
Other (losses) gains - net		(6,740)	14,655
Selling and marketing costs		(110,932)	(85,023)
Administrative expenses		(132,145)	(99,853)
<b>Operating profit</b>		<b>393,118</b>	<b>131,466</b>
Finance costs		(107,797)	(96,427)
<b>Profit before income tax</b>		<b>285,321</b>	<b>35,039</b>
Income tax expense	11	(22,577)	(6,654)
<b>Profit for the half-year</b>		<b>262,744</b>	<b>28,385</b>
<b>Attributable to:</b>			
Equity holders of the Company		262,744	28,385
<b>Earnings per share for profit attributable to the equity holders of the Company</b>			
— basic and diluted	12	RMB0.163	RMB0.021
<b>Dividends</b>	13	—	110,650

The notes on pages 78 to 89 form an integral part of this condensed interim financial information.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company			
		Share capital	Other reserves	Retained earnings	Total equity
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
<b>Balance at 1st January 2006</b>		1,063,944	922,720	1,929,260	3,915,924
— Profit for the half-year		—	—	28,385	28,385
— Dividend for 2005	13(a)	—	—	(159,592)	(159,592)
— Bonus issue for 2005	13(a)	319,183	—	(319,183)	—
<b>Balance at 30th June 2006</b>		1,383,127	922,720	1,478,870	3,784,717
<b>Balance at 1st January 2007</b>		1,383,127	954,204	1,562,446	3,899,777
— Profit for the half-year		—	—	262,744	262,744
— Dividend relating to 2006	13(a)	—	—	(173,313)	(173,313)
— Additional A share issue	13(b)	350,000	—	—	350,000
— Share capital premium	13(c)	—	618,051	—	618,051
<b>Balance at 30th June 2007</b>		1,733,127	1,572,255	1,651,877	4,957,259

The notes on pages 78 to 89 form an integral part of this condensed interim financial information.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

## CONDENSED INTERIM CASH FLOW STATEMENT

	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
	<i>Note</i>	
<b>Cash flows from operating activities</b>	<b>203,802</b>	364,396
<b>Cash flows from investing activities:</b>		
— purchases of property, plant and equipment	<b>(549,297)</b>	(423,710)
— proceeds on disposal of property, plant and equipment	<b>4,127</b>	1,314
— other investing cash flow - net	<b>3,815</b>	—
<b>Cash flows used in investing activities — net</b>	<b>(541,355)</b>	(422,396)
<b>Cash flows from financing activities:</b>		
— interests paid	<b>(109,188)</b>	(97,500)
— repayments of borrowings	<b>(1,467,204)</b>	(948,792)
— new additions of borrowings	<b>1,976,173</b>	901,138
— other finance cash flows - net	<b>969,516</b>	207,680
<b>Cash flows generated from financing activities - net</b>	<b>1,369,297</b>	62,526
Net increase in cash and cash equivalents	<b>1,031,744</b>	4,526
Cash and cash equivalents at beginning of period	<b>377,642</b>	451,220
<b>Cash and cash equivalents at end of period</b>	<b>1,409,386</b>	455,746

The notes on pages 78 to 89 form an integral part of this condensed interim financial information.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

#### 1 GENERAL INFORMATION

Chongqing Iron and Steel Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”) in August 1997 as part of the restructuring (the “Restructuring”) of a state-owned enterprise known as Chongqing Iron and Steel Company (Group) Limited (the “Holding Company”). Pursuant to the Restructuring, the principal iron and steel business undertakings and one of the subsidiaries of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. (“Hengda”), were taken over by the Company, where upon the Company issued 650,000,000 state-owned shares of RMB1 each to the Holding Company. The Company has its primary listing on The Stock Exchange of Hong Kong Limited since 17th October 1997.

In December 2002, the Company acquired all assets and liabilities of Hengda, the former subsidiary of the Company. At the same time, the Company disposed of its entire interest in Hengda to its Holding Company. Following the disposal of Hengda, the Company does not have any subsidiary.

On 28th February 2007, A shares of the Company listed on the Shanghai Stock Exchange (“Shanghai Exchange”).

The Company is principally engaged in the manufacture and sale of steel products.

The address of the Company’s registered office is No. 30, Gangtie Road, Dadukou District, Chongqing, the PRC.

This unaudited condensed interim financial information was approved for issue on 23rd August 2007.

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 2 BASIS OF PREPARATION

This condensed interim financial information for the half-year ended 30th June 2007 has been prepared in accordance with HKAS 34, 'Interim financial report'. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December 2006.

### 3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2006, as disclosed in the annual financial statements for the year ended 31st December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2007.

- HKFRS 1 (Amendment): Capital disclosures
- HKFRS 7 (Amendment): Financial instruments: Disclosures
- HK(IFRIC)-INT 11: Group and Treasury Share Transactions

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKAS 23 (Amendment): Borrowing Costs (Effective for annual periods beginning on or after 1st January 2009).
- HK(IFRIC)-INT 12: Service Concession Arrangements (Effective for annual periods beginning on or after 1st January 2008). Management do not expect the interpretation to be relevant for the Company.
- HKFRS 8: Operating Segments (Effective for annual periods beginning on or after 1st January 2009). Management do not expect the interpretation to be relevant for the Company.



## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

#### 4 REVENUE AND SEGMENT INFORMATION

	Six months ended 30th June	
	2007	2006
	Unaudited	Audited
	RMB'000	RMB'000
Sale of steel products	5,439,193	4,172,698
Other sales	284,206	247,729
	<b>5,723,399</b>	<b>4,420,427</b>

The Company mainly conducts its business within one business segment - the business of manufacture and sale of steel products in the PRC. No segment statement of income has been prepared by the Company for the six months ended 30th June 2007. The Company also mainly operates within one geographical segment because its revenue is primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

#### 5 CAPITAL EXPENDITURE

	Tangible and intangible assets Unaudited RMB'000
<b>Six months ended 30th June 2006</b>	
Opening net book amount 1st January 2006	5,082,027
Additions	510,204
Disposals	(47)
Depreciation, amortisation and impairment	(121,515)
<b>Closing net book amount 30th June 2006</b>	<b>5,470,669</b>
<b>Six months ended 30th June 2007</b>	
Opening net book amount at 1st January 2007	5,532,413
Additions	143,151
Disposals	(28,599)
Depreciation, amortisation and impairment	(127,853)
<b>Closing net book amount at 30th June 2007</b>	<b>5,519,112</b>

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION  
(CONTINUED)

6 TRADE RECEIVABLES

The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a 1-month credit period. The ageing analysis of accounts receivables (including amounts due from related parties of trading in nature) as at 30th June 2007 and 31st December 2006 is as follows:

	As at	
	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
Within 3 months	636,107	518,085
Between 3 month and 1 year	291,710	5,732
Between 1 and 2 years	1,155	5,342
Between 2 and 3 years	2,138	2,105
Over 3 years	161,286	159,665
	<b>1,092,396</b>	<b>690,929</b>

7 SHARE CAPITAL

	Number of shares (‘000)	Registered, issued and fully paid: State-owned			
		State-owned Shares of RMB1 each Unaudited RMB'000	A shares of RMB1 each Unaudited RMB'000	H shares of RMB1 each Unaudited RMB'000	Total Unaudited RMB'000
At 1st January 2006	1,063,944	650,000	—	413,944	1,063,944
Bonus issue for 2005 13(a)	319,183	195,000	—	124,183	319,183
At 30th June 2006	1,383,127	845,000	—	538,127	1,383,127
At 1st January 2007	1,383,127	845,000	—	538,127	1,383,127
Additional A share issue 13(b)	350,000	—	350,000	—	350,000
At 30th June 2007	1,733,127	845,000	350,000	538,127	1,733,127

The state-owned shares, A shares and H shares rank pari passu in all respects.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

#### 8 BORROWINGS

	As at	
	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
Non-current		
Secured borrowings (Note (a))	145,000	220,000
Unsecured borrowings (Note (b))	180,000	75,000
	<b>325,000</b>	295,000
Current		
Secured borrowings (Note (a))	654,000	778,000
Unsecured borrowings (Note (b))	2,172,622	1,596,653
	<b>2,826,622</b>	2,347,653
Total	<b>3,151,622</b>	2,642,653

- (a) The Company's bank borrowings of RMB799,000,000 (31st December 2006: RMB998,000,000) as at 30th June 2007 are secured by certain property, plant and equipment of the Company together with land use right of the Holding Company (Note 15(a)).
- (b) As at 30th June 2007 the Company's unsecured bank borrowings of RMB1,748,000,000 (31st December 2006: RMB1,415,000,000) are guaranteed by the Holding Company (Note 15(a)).
- (c) As at 30th June 2007 the Company's bank borrowings of RMB1,566,000,000 (2006: RMB1,314,000,000) are financed from state-owned banks (Note 15(b)).

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 9 TRADE PAYABLES

As at 30th June 2007, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) is as follows:

	As at	
	30th June 2007 Unaudited RMB'000	31st December 2006 Audited RMB'000
Within 6 months	582,575	699,727
Between 6 months and 1 year	472,303	453,714
Between 1 and 2 years	5,012	8,908
Between 2 and 3 years	8,741	4,734
Over 3 years	19,081	16,564
	<b>1,087,712</b>	<b>1,183,647</b>

### 10 OPERATING PROFIT

The following items have been credited / charged to the operating profit during the interim period:

	Six months ended 30th June	
	2007 Unaudited RMB'000	2006 Audited RMB'000
(Reversal of provision)/provision for impairment of receivables	(1,384)	6,334
Provision / (Reversal of provision) for impairment of inventories	13,566	(8,796)
Provision for impairment of property, plant and equipment	8,510	—
Loss on disposal of property, plant and equipment	4,801	(1,267)

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

#### 11 INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for 2007 is 15% (2006: 15%).

	Six months ended 30th June	
	2007 Unaudited RMB'000	2006 Audited RMB'000
Current PRC income tax	25,000	6,628
Deferred income tax	(2,423)	26
	<b>22,577</b>	<b>6,654</b>

No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the six months ended 30th June 2007 (six months ended 30th June 2006: nil).

#### 12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company of RMB262,744,000 (six months ended 30th June 2006: RMB28,385,000) by the weighted average number of ordinary shares in issue during the half-year period of 1,616,460,533 shares (six months ended 30th June 2006: 1,117,141,200 shares).

Diluted earnings per share equals to basic earnings per share as there are no potential dilutive shares outstanding as at 30th June 2007 (30th June 2006: nil).

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 13 CHANGES IN EQUITY

(a) Dividends

Pursuant to the Annual General Meeting held on 9th June 2006, a 2005 final dividend of RMB0.15 per share, totaling RMB159,592,000 and 3 bonus issue for every 10 shares (totaling 319,183,000 shares) were declared and paid on 9th August 2006, based on the issued shares of 1,063,944,000 shares as at 31st December 2005.

Approved by the Annual General Meeting held on 18th June 2007, A 2006 final dividend of RMB0.1 per share, totalling RMB173,313,000 was declared and paid, based on the issued shares of 1,733,127,200 shares as at 28th February 2007.

The Board declared no interim dividend for 2007.

(b) Additional A Share Issue

In February 2007, 350,000,000 A shares were issued by the Company to public investors and listed on the Shanghai Exchange on 28th February 2007. The 845,000,000 state owned shares held by Parent Company have been automatically converted into A Share upon the completion of the aforesaid A share issue. The Parent Company has undertaken that within a period of 36 months from the date of listing of the A shares of the Company, it will not transfer or nominate any other persons to manage its holding shares in the Company and will not proceed with any re-purchase of its holding shares in the Company by the Company.

The state-owned shares, H shares and A shares rank pari passu in all respects.

(c) Share capital premium

Total proceeds of RMB 1,008,000,000 was the issue of raised from Ashares by the Company to public investors with the share capital amounting to RMB 350,000,000. The issue expense was RMB39,949,500. Capital surplus was increased by share capital premium of RMB618,050,500.

### 14 CONTINGENT LIABILITIES

As at 30th June 2007, the Company had no material contingent liabilities.

## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

#### 15 RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

- (a) The Company's bank borrowings of RMB799,000,000 (31st December 2006: RMB998,000,000) as at 30th June 2007 are secured by certain property, plant and equipment of the Company together with land use right of the Holding Company. (Note 8(a))

In addition to the above, as at 30th June 2007 the Company's bank borrowings of RMB1,748,000,000 (31st December 2006: RMB1,415,000,000) are guaranteed by the Holding Company. (Note 8(a))

- (b) Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company and its fellow subsidiaries during the first half year:

	Six months ended 30th June	
	2007	2006
	Unaudited RMB'000	Audited RMB'000
Income		
Sales to fellow subsidiaries of the Holding Company (Note (i))	511,269	404,477
Fees received for supporting services (Note (ii))	840	1,572
Fees received for lease rental (Note (iii))	484	455
Expenditure		
Fees paid for supporting services (Note (iv))	834,407	620,137
Purchase of raw materials and spare parts (Note (v))	114,659	114,276
Purchase of property, plant and equipment (Note (vi))	14,171	61,457
Rental for land (Note (vii))	9,534	8,608
Social welfare expenses paid through the Holding Company to schemes administered by the PRC government (Note (viii))	27,434	21,372
Staff welfare expenses and supplementary retirement benefit contribution paid to defined contribution retirement schemes administered by the Holding Company	18,174	16,441
Finance from state-owned banks	1,566,000	1,314,000

**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION  
(CONTINUED)**

**15 RELATED-PARTY TRANSACTIONS (CONTINUED)**

- (b) Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company and its fellow subsidiaries during the first half year: *(continued)*
- (1) Sales to the fellow subsidiaries were made at prices determined by reference to those charged to other third party customers of the Company or the prices as prescribed by the relevant Chongqing government departments.
  - (2) Fees received for supporting services mainly represent fees charged to the fellow subsidiaries for internal railway transportation services at prices determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries.
  - (3) Fees received for lease rental mainly represents fee charged to the fellow subsidiaries for the lease of the Company's factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.
  - (4) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by the fellow subsidiaries. These services were charged at prices determined by reference to transactions of a similar nature contracted with other third party customers of the fellow subsidiaries or a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries, or prices prescribed by the relevant Chongqing government departments.
  - (5) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of the fellow subsidiaries or a profit mark-up above the cost of providing such products as agreed between the Company and the fellow subsidiaries, or the prices offered by suppliers of such spare parts.
  - (6) Purchase of property, plant and equipment was made at prices determined by reference to the prices offered by suppliers of such equipments.
  - (7) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.
  - (8) For social welfare expenses which were paid through the Holding Company, no handling fee was charged by the Holding Company.



## FINANCIAL REPORT

2007 Condensed Consolidated Interim Financial Statements of the Company under Hong Kong Accounting Standard (unaudited)

### SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

#### 15 RELATED-PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Six months ended 30th June	
	2007	2006
	Unaudited	Audited
	RMB'000	RMB'000
Salaries and other short-term employee benefits	1,677	1,366

#### 16 COMMITMENT

(a) Capital Commitment for Property, Plant And Equipment

	As at	
	30th June 2007	31st December 2006
	Unaudited	Audited
	RMB'000	RMB'000
Contracted but not provided for	259,550	525,493
Authorised but not contracted for	1,158,282	301,145
	1,417,832	826,638

## SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 16 COMMITMENT (CONTINUED)

- (b) Commitments for operating lease

As at 30th June 2007, the least amounts payable for lease by the Company are as follows:

	As at 30th June 2007 Unaudited RMB'000	As at 31st December 2006 Audited RMB'000
Within 1 year	17,957	17,904
Between 1 and 5 years	81,194	65,796
Over 5 years	66,933	90,463
	<b>166,084</b>	<b>174,163</b>

### 17 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As at 30th June 2007, except those disclosed in other notes of the condensed interim financial information, the Company had no material events after the balance sheet date.

## DOCUMENTS AVAILABLE FOR INSPECTION

1. The copy of interim report signed by the Chairman of the Company;
2. The copy of financial report signed and sealed by the person in charge of the Company, the Chief Financial Officer and the manager of financial department.
3. The copy of all the documents which have been disclosed in the magazines designated by the CSRC.
4. The copy of article of association of the Company;
5. The copy of summery of interim report published in China Securities Journal, Shanghai Securities News, Securities Times and preliminary results announcement published in Hong Kong Wen Wei Po and The Standard.

**Chongqing Iron & Steel Company Limited**

**Luo Fu Qin**

*Chairman*

23rd August 2007