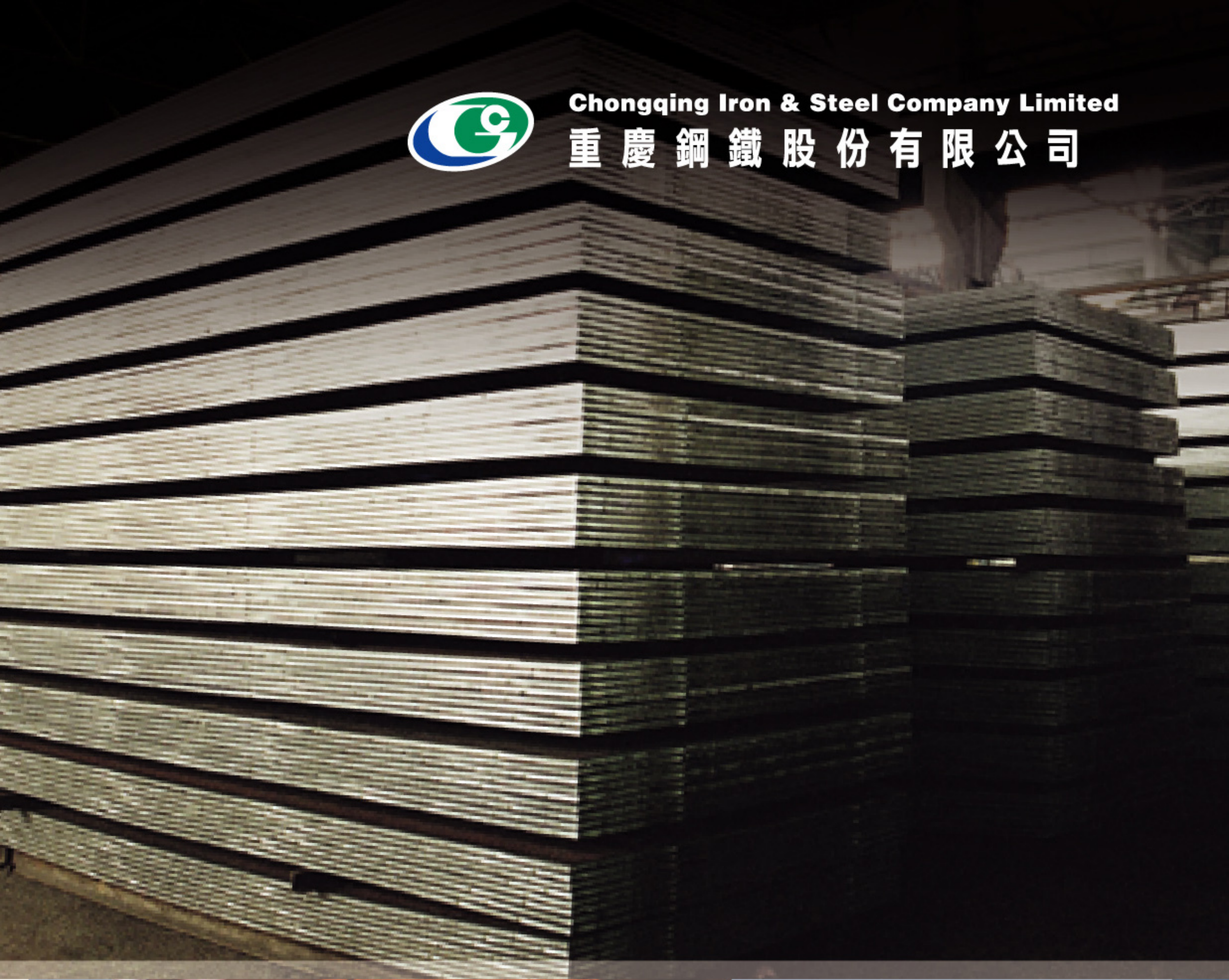
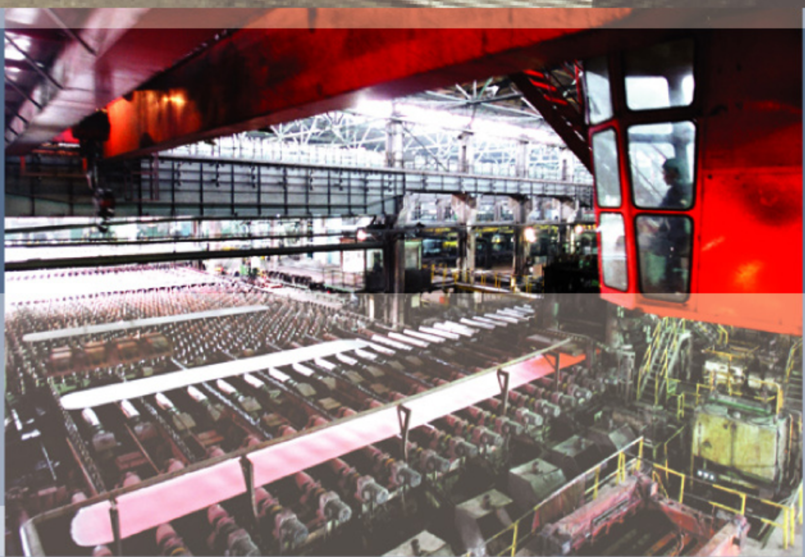


Chongqing Iron & Steel Company Limited

重慶鋼鐵股份有限公司



2007

Annual Report

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

CONTENTS

IMPORTANT NOTICE

1. The board of directors (the "Board"), the Supervisory Committee (the "Supervisory Committee"), and directors, supervisors and senior management of Chongqing Iron & Steel Company Limited (the "Company") warrant that there are no false representations, misleading statements contained in or material omissions from this announcement and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

2. All directors of the Company attended the 10th Meeting of the fourth session Board convened on 23rd April 2008.

3. Mr. Luo Fuqin, 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 Annual Report.

4. This report is compiled in Chinese and English. Any interpretation will be subject to the Chinese version if any divergence between the two versions arises, excluding the Financial Statement and International Auditor's Report prepared under the HKFRS.

COMPANY PROFILE

(I) Basic Information

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
Correspondence address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Telephone:	86-23-6884 5030
Fax:	86-23-6884 9520
E-mail:	yxa@email.cqgt.cn
Securities representative:	Peng Guoju
Correspondence address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Telephone:	86-23-6884 2582
Fax:	86-23-6884 9520
E-mail:	clarapeng@email.cqgt.cn
Registered address and office address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Postal code:	400084
Website:	http://www.cqgt.cn
E-mail:	dms@email.cqgt.cn
Name of newspapers designated for information disclosure of the Company:	
Domestic:	China Securities Journal, Shanghai Securities News, and Securities Times
Hong Kong:	Wen Wei Po and China Daily
Website for publishing annual report:	http:www.sse.com.cn/http:www.hkexnews.hk
Place for preparation and reference of annual reports:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place of listing of the Company's Shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Abbreviated name of Shares:	重慶鋼鐵(A shares)/ Chongqing Iron (H shares)

(I) Basic Information *(Continued)*

Stock code:	601005(A shares)/1053(H shares)
Date of first business registration of the Company:	11th August 1997
Place of registration:	Chongqing Municipal Administration of Industry and Commerce.
Business registration number:	500000400003546
Tax registration number:	500104202852965
Organization Code:	20285296-5
Auditors of the Company:	
Domestic:	KPMG Huazhen
Office address:	8/F, Office Tower E2, Oriental Plaza, 1 East Dong Chang An Avenue, Beijing, China
Postal Code:	100738
Overseas:	KPMG
Office address:	8th Floor, Prince's Building, 10 Chater Road Central, Hong Kong
Legal Advisers:	
Domestic:	Beijing Zhong Lun Law Firm
Office address:	12/F, Building 1, China Merchants Tower No.118 Jianguo Road, Chaoyang District Beijing, the People's Republic of China
Postal Code:	100022
Overseas:	S.H. LEUNG & CO.SOLICITORS & NOTARIES
Office address:	Room 502, Aon China Building, 29 Queen's Road Central, Hong Kong
Share Registrar:	
A shares:	China Securities Depository and Clearing Corporation Limited, Shanghai Branch
	3/F, China Insurance Building, No.166 Lujiazui Road East, Pudong New District, Shanghai
H shares:	Hong Kong Registrars Limited
	46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong

(II) Principal Businesses and Major Products

The Company is a large scale iron and steel producer in the People's Republic of China (the "PRC") and is one of the largest producers of medium-gauge plates in the PRC. The principal business activities consist of the manufacture and sale of medium-gauge steel plates, steel sections, wire rods, cool rolled sheets, steel billets and coking and smelting by-products. The Company adopted advanced technology and skills in production of high quality products through integrated production process. Steel products such as steel plates for ship building, pressure vessel plates and steel plates for boilers have received a number of quality awards and quality certificates issued by a number of domestic and international professional organizations. The products with the brand "Sanfeng" are very famous among products of the same category in the PRC.

Major products of the Company in 2007 and their applications are set out below

Plates for shipbuilding:	Mainly used in the construction of the skeleton and superstructure of 10000 ton ocean going ships and hull structure of inland ships.
Pressure vessel plates:	Mainly used in the manufacturing of pressure vessels I, II, III and other kinds of pressure vessels such as reaction vessels, heat exchanging vessels, separating vessels, storage vessels, corrosion-resisting vessels and cylinder of multilayered high pressure vessels.
Plates for boilers:	Mainly used in the manufacturing of cylinders and shell covers for medium and low pressure boilers.
Steel plates for bridge building:	Mainly used in building of large railway bridges and highway bridges.
Low-alloy high strength steel plates:	Widely used in the manufacturing of mine machinery, engineering machinery and heavy vehicle and construction of high-rise building.
Normal carbon structural plates:	Widely used in the machinery, construction and transportation industries.
Steel Sections:	Widely used in machinery, construction, shipbuilding, mine exploration and transportation industries.
High speed wire rod:	Mainly used in construction and wire rod products industries.
Cold rolled thin plates:	Mainly used in automobile, motorcycle, security doors and steel-structured factory premises.
Steel billets:	Mainly sold to other steel producers who are not deemed as competitors of the Company.

SUMMARY OF FINANCIAL AND OPERATIONAL FIGURES

(I) Key financial data prepared in accordance with PRC GAAP (RMB'000)

Profit before tax	470,234
Net profit attributable to the Company's shareholders	449,244
Net profit after extraordinary items attributable to the Company's shareholders	470,119
Profit from principal operations	1,632,757
Profit from other operations	7,289
Operating profit	493,984
Net non-operating expenses	(23,750)
Net cash flow from operating activities	479,983
Net decrease in cash and cash equivalents	(657,310)

(II) Difference between PRC GAAP and HKFRS (RMB'000)

	PRC GAAP	HKFRS
Net profit	449,244	448,680
Net assets	5,219,961	5,201,739

Explanation to the difference

In accordance with HKFRS, 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. According to the PRC Accounting Standards, prior to 1 January 2007, the grant was recognized in capital reserve when the conditions of the grant were met. Now the grant is recognized in deferred income, and evenly credited to profit or loss over the useful life of the related assets.

(III) Non-recurring profit and loss items (RMB'000)

Non-recurring profit and loss items	Amount
Loss from disposal of fixed assets and construction under progress	(22,235)
Government subsidies	3,219
Others	(4,734)
Less: relevant income tax	(2,875)
Total	(20,875)

(IV) Major Financial Data and Financial Indicators of the Company over the Recent Years (Unit: RMB'000)

1. Prepared in accordance with PRC GAAP

(1) Major Financial data

Unit: RMB'000

Items	2007	2006 After adjustment	2006 Before adjustment	Increase or decrease from last year (%) After adjustment	2005 After adjustment	2005 Before adjustment
Operating revenue	**12,058,453**	9,671,561	9,662,561	24.68	8,879,664	8,879,664
Profit before tax	**470,234**	307,855	315,930	52.75	284,776	292,239
Income Tax	**20,990**	1,093	1,093	1,820.40	32,663	32,663
Net profit attributable to the Company's shareholders	**449,244**	306,762	314,837	46.45	252,113	259,576
Net profit after non-recurring items attributable to the Company's shareholders	**470,119**	309,130	316,122	52.08	239,225	246,688
Net cash flow from operating activities	**479,983**	854,231	854,231	-43.81	225,295	225,295

	At the end of 2007	At the end of 2006 After adjustment	At the end of 2006 Before adjustment	Increase or decrease from last year (%) After adjustment	At the end of 2005 After adjustment	At the end of 2005 Before adjustment
Total assets	**10,958,601**	8,841,433	8,841,433	23.95	8,106,524	8,106,524
Total liabilities	**5,738,640**	4,865,454	4,849,916	17.95	4,185,825	4,178,362
Shareholders' equity	**5,219,961**	3,975,979	3,991,517	31.29	3,920,699	3,928,162

(IV) Major Financial Data and Financial Indicators of the Company over the Recent Years (Unit: RMB'000) *(Continued)*

1. Prepared under the PRC GAAP *(Continued)*

(2) Major Financial Indicators

Unit: RMB

Items	2007	2006 After adjustment	2006 Before adjustment	Increase or decrease from last year (%) After adjustment	2005 After adjustment	2005 Before adjustment
Basic earnings per share	**0.27**	0.22	0.23	22.73	0.18	0.19
Diluted earnings per share	**0.27**	0.22	0.23	22.73	0.18	0.19
Basic earnings per share after non-recurring items	**0.28**	0.22	0.23	27.27	0.17	0.18
Return on net asset (fully diluted) (%)	**8.61**	7.72	7.89	11.53	6.43	6.61
Return on net asset (weighted average) (%)	**9.13**	7.78	7.91	17.35	6.51	6.69
Return on net asset after non-recurring items (fully diluted) (%)	**9.01**	7.77	7.92	15.96	6.10	6.28
Return on net asset after non-recurring items (weighted average) (%)	**9.55**	7.84	7.94	21.81	6.17	6.37
Net cash flow per share from operating activities	**0.29**	0.62	0.62	-53.23	0.16	0.16

	At the end of 2007	At the end of 2006 After adjustment	At the end of 2006 Before adjustment	Increase or decrease from last year (%) After adjustment	At the end of 2005 After adjustment	At the end of 2005 Before adjustment
Net assets per share attributable to the Company's shareholders	**3.12**	2.87	2.89	8.71	2.83	2.84

(IV) Major Financial Data and Financial Indicators of the Company over the Recent Years (Unit: RMB'000) *(Continued)*

2. Prepared under HKFRS

Unit: Rmb'000

Items	2007	2006 (Restated)	2005 (Restated)	2004	2003
Turnover	**12,021,195**	9,621,897	8,856,126	8,551,923	5,609,309
Profit before tax	**469,670**	303,578	273,620	872,156	967,781
Income tax	**20,990**	1,093	32,663	28,433	-9,258
Net profit from ongoing operations attributable to shareholders	**448,680**	302,485	240,957	843,723	977,039
Fully diluted earnings per share (RMB)	**0.26**	0.22	0.17	0.61	0.71
Weighted average earnings per share (RMB)	**0.27**	0.22	0.17	0.61	0.71
Net cash flow per share from operating activities (RMB)	**0.16**	0.49	0.07	0.37	0.88
Return on net assets (fully diluted) (%)	**8.63**	7.64	6.14	21.95	30.40
Return on net assets (weighted average) (%)	**9.15**	7.67	6.20	24.03	35.41

Items	At the end of 2007	At the end of 2006 (Restated)	At the end of 2005 (Restated)	At the end of 2004	At the end of 2003
Total assets	**10,958,600**	8,864,407	8,132,279	7,200,834	5,911,665
Total liabilities	**5,756,861**	4,906,086	4,206,201	3,356,121	2,697,886
Shareholders' equity	**5,201,739**	3,958,321	3,926,078	3,844,713	3,213,779
Net assets per share (RMB)	**3.11**	2.86	2.84	2.78	2.32

(V) Movements in shareholder's equity during the reporting period (RMB'000)

1. Prepared under the PRC GAAP

Items	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Including: Proposed dividend in cash by the Board	Shareholders' equity
Opening balance	1,383,127	546,333	461,925	1,584,594	0	3,958,321
Increase during the year	350,000	618,051	44,924	231,007	449,244	1,462,219
Decrease during the year	0	0	0	0	218,237	218,237
Closing balance	1,733,127	1,164,384	506,849	1,815,601	173,313	5,219,961

2. Prepared under the HKFRS

Items	Share capital	Capital premium	Statutory Capital surplus	provident fund	Retained profits	Shareholders' interests
Opening balance	1,383,127	276,208	216,071	461,925	1,620,990	3,958,321
Increase during the year	350,000	618,051	0	44,924	448,680	1,461,655
Decrease during the year	0	0	0	0	218,237	218,237
Closing balance	1,733,127	894,259	216,071	506,849	1,851,433	5,201,739

Reasons for the changes:

(1) On 29 January 2007, the Company was approved by the CSRC to issue 350,000,000 Renminbi ordinary shares (A shares) in the PRC and raised a total proceed of RMB1,008 million. The shares were listed and traded on the Shanghai Stock Exchange on 28 February 2007.

(2) Pursuant to the Company Law, the Articles of Association and approval of the Board, the Company transferred 10% of the net profit for the year 2007 calculated under the PRC accounting standards to statutory surplus reserve, totalling RMB44,924,000.

(3) Based on the total share capital of 1,733,127,200 shares as at 31 December 2007, the Board proposed to distribute to all shareholders a cash bonus of RMB1 (tax inclusive) per share for every 10 shares held with an estimated amount of RMB173,312,720 for the year 2007 without transferring capital resume fund to equity. The remaining undistributed profit will be carried down to 2008.

Movement of Share Capital and the Particulars of Shareholders

(I) Changes in share capital

Changes in Share Capital as at 31st December 2007

Unit: share

	Before change		Increase/decrease (+, −)					After change	
	Number	Percentage (%)	Issue of new share	Bonus share	Conversion from reserve	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	845,000,000	61.09	–	–	–	–	–	845,000,000	48.76
1. State owned shares	–	–	–	–	–	–	–	–	–
2. State owned legal person shares	845,000,000	61.09	–	–	–	–	–	845,000,000	48.76
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Including:									
Domestic non-State owned legal person shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Including:									
Overseas legal person shares	–	–	–	–	–	–	–	–	–
Overseas natural person shares	–	–	–	–	–	–	–	–	–
II. Shares not subject to trading moratorium	538,127,200	38.91	350,000,000	–	–	–	350,000,000	888,127,200	51.24
1. Renminbi ordinary shares	–	–	350,000,000	–	–	–	350,000,000	350,000,000	20.19
2. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
3. Foreign shares listed overseas	538,127,200	38.91	–	–	–	–	–	538,127,200	31.05
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares	1,383,127,200	100	350,000,000	–	–	–	350,000,000	1,733,127,200	100

Note: The Company has issued 350,000,000 ordinary A shares this year, of which 70,000,000 shares are subjected to trading moratorium. The trading moratorium has been released on 29 May 2007.

(I) Changes in share capital *(Continued)*

Changes of Shares Subject to Trading Moratorium

Unit: share

Name of shareholder	Number of shares subject to trading moratorium at the beginning of the year	Number of shares released from trading moratorium over the year	Increase in number of shares subject to trading moratorium	Number of shares subject to trading moratorium at the end of the year	Reasons of trading moratorium	Date of release of trading moratorium
Chongqing Iron & Steel (Group) Company Limited	—	—	845,000,000	845,000,000	The Controlling shareholder undertakes that its shares in the Company will not be transferred or entrusted to others for management and shall not be repurchased by the Company within 36 months from the listing of A shares.	29th February 2010
Shareholders of A shares offered under off-line allotment	—	70,000,000	70,000,000	—	A shares offered under off-line allotment are locked 3 months from the listing date	29th May 2007
Total	—	70,000,000	915,000,000	845,000,000		

(II) Issue and Listing of Shares

1. Issue of shares in the last three years

Unit: share

Share class	Issue date	Issue price (RMB)	Number of shares issued	shares approved Number of Listing date	for listing
Renminbi dominated ordinary shares, A shares	6th February 2007	2.88	350,000,000	28th February 2007	350,000,000

2. Changes in the total number of shares and shareholding structure

The Company was established on 11th August 1997 as part of the restructuring by Chongqing Iron & Steel (Group) Company Limited (the “Holding Company”). Pursuant to the Restructure Agreement, 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. Renminbi dominated ordinary shares (H shares) issued by the Company in Hong Kong were listed on the Stock Exchange of Hong Kong Limited (the Stock Exchange) on 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. Please refer to 2002 Annual Report for details of the Restructuring.

(II) Issue and Listing of Shares *(Continued)*

2. Changes in the total number of shares and shareholding structure *(Continued)*

319,183,200 bonus shares were distributed to shareholders by the Company with three bonus shares for every ten shares through distributable profits as approved at the 2005 annual general meeting and the class meetings for holders of H shares and class meeting for holders of domestic shares on 9th June 2006. Upon the completion of bonus issue, the total share capital of the Company increased to 1,383,127,200 shares from 1,063,944,000 shares, including 845,000,000 domestic shares representing 61.09% and 538,127,200 H shares representing 38.91% of the total share capital of the Company.

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. This issue adopted the combination of off-line placement to target placees and on-line fund subscription. The issuing price was RMB2.88 per share. Upon the completion of the issue, the total share capital of the Company increased to 1,733,127,200 shares, including 1,195,000,000 A shares representing 68.95% and 538,127,200 H shares representing 31.05% of total capital. As approved by Shanghai Stock Exchange, the shares under this issue were listed on the Shanghai Stock Exchange (Shanghai Exchange) on 28th February 2007.

As at 31st December 2007, the total share capital of the Company amounted to 1,733,127,200 shares.

3. The Company has no internal employee shares.

(III) Particulars of Shareholders

1. At the end of reporting period, the total number of shareholders was 127,827, of which 127,637 shareholders were the holders of A shares and 190 shareholders were holders of H Shares.

2. Shareholding of the top ten shareholders at the end of reporting period:

Chongqing Iron & Steel Company (Group) Limited (the "Holding Company"), the controlling shareholders of the Company, held 845,000,000 shares of the Company, representing 48.76% of total share capital of the Company. Established on 22nd June 1995, the Holding Company is a state-owned company with State-owned Assets Supervision and Administration Commission of Chongqing being its sole shareholder. Its legal representative is Dong Lin with a registered capital of RMB1,579,044,000 and registered address at No.1, Building No.1, Dayan Village III, Dadukou District, Chongqing, the PRC. Its principal business and products include: Assets operation, investment and property right trading within the entrusted authority. manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computer and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timer products, refractory materials, chemical products(excluding dangerous chemicals), contracting and exporting overseas projects and domestic tendering projects related to self produced complete equipments; dispatching labours abroad for such overseas projects, production technology as well as labours engaged in maintenance and after-sale services.

(III) Particulars of Shareholders *(Continued)*

2. Shareholding of the top ten shareholders at the end of reporting period: *(Continued)*

Shareholdings of the Top Ten Shareholders at the End of Reporting Period

Unit: share

Name of shareholder	Type of shareholder	Percentage to total share capital (%)	Total 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 legal person shareholder	48.76%	845,000,000	845,000,000	23,460,000 shares frozen
HKSCC NOMINEES LIMITED	Foreign shareholder	30.74%	532,763,070	0	Unknown
Shenzhen Lisha Co., Ltd.	Holders of domestic non-State owned legal person shares	0.13%	2,199,214	0	Unknown
BOC-Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund	Holders of domestic non-State owned legal person shares	0.11%	1,946,150	0	Unknown
Wang Shiming	Domestic natural person shareholder	0.10%	1,719,120	0	Unknown
Shenzhen Shan Kai Yuan Trade Co., Ltd.	Holders of domestic non-State owned legal person shares	0.06%	1,122,000	0	Unknown
Shanghai Wangshi Industrial Co., Ltd.	Holders of domestic non-State owned legal person shares	0.06%	1,021,100	0	Unknown
Fortune Trust Co. Ltd	Holders of domestic non-State owned legal person shares	0.05%	879,412	0	Unknown
CNGC North Industries Group Finance Company Ltd.	Holders of domestic non-State owned legal person shares	0.05%	879,412	0	Unknown
China Foreign Economy and TradeTrust & Investment Co., Ltd.	Holders of domestic non-State owned legal person shares	0.05%	870,000	0	Unknown

Note 1: There is no connection or any party acting in concert as defined in Measures for Management on Information Disclosure of Changes in Shareholdings of Listed Company's Shareholders between Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") and other 9 shareholders. The Company is not aware of any connected relationship among the other 9 shareholders or any party acting in concert.

Note 2: At the end of the reporting period, 23,460,000 shares held by the Holding 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.

Note 3: The 532,763,070 shares held by HKSCC Nominees Limited are shares held on behalf of its customers.

(III) Particulars of Shareholders *(Continued)*

3. Shareholdings of the Top Ten Holders of Circulating Shares not subject to Trading Moratorium at the End of Reporting Period

Unit: share

Name of shareholder	Number of shares not subject to trading moratorium	Share class
HKSCC NOMINEES LIMITED	532,763,070	Overseas listed foreign shares
Shenzhen Lisha Co., Ltd.	2,199,214	Renminbi dominated ordinary shares
BOC-Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund	1,946,150	Renminbi dominated ordinary shares
Wang Shiming	1,719,120	Renminbi dominated ordinary shares
Shenzhen Shan Kai Yuan Trade Co., Ltd.	1,122,000	Renminbi dominated ordinary shares
Shanghai Wangshi Industrial Co., Ltd.	1,021,100	Renminbi dominated ordinary shares
Fortune Trust Co. Ltd	879,412	Renminbi dominated ordinary shares
CNGC North Industries Group Finance Company Ltd.	879,412	Renminbi dominated ordinary shares
China Foreign Economy and Trade Trust & Investment Co., Ltd.	870,000	Renminbi dominated ordinary shares
Zheshang Securities Co., Ltd.	721,412	Renminbi dominated ordinary shares

Note: The Company is not aware of any connected relationship among the top ten holders of circulating shares or any party acting in concert.

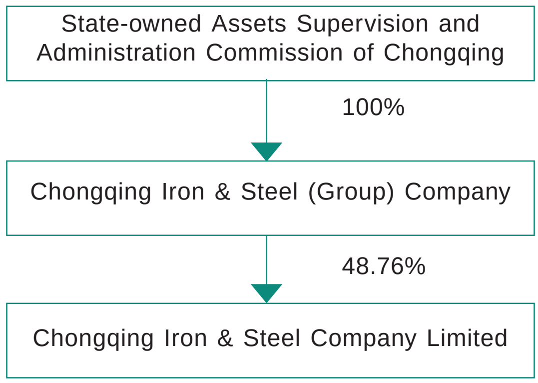
4. Save as the above shareholders, as at 31st December 2007, the persons having interests or short positions in the shares or underlying shares of the Company, recorded in the register maintained pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") are as follows:

Name of shareholder	Number of H shares held	Percentage to total H shares of the Company	Percentage to total shares of the Company
UBS AG	81,583,491	15.16%	4.71%

Note: Save as disclosed above, as at 31st December 2007, the Board is not aware of any persons having any interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Section 336 of Securities and Futures Ordinance.

(III) Particulars of Shareholders *(Continued)*

5. Framework of equity interest and controlling relationship between the Company and beneficial controller



6. There was no change in the controlling shareholder of the Company during the reporting period.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(I) Directors, Supervisors, and Senior Management

Unit: Rmb Ten Thousand

Name	Title	Sex	Age	Tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Total remuneration received from the Company during the reporting period	Whether receive remuneration from shareholder or other connected parties
Luo Fu Qin	Chairman	M	59	9th June 2006~ 8th June 2009	0	0	25	Yes
Yuan Jin Fu	Director	M	45	9th June 2006~ 8th June 2009	0	0	23	Yes
Chen Shan	Director, General Manager	M	54	9th June 2006~ 8th June 2009	0	0	24	No
Sun Yi Jie	Director, Deputy General Manager, Chief Engineer	M	52	9th June 2006~ 8th June 2009	0	0	23	No
Tu De Ling	Director, Chief Accountant	M	45	9th June 2006~ 26th June 2007	0	0	12	No
Chen Hong	Director, Deputy General Manager	M	51	20th September 2006~ 19th September 2009	0	0	20	No
Wang Xiang Fei	Independent director	M	56	9th June 2006~ 8th June 2009	0	0	6	No
Sun Yu	Independent director	M	45	9th June 2006~ 8th June 2009	0	0	4	No
Liu Xing	Independent director	M	51	9th June 2006~ 8th June 2009	0	0	4	No
Zhu Jian Pai	Chairman of the Supervisory Committee	M	50	9th June 2006~ 8th June 2009	0	0	25	Yes
Huang You He	Supervisor	M	55	9th June 2006~ 8th June 2009	0	0	15	Yes
Gong Jun	Supervisor	F	35	23rd August 2007~ 22nd August 2010	0	0	4	Yes
Yuan Xue Bing	Supervisor	F	53	9th June 2006~ 26th June 2007	0	0	6	Yes
Chen Hong	Supervisor	F	43	9th June 2006~ 8th June 2009	0	0	13	No
Lu Kang Mei	Supervisor	F	54	9th June 2006~ 26th June 2007	0	0	8	No
Xu Gang	Deputy General Manager	M	47	From 8th January 2004 to the present	0	0	23	No
Wu Zi Sheng	Deputy General Manager	M	43	From 8th January 2004 to the present	0	0	23	No
Li Ren Sheng	Deputy General Manager	M	43	From 12th May 2006 to the present	0	0	20	No
Song Ying	Financial Conroller	F	40	From 29th June 2007 to the present	0	0	9	No
You Xiao An	Secretary to the Board	M	43	From 23rd January 2001 to the present	0	0	16	No

During the reporting period, Directors, Supervisors, Senior Management of the Company did not hold or trade shares of the Company.

(I) Directors, Supervisors, and Senior Management *(Continued)*

Directors:

Mr. Luo Fu Qin, aged 59, is the Chairman of the Board, Chairman of the Strategic Committee of the Company, a Director and deputy general manager of the Holding Company. Mr. Luo graduated from Chongqing Construction School with a bachelor's degree specialising in water drainage, and he is a senior engineer. Mr. Luo served as the deputy general manager of the Holding Company in September 2000, a Director of the Holding Company in April 2004. He had been the head of the Power Division and Design Management Division of the Design Department of the Holding Company, the deputy department head of the Holding Company's Safety and Environment Protection Office, head of the Holding Company's Coking Plant, head of the Holding Company's Iron Smelting Plant, head of the Holding's Company's Technology Office, head of the Holding Company's Development Liaison Office Economic Liaison Division and the deputy general manager of the Company.

Mr. Yuan Jin Fu, aged 45, is the Director and member of the Salary and Remuneration Review Committee of the Company and the Chief Accountant of the Holding Company. Mr.Yuan obtained a bachelor degree from Economics and Management Professional University and holds the title of senior accountant. Mr. Yuan joined the Holding Company in 1981 and has been the deputy head and the head of the Finance Office, the deputy chief accountant of the Holding Company and the Chairman of Duoli Co. Ltd since August 2002.

Mr. Chen Shan, aged 54, is the Director, member of the Salary and Remuneration Review Committee. Mr. Chen graduated from Chongqing University specializing in metal heating processing with a bachelor degree in engineering. He graduated from the Business Administration Faculty of Chongqing University with a MBA degree. He holds the title of senior engineer. Mr. Chen joined the Holding Company in 1982 and has been the deputy factory manager of No. 5 Factory and the head of the Operation Planning Department of the Holding Company and deputy head of Chongqing Da Du Kou District and deputy general manager, the Secretary to the Communist Party Committee and the Chairman of the Labour Union of the Company.

Mr. Sun Yi Jie, aged 52, is the member of the Strategic Committee and the deputy general manager of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He has a bachelor degree in engineering and holds the title of senior engineer. Mr. Sun joined the Holding Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company and chief engineer of the Company.

Mr. Tu De Ling, aged 45, is the Director, member of the Strategic Committee and the chief accountant of the Company. Mr. Tu graduated from Sichuan Finance and Economics College with major in accounting. He has a bachelor degree in economics and is a senior accountant. Mr. Tu joined the Holding Company in 1988 and had worked as assistant to the head and deputy head of the Finance Office of the Holding Company and the deputy head and the head of the Finance Office of the Company. On 26th June 2007, Mr. Tu resigned from the positions as a director, the member of the Strategic Committee and chief accountant.

Mr. Chen Hong, aged 51, is a Director, the deputy general manager and head of Sales Department of the Company. Mr. Chen graduated from Wuhan Iron & Steel University with a bachelor's degree in coking engineering and attended the postgraduate course in management engineering of Tsinghua University with a postgraduate diploma, and he is a senior engineer. Mr. Chen joined the Holding Company in 1982, and had been the deputy head of Chemical Workshop of Coking Plant, deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Holding Company, head of Raw Material Department of the Company, deputy chief engineer of the Holding Company, Chairman of the Board of the Chongqing Iron & Steel Group Industries Co., Ltd, and Chairman of the Board of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.

(I) Directors, Supervisors, and Senior Management *(Continued)*

Independent Director:

Mr. Wang Xiang Fei, aged 56, is the Independent Director and the Chairman of the Audit Committee and a member the Salary and Remuneration Review Committee of the Company. Mr. Wang graduated from the Faculty of Finance of the People's University of China in 1982 with major in finance. He has a bachelor degree in Economics and is a senior accountant. From 1983 to 2006, Mr. Wang served in China Everbright Group as director and assistant general manager, executive director of several companies listed in Hong Kong with China Everbright Group as the controlling shareholder, the chief executive of a listed company and the senior manager of several subsidiaries under the China Everbright Group. Mr. Wang has extensive experience in investment, management, finance and accounting. Currently, Mr. Wang serves as the Financial Adviser of China Sonangol International Holding Limited, Deputy Financial Controller of Sonangol Sinopec International Limited. And as the independent non-executive director of Tianjin Capital Environmental Protection Company Limited, SEEC Media Group Limited, Shenzhen Rural Commercial Bank Corporation Limited, and China Citic Bank Corporation Limited.

Mr. Sun Yu, aged 45, is the Independent Non-executive Director, the Chairman of the Salary and Remuneration Review Committee, and a member of the Audit Committee of the Company. He is currently the director of Chongqing Bai Jun Law Firm（重慶百君律師事務所）and a first-grade lawyer. As a member of the Party Committee, Mr. Sun also acts as vice chairman of Chongqing Lawyers' Association, arbitrator of China International Economic and Trade Arbitration Commission, arbitrator of Chongqing Arbitration Commission, a researcher on international investment, finance and laws in Southwest Politics and Law University, Visiting Professor of Sichuan International Studies University. Mr. Sun entered the department of law of Southwest Politics and Law University in 1979 and obtained Bachelor of Laws and Master of Laws degrees in succession. He taught at the University and was granted with the title of vice profession upon graduation. In 1998, Mr. Sun resigned from his university and established Chongqing Bai Jun Law Firm. With admirable accomplishments in laws, Mr. Sun has extensive experience in Practice of Law and management.

Mr. Liu Xing, aged 51, is an independent director, a member of the Strategic Committee, the Audit Committee and the Salary and Remuneration Review Committee of the Company. Mr. Liu has a doctor's degree in management, and is the professor and doctor tutor and the head of Economy, Industry and Business Management Institute of Chongqing University. Mr. Liu engaged in teaching and research in management and engineering department of Chongqing University in 1983, and had been a researcher of accounting department of City University of Hong Kong and the visiting scholar and professor of accounting college of the Chinese University of Hong Kong. Mr. Liu had released a number of academic theses in domestic and foreign academic periodicals and obtained numerous provincial-grade awards for research achievements, constituting a substantial influence in the finance, accounting and banking field of the PRC. Mr. Liu has also been appointed as Independent Director of Dongfeng Electronic Technology Co., Ltd. He had acted as Independent Director of Chongqing Three Gorges Water Conservancy And Electric Power Co. Ltd. from July 2003 and Independent Director of Chongqing Titanium Industry Co. Ltd of Pangang Group from May 2005.

(I) Directors, Supervisors, and Senior Management *(Continued)*

Supervisors:

Mr. Zhu Jian Pai, aged 50, is the Chairman of the Supervisory Committee, the secretary to the Communist Party Committee, the Chairman of the Labour's Union of the Company, and a Director and the deputy secretary to the Communist Party Committee of the Holding Company. Mr. Zhu graduated from the Faculty of Metallurgy of Chongqing University with major in pressure processing. He has a bachelor degree in engineering and holds the title of senior engineer. Mr. Zhu joined the Holding Company in 1982 and served as the deputy secretary to the Communist Party Committee of the Holding Company in January 2000, a Director of the Holding Company in February 2002, the head of the workers personnel office and the head of the personnel department of the Holding Company.

Mr. Huang You He, aged 55, is the Supervisor of the Company and the head of the legal affairs office of the Holding Company. Mr. Huang obtained a professional diploma from the Economics Management Professional University and holds the title of senior economist. Mr. Huang joined the Holding Company in 1983, served as the head of the legal affairs office of the Holding Company in May 1999 and worked as deputy head of the Cadre Office, deputy head of the Workers Personnel Office and the head of the Assets Operation and Management Office and the head of Legal Regulation Office of the Holding Company.

Ms. Gong Jun, aged 35, is a Supervisor of the Company and the deputy head of the Auditing Department of the Holding Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Holding Company in 1996, she has been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department of the Holding Company

Ms. Chen Hong, aged 43, is a Supervisor and the deputy head of the managerial office of the Company. Ms. Chen holds a university diploma in the Logistics and Engineering College of the China People's Liberation Army. Ms. Chen joined the Holding Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of Chongqing Steel and Iron Design Institute, and chief officer of Production and Operation Department.

Ms. Yuan Xue Bing, aged 53, is a Supervisor of the Company. Ms. Yuan graduated from Jiangxi Finance and Economics College by distance learning with major in accounting. She has a bachelor degree and holds the title of senior accountant. Ms. Yuan joined the Holding Company in 1979 and worked as the head of the capital section of the Finance Office, the head of the assets section, the head of the accounting section, deputy head of the Auditing Office, the head of the Auditing Office of the Holding Company. Ms. Yuan Xue Bing resigned from the position as a supervisor of the Company on 26th June 2007.

Ms. Lu Kang Mei, aged 54, is a Supervisor of the Company. Ms. Lu Yue has received higher education and is a political engineer. Ms. Lu joined the Holding Company in 1972 and has been Deputy Director of the medium and small steel rolling plant and the Chairman of the Labour Union of the Holding Company and deputy secretary to the Communist Party Committee of the Holding Company, the Chairman of the Labour Union and secretary to the Administrative Division of Chonggong Employees' University, Vice Chairman of the Labour Union of the Staff Training Centre of the Holding Company and the Secretary to the Chief Party Committee and the Chairman of the Labour Union of the High Rod Plant of the Company, the secretary to the Chief Party Committee of the Equipment Department and the Chairman of the Labour Union of the Company. Ms. Lu resigned from the position as a supervisor of the Company on 26 June 2007.

(I) Directors, Supervisors, and Senior Management *(Continued)*

Senior Management:

Mr. Xu Gang, aged 47, is the deputy general manager and chief engineer of the Company. Mr. Xu graduated from the Faculty of Metallurgy of Chongqing University with major in iron smelting with a bachelor degree in engineering. He is currently a postgraduate student of metallurgic engineering in Chongqing University on part-time basis. He holds the title of senior engineer. Mr. Xu joined the Holding Company in 1982 and had served as deputy head and head of the Iron Smelting Plant and monitor of the Deployment Office of the Holding Company and assistant to the head and deputy head, head, and chief engineer of the Iron Smelting Plant of the Company

Mr. Wu Zi Sheng, aged 43, is the deputy general manager of the Company. Mr. Wu obtained a bachelor's degree from Economics and Management Professional University and a master degree of business administration from the graduate school of business administration of Chongqing University（重慶大學工商管理研究生學院）. He is currently a postgraduate student of business administration of Chongqing University on part-time basis and is a senior economist and senior management consultant. Mr. Wu joined the Holding Company in 1981 and had served as the head of factory, the secretary to the Party Committee, head of the promotion department, the head of the labour training section, the assistant to the head of the smelting plant and the assistant to the head of the labour and corporate affairs department of the industrial office of the Coking Plant of the Holding Company, the secretary to the Communist Party Committee, the Chairman of the Labour Union of the Steel Casting Company, deputy head of the personnel department, head of the human resources department, Supervisor of the Company.

Mr. Li Ren Sheng, aged 43, is the deputy general manager of the Company and former head of Raw Material Department. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses of a bachelor's degree and is a senior engineer. He joined the Holding Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop of Smelting Plant, the assistant to plant director and deputy plant director of the Holding Company, deputy head of the smelting plant of the Company, and the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited.

Ms. Song Ying, aged 40, the chief financial officer and head（處長）of the financial and accounting office of the Company. Ms. Song graduated from Yuzhou University majored in accounting and possesses of a bachelor degree in economics; and also the faculty of business administration of Northeastern University and obtained a master degree in business administration. Being a senior accountant, Ms. Song joined the parent company in 1989 and has served as the head of the finance office of a power plant of the parent company（母公司財務處駐動力廠財務科科長）, head and deputy head (responsible for work) of the accounting section of the Company's financial and accounting office（本公司財會處會計科科長、副處長（主持工作））.

Mr. You Xiao An, aged 43, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now studying a part-time master degree course in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Holding Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

There is no specified date for expiration of term for positions of such senior management as the deputy general manager and secretary to the Board.

(II) Remuneration of Directors, Supervisors and Senior Management

The remuneration for members of the fourth session Board and Supervisory Committee of the Company was proposed by the Board and submitted to the general meeting for approval. The annual average remuneration of directors of the fourth session Board of the Company was paid at 4 to 10 times the annual average remuneration of all the employees of the Company, and the annual average remuneration of supervisors of the fourth session Supervisory Committee of the company was paid at 3 to 8 times the annual average remuneration of all the employees of the Company. Remuneration of the senior management is subject to the decision of the Board. The annual remuneration of the directors of fourth session Board and supervisors as well as senior management of the Company is determined based on the scale of operation, economic benefits of the Company, their qualifications and experiences. Please refer to the above table for the remunerations of directors, supervisors and senior management of the Company for 2007.

The Company and the Holding Company had respectively made provision for pension and unemployment insurance for directors, supervisors and senior management receiving remunerations from the companies in certain proportion of their total salary.

In 2007, the independent directors of the Company, Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing, received the independent director allowances of RMB60,000, RMB40,000,and RMB40,000, respectively.

In 2007, the total remunerations for directors, supervisors and other senior management receiving remunerations from the Company amounted to RMB3,061,000. All remunerations were amount before tax.

(III) Other Information on Directors, Supervisors and Senior Management

1. Directors' and Supervisors' Interests in the Shares of the Company or any Associated Corporation

As at 31 December 2007, the interests and short positions (including interests or short positions which they were taken or deemed to have under such provisions of the SFO),of the Directors and Supervisors in the shares or underlying shares or debentures of the Company and its connected corporations(within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or which are required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the"Listing Rules") and the Model Code for Securities Transactions by Directors of Listed Companies (the "Code"), to be notified to the Company and the Stock Exchange, were as follows:

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

Name	Interest type	Number of shares *(shares)*
Yuan Jin Fu	Individual	2,400
Chen Shan	Individual	800
Sun Yi Jie	Individual	800
Tu De Ling	Individual	800
Yuan Xue Bing	Individual	800
Chen Hong	Individual	1,600

Note: This represents interests of the Directors and Supervisors in Hengda which was transferred from the Company to the Holding Company in December 2002.

(III) Other Information on Directors, Supervisors and Senior Management *(Continued)*

1. Directors' and Supervisors' Interests in the Shares of the Company or any Associated Corporation *(Continued)*

Save as disclosed above, as at 31st December 2007, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its connected corporations.

For the year ended 31st December 2007, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year was the Company, its fellow subsidiaries or its Holding Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year was the Company, its fellow subsidiaries or its Holding Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

2. Service Contracts of Directors and Supervisors

The Board of Directors and the Supervisory Committee of the Company were elected at the AGM convened on 9th June 2006 for a term of three years from 9th June 2006. The elected directors and supervisors respectively entered into service contracts with the Company for a term of three years. Mr. Chen Hong was appointed as a director of the Company at the EGM convened on 20th September 2006 with a term of three years from 20th September 2006; Ms. Gong Jun was appointed as a supervisor of the Company at the EGM convened on 23rd August 2007 with a term of three years from 23rd August 2007.

Neither terms for compensation for termination of service prior to the expiry of the service contracts nor the terms for compensation for no renewal of service upon the expiry of such service contracts were made.

3. Directors' and Supervisors' Interests in the contracts

At no time during the year, any director and supervisor have any direct or indirect material interests in the contracts entered into by the Company, the Holding Company, or any subsidiary of the Holding Company.

4. Model Code for Securities Transactions by Directors and Supervisors

The Company takes the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to Listing Rules of the Hong Kong Stock Exchange and the Rules on the Management of Shares Held by the Directors, Supervisors and Senior Management Officers of Listed Companies and the Changes Thereof (Zheng Jian Gong Si Zi No.56 [2007] by CSRC) as the code for securities transactions by its Directors, Supervisors, and Senior Management. After making specific enquiries to all Directors and Supervisors, the Company confirmed that all Directors and Supervisors had complied with the requirements of the above Model Code and Rules concerning the securities transactions by Directors as at 31st December 2007.

(IV) Changes in Directors, Supervisors and Senior Management

1. The resignation of Mr. Tu De Ling from the position of director, the member of the Strategic Committee and the chief accountant was approved at the Board meeting on 26th June 2007. He resigned from office due to job allocation.

2. On 26th June 2007, Mr. Yuan Xue Bing, the supervisor from the shareholders' representative, and Ms. Lu Kang Mei, the supervisor from the staff's representatives resigned from their offices as the supervisors of the Company due to job allocation.

3. On 29th June 2007, the Board of the Company approved to appoint Ms. Song Ying as the Chief Financial Officer of the Company.

4. On 23rd August 2007, the 1st EGM for 2007 approved the resignation of Mr. Tu De Ling from director of the Company and the resignation of Ms. Yuan Xue Bing from supervisor from shareholder's representative of the Company. Meanwhile, Ms. Gong Jun was elected as supervisor from shareholder's representative.

(V) Staff

As at the end of 2007, the Company had 11,741 staff, including 9,785 production staff, 191 sales staff, 821 technical and engineering staff, 101 finance staff, and 843 administrative staff. The staff with bachelor or above degrees accounted for 8.28% of the total staff. The Company has been emphasizing on the training to the staff for update of knowledge. In 2007, 11,903 persons received training, and the training plan was fulfilled at the percentage of 101.38%.

Education Background	Stuff number
Master's degree	76
Undergraduate	896
Associate degree	1,708
Secondary technical graduates and others	9,061

The remuneration of the staff includes wage, bonus, and other benefits scheme. In accordance with relevant PRC laws and regulations, the Company implemented different remuneration standards for different employees based on their performance, qualification and experience, and position.

(I). Corporate Governance

During the reporting period, the Company, strictly following the Company Law, Securities Law, relevant laws and regulations by CSRC, Rules Governing the Listing of Stocks on the Shanghai Stock Exchange ("Shanghai Listing Rules"), Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Articles of Association, had reviewed and rectified the problems found in the corporate governance, established comprehensive corporate governance systems, strengthened the internal control and prevented risks in operation, thus realized healthy and sustainable development.

1. The Board of Directors

The Board of Directors is capable of discharging its authority specified by laws, regulations and the Articles of Association of the Company. On 9th June 2006, the fourth session Board of Directors of the Company was elected at the AGM. The new Board has continued to set up three special committees, including the Strategic Committee, the Audit Committee and the Salary and Remuneration Review Committee, to provide advices and opinions for the Board' decision-making. The major duty of the Board is to exercise the management and decision right as authorised by the general meeting in relation to corporate development strategy, management structure, investment and financing, planning, financial control and human resources.

The positions of Chairman and General Manager are assumed by different individuals with distinct roles. Chairman presides over the work of the Board and superintends the implementation of resolutions of the Board while General Manager is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the aid of the Board and other senior management members.

The Board of Directors of the Company shall be re-elected every three years. All the directors are also subject to a term of three years and subject to re-election at expiration of the previous term. The candidates for directors were nominated by the Board of Directors and the shareholders holding separately or jointly 5% (including 5%) or more of the issued shares.

The candidates for directors were nominated after knowledge of their personal information including occupation, education, professional title, detailed work experience and all part-time work, and with their content before the nomination. For nomination of independent directors, the Board of Directors gave opinions on the nominees' qualification for the position of the independent director and on their independence, and the nominees also made a statement that they do not have any relations with the Company that would affect their independent and objective judgement. Before the convening of relevant general meeting, the Company submitted the materials of the nominees for independent directors to CSRC, the local office of CSRC at the location of the Company and Shanghai Stock Exchange.

Prior to the relevant general meeting, the Company had disclosed the detailed information about the nominees for directors (including resume and basic information) to ensure that the shareholders had a sufficient understanding of the candidates before voting. Prior to the general meeting for election of independent directors, the Board of Directors of the Company disclosed the contents of the statements made by the nominators and the nominees.

The members on the Board of Directors have varied industry background and have expertise in the field of corporate management, the iron & steel smelting and etc., whose profiles were set out on page 16 of this Annual Report. The Board of Directors comprises 9 directors, including 6 executive directors and 3 independent directors. The number of the independent directors accounts for one-third of the total members of the Board. The present independent non-executive directors of the Company hold profound experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non- executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

(I). Corporate Governance *(Continued)*

1. The Board of Directors *(Continued)*

Duties performance of Independent Directors: During the reporting period, Independent Directors Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing did not raise objections to proposals presented at the Board meetings or other meetings. During the reporting period, Independent Directors had performed their duties in accordance with the requirement of relevant laws, regulations and‘ the Articles of Association of the Company, proactively attended Board meetings and general meetings, provided professional advices to the Board on proposals regarding production, operation and projects investment, issued independent opinions on the Company’ significant events such as connected transactions, appointment of senior management members, thus effectively safeguarded the overall interests of the Company and the interest of investors.

The Company has received the Confirmation Letters regarding their compliance with Rule 3.13 of the Listing Rules from Independent Directors Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing respectively. The Company is of the view that such Independent Directors maintained their independence during the reporting period.

As at the end of the reporting period, the members of the Board were as follows:

Chairman:	Mr. Luo Fu Qin
Executive directors:	Mr. Yuan Jin Fu, Mr. Chen Shan, Mr. Sun Yi Jie, Mr. Chen Hong
Independent directors:	Mr. Wang Xiang Fei, Mr. Sun Yu, Mr. Liu Xing

During the reporting period, the Board of the Company convened six meetings, the details of attendance are set out on page 28 of this Annual Report. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through Secretary to the Board. In order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company’s expense.

As approved by the General Meeting, the annual average remuneration of directors of the company in their term is paid at 4 to 10 times the annual average remuneration of all the employees of the Company. The remuneration of directors is set out under the section “Remuneration of Directors, Supervisors and Senior Management” on page 21 of this Annual Report.

(I). Corporate Governance *(Continued)*

2. Special Committees of the Board

The Board has three special committees, each of which has specified terms of reference and is responsible for supervision of specific businesses.

(1) Audit Committee

The third Audit Committee of the Company was appointed by the Board of Directors on 9th June 2006, consisting of three independent directors. For the period, Audit Committee performed its duties specified by relevant laws, regulations and the Articles of Association of the Company, including auditing annual and interim financial statements, considering appointment of external auditors and relevant adjustments, and reviewing efficiency and quality of their work. Besides, Audit Committee also provided advice and recommendation to the Board regarding the running of internal control system and the effect of regulatory measures as well as studying corporate operation and possible impact on financial statements of the Company from domestic and foreign regulations and regulatory rules and relevant policies.

As at the end of the reporting period, the members of the Audit Committee were as follows:

Chairman:	Mr. Wang Xiang Fei
Member:	Mr. Sun Yu, Mr. Liu Xing

During the reporting period, the third Audit Committee convened two meetings both with full attendance. Details of the attendance and the meetings are set out on page 28 of this annual report respectively. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

(2) Strategic Committee

The Strategic Committee of the Company was set up on 21st August 2003. The current Strategic Committee was the second one appointed by the Board on 9th June 2006, comprising 5 members in full compliance with relevant domestic and foreign laws, regulations and the Company' Work Regulations of Strategic Committee. The major duty of Strategic Committee is to give suggestions based on study of long-term strategies on development and significant investment decisions.

As at the end of the reporting period, the members of the Strategic Committee were as follows:

Chairman:	Mr. Luo Fu Qin
Member:	Mr. Chen Shan, Mr. Sun Yi Jie, Mr. Liu Xing

During the reporting period, the Strategic Committee convened one meeting with 100% attendance. Details of the attendance and meetings are set out on page 28 of this Annual Report respectively.

(I). Corporate Governance *(Continued)*

2. Special Committees of the Board

(3) Salary and Remuneration Review Committee

The Salary and Remuneration Review Committee was set up on 21st August 2003. The current Salary and Remuneration Review Committee was the second one appointed by the Board on 9 June 2006, comprising 5 members in full compliance with relevant domestic and foreign laws, regulations and the Company' Work Regulations of Salary and Remuneration Review Committee. The major duty of Salary and Remuneration Review Committee is to study benchmarks for directors and senior management of the Company, conduct the assessment as well as study and review remuneration policies and schemes of directors and managers.

As at the end of the reporting period, the members of Salary and Remuneration Review Committee were as follows:

Chairman:	Mr. Sun Yu
Member:	Mr. Yuan Jin Fu, Mr. Wang Xiang Fei, Mr. Liu Xing

During the reporting period, the Salary and Remuneration Review Committee convened one meeting with full attendance. Details of the attendance and meetings are set out on page 28 of this Annual Report respectively. At the meeting, the 2006 remuneration policy for executive directors and senior management of the Company and the Work Regulations of Salary and Remuneration Review Committee (draft) were considered and approved.

The appraisals and incentives of senior management:To meet the needs of the development of the Company' production and operation, the Company has formulated remuneration policies on directors and senior management; established fair and reasonable mechanism of appraisals, incentives and restrictions; and taken initiatives to find out more effective incentive mechanism. The Company paid the remuneration of Directors and senior management in accordance with the remuneration range approved at the general meetings and with reference to their fulfilment of the operation targets, thus aroused their enthusiasm by results-based remuneration and safeguarded the Company' interest.

(I). Corporate Governance *(Continued)*

3. Supervisory Committee

The Supervisory Committee shall exercise its supervisory right independently and safeguard the lawful interest of shareholders, the Company and its staff. The number and constitution of supervisors of the Company are in accordance with requirements of relevant laws and regulations Shareholder representatives elected at the general meeting on 9th June 2006 and staff representatives elected at the staff representative meeting on 21st March 2006 constitutes jointly the fourth session Supervisory Committee of the Company. The current Supervisory Committee consists of 5 members, of which 3 are shareholder representatives and 2 are staff representatives. The shareholder representatives were elected at the general meeting and staff representatives were directly elected at the staff representative meeting.

As at the end of the reporting period, the members of the Supervisory Committee were as follows:

Chairman: Mr. Zhu Jian Pai
Member: Mr. Huang You He, Ms. Gong Jun, Ms. Chen Hong.

During the reporting period, Supervisory Committee convened three meetings and attended all Board meetings as an observer, duly performing its duties. Details of the work of the Supervisory Committee and attendance of the meetings during the reporting period are set out on page 28 of this Annual Report.

Attendance of the Board meetings, Supervisory Committee meetings and meetings of each special committee in 2007

(Attendance in person / Number of meetings (Attendance rate))

Name	Board of Directors	Audit Committee	Strategic Committee	Salary and Remuneration Review Committee	Supervisory Committee
Directors:					
Luo Fu Qin	6/6(100%)	—	1/1(100%)	—	—
Yuan Jin Fu	6/6(100%)	—	—	1/1(100%)	—
Chen Shan	6/6(100%)	—	1/1(100%)	—	—
Sun Yi Jie	6/6(100%)	—	1/1(100%)	—	—
Chen Hong	6/6(100%)	—	—	—	—
Tu De Ling Note 1	1/1(100%)	—	—	—	—
Independent directors:					
Wang Xiang Fei	6/6(100%)*Note2*	2/2(100%)	—	—	—
Sun Yu	6/6(100%)	2/2(100%)	—	1/1(100%)	—
Liu Xing	5/6(83%)	2/2(100%)	1/1(100%)	1/1(100%)	—
Supervisors:					
Zhu Jian Pai	—	—	—	—	3/3(100%)
Huang You He	—	—	—	—	3/3(100%)
Gong Jun	—	—	—	—	1/1(100%)
Chen Hong	—	—	—	—	3/3(100%)
Yuan Xue BingNote 1	—	—	—	—	1/1(100%)
Lu Kang MeiNote 1	—	—	—	—	1/1(100%)

(I). Corporate Governance *(Continued)*

3. Supervisory Committee *(Continued)*

Note 1: Mr. Tu De Ling and Ms. Lu Kang Mei resigned from their positions as Director, supervisor from shareholder representatives and supervisor from employee representative of the Company respectively on 26th June 2007.

Note 2: Independent Director Mr. Wang Xiang Fei appointed in writing Independent Director Mr. Sun Yu to attend the fifth meeting of the fourth session Board and vote on his behalf.

4. During the reporting period, according to the requirements from Notice of Carrying Out Special Activity on Strengthening Corporate Governance of Listed Company by CSRC and Notice of Carrying Out Special Activity on Corporate Governance of Listed Companies in Chongqing by Chongqing Securities Regulatory Bureau under China Securities Regulatory Commission (Chongqing Securities Regulatory Bureau), the Company proactively carried out self-inspection on its corporate governance, found out the problems and worked out relevant rectification measures. The Company prepared Self-inspection Report on Corporate Governance, proactively implemented relevant rectification measures in accordance the plan, and published announcements on the Self-inspection Report on Corporate Governance and ways for the public to participate in and comment on the special activity on corporate governance of listed companies. Based on the results of participation by investors, on-site inspection by Chongqing Securities Bureau and a comprehensive assessment by Shanghai Stock Exchange on the Company' corporate governance, the Company summarized and appraised its special activity on corporate governance and its effects, thus forming the Rectification Report on the Special Activity of Corporate Governance. Through this activity, the Company formulated Management Methods for Investor relationship and Management Methods for Information Disclosure; and modified Management Methods for Raised Proceeds, Implementation Rules of Connected Transactions, Work Rules for Decision-making of Investment, Internal Audit System, Capital Management System as well as Finance and Accounting System.

(II) Independence of the Company from its Holding Company in Personnel, Assets, Finance, Organisation and Operations

1. In respect of personnel, the production staff, technical staff, finance staff and sales staff are independent from the Holding Company, and the General Manager, Vice General Manager, and other senior management staffs receive remuneration from the Company and do not assume offices in the Holding Company.

2. Regarding assets, the Company has the independent production system, auxiliary system and supporting facilities, independent industrial property right and non-patent technologies, and the independent procurement and sales system.

3. In respect of finance, the Company has its independent finance department, has established an independent accounting system and formulated a completed financial management system.

4. In respect of organisation, the Company has set up a sound organisational structure; the Board and the Supervisory Committee operate separately; there are no subordinate relations between other internal organisations and the functional department of the Holding Company.

5. Regarding operations, the Company has its independent and complete businesses and has the ability to operate independently; there is no competition in the same industry between the Company and its Holding Company.

(III) Establishment and Improvement of Internal Control System

The Board is responsible for establishment and maintenance of the internal control system, to review financial, management and regulatory control procedures and safeguard interest of shareholders and assets of the Company. The Board authorises the management to carry out such work and review its performance through Audit Committee.

The Company formulated the Corporate Culture Handbook of Chongqing Iron & Steel, which is studied and promoted among employees. The Company also formulated management position responsibility in each department and each business flow has standard operation procedure. After setting annual operation target, the Company established economic responsibility system for each operation department to whom annual operation plan was assigned. Each department of the Company made up monthly production plan, which will be implemented in each department and assessed on monthly basis. The management of the Company regularly convenes meetings, keeping eyes on the changes of operation and market environment, analyzing existing operation risks, timely proposing risk prevention measures and adjusting production and operation plan, to ensure the fulfilment of the Company'operation target.

The Company has established and improved various internal accounting control policies under relevant laws and regulations and set up internal control system focused on financial accounting. The Implementation of the Company's internal control system is as follow:

(1) The Company has established strict authorization approval procedure for receipt, expenditure and keeping of currency capital. Incompatible positions for currency capital business have been separated and relevant organization and staff are under inter-constraint.

(2) The Company has established strict authorization approval procedure for financing business. Large financing shall be considered and approved by the Board and general meeting.

(3) The Company has reasonably planed and set up organizations and positions for procurement and payment, and specified requisition, approval, procurement and inspection procedures for inventories.

(4) The Company has established position responsibility system for physical assets management, which can control warehouse entry inspection, delivery, storage and disposal and other key procedures of physical assets. The Company has taken some measures including clarification of position responsibility, regular check of physical assets, property recording, verification of account and property insurance, which can effectively prevent physical assets from being stolen, pilferaged, damaged and significant loss.

(5) The Company has established cost expenses control system and comprehensive budget system, controlling cost in all around way.

(6) The Company has established feasible sales policy, which specified pricing principle, credit standard and conditions, payment method, and responsibility and authority of organization and staff involved in sales business and relevant matters.

(7) The Company has established scientific fixed assets management procedure and construction project decision making procedure.

(8) To strictly control investment risk, the Company established scientific external investment decision making procedure, implementing responsibility system for significant investment decision making. Accordingly, external investment in different amount shall be decided by the Company's authority organization in different level.

(9) The Company was able to strictly control guarantee by establishing guarantee decision making procedure and responsibility system, which specified guarantee principle, guarantee standard and conditions, guarantee responsibility.

(III) Establishment and Improvement of Internal Control System *(Continued)*

(10) The Company has formulated relevant financial systems according to Company Law, Accounting Law, Accounting Standards for Business Enterprises and other laws and regulations and their supplementary provisions.

(11) Audit Office was set up in April 2003. As the standing body of Audit Committee, its major responsibility is to review the performance of the Company's internal control system. Audit personnel is entitled to access to all information of the Company and making enquiries to relevant staff for work purpose, and Audit Office shall directly report to Audit Committee on the results and comments of relevant work. By carrying out key investment project audit, financial receipt and expenditure audit, accounting and basic accounting work assessment, the Company ensured the implementation of the Company's rules and regulations, lowered down operation risk of the Company, enhanced internal control, while optimizing resource allocation of the Company and improving operation management of the Company.

During the Reporting Period, the Company established an integral, reasonable and effective internal control system, which was in conformity with actual situation of the Company and had been effectively implemented.

(IV) Disclosure of the Board's opinion on Self-Evaluation Report on Internal Control of the Company and verification opinion of auditors

The Company had no disclosure of the Board's opinion on Self-Evaluation Report on Internal Control of the Company and verification opinion of auditors.

General meetings

(I) Annual General Meeting

On 18 June 2007, the Company convened the 2006 annual general meeting. Details of announcement of resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po and The Standard as well as the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 19 June 2007.

(II) Extraordinary General Meeting

During the Reporting Period, the Company convened one extraordinary general meeting, namely 2007 first extraordinary general meeting of the Company convened on 23 August 2007. Details of announcement of resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po and The Standard as well as the websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 24 August 2007.

(Unless otherwise specified, financial data contained in this report is extracted from the financial statements of the Company prepared under PRC Accounting Standards)

(I) Review on the Company's operation during the Reporting Period

1. Overall operation status of the Company during the Reporting Period

In 2007, the national economy experienced rapid growth, domestic and overseas markets saw a brisk demand of steel. Steel exports increased significantly while steel market price continuously went up. The supply and demand of steel were basically balanced. Domestic resource, energy and environment restricted the further development of steel industry. Due to constantly increased prices of raw materials such as iron ore, coal, pig iron, scrap steel, the profit margin of steel enterprises shrank to some extent.

During the Reporting Period, the Company overcame the impact from raised raw materials prices and shortage of supply, coordinating production and marketing, pushing forward meticulous management for enterprise. The Company produced 1,370,100 tonnes of coke, 2,950,700 tonnes of pig iron, 3,350,600 tonnes of steel and 3,117,600 tonnes of steel products (billets), increased by 0.70%, 9.01%, 10.20% and 9.93% respectively as compared to the previous year. The production volume of coke was reduced due to the increased coal powder injection in blast furnace. However, pig iron, steel and steel products all had reached their production targets. Under the PRC GAAP, in 2007, the Company's operating revenue and net profit amounted to RMB12,058,453,000 and RMB449,244,000 respectively, up 24.68% and 46.45% respectively from the previous year. Under HKFRS, in 2007, the Company's turnover and profit attributable to shareholders amounted to RMB12,021,195,000 and RMB448,680,000 respectively, up 24.94% and 48.33% respectively from the previous year.

During the Reporting Period, the Company adjusted product mix and promoted the sales of steels with larger margins. Due to limited production volume of medium-gauge steel plates, the Company decreased the sales of ordinary steel plates and low alloy steel plates. As a result, the sales proportion of ordinary steel plates and low alloy steel plates in medium-gauge steel plates decreased to 15.28% from 26.52% in the last year, while the sales volume of ship plates and vessel plates increased by 13.18% and 19.93% respectively as compared to previous year. Except for medium-gauge steel plates, the sales volume of bulb flat steel and high carbon wire rod increased by 37.33% and 28% respectively as compared to previous year.

During the Reporting Period, the Company enhanced development of new products and pilot production of specialised products. Through market survey, the company grasped the market demand and carried out development of new category steel products, In 2007, the Company successfully completed development of 6 new category steels including PC steel bar 30MnSi bearing steel coil, 18# I-beam steel, DR(CGP) hot-rolled super high phosphorous silicon steel, CGQ550D high strength low alloy steel plate, A32 (quixin) 40# flat-bulb steel and SA387MGr.11-CL2 pressure vessel steel. In order to meet the special requirement of customers, the Company produced 669,500 tons of specialized products in 2007.

During the Reporting Period, the Company made a breakthrough in financing , providing capital for implementation of technological renovations. The Company successfully issued 350,000,000 A shares on 6th February 2007 and listed them on Shanghai Stock Exchange on 28th February 2007 with net proceeds amounting to RMB968,000,000. In addition, the Company actively cooperated with banks and acquired syndicate loan facilities of USD60,000,000 and RMB500,000,000 from 12 foreign banks leaded by HSBC and Bank of Communications Chongqing branch in September 2007.

(I) Review on the Company's operation during the Reporting Period *(Continued)*

1. Overall operation status of the Company during the Reporting Period *(Continued)*

During the Reporting Period, the Company earnestly implemented the Comprehensive Working Scheme on Energy Saving and Emission Reduction issued by the State Council and completed the preparation of Energy Audit Report and Energy Saving Plan, to actively push forward energy saving and emission reduction. By taking measures such as adjusting production structure and applying advanced energy saving technologies, the Company renovated old technology and obsolete equipment. As a result, aggregate energy consumption rate per tonne and comparable energy consumption rate per tonne decreased by 4.14% and 2.74% as compared to previous year respectively. In addition, the Company actively promoted recycling and reuse of residual energy and heat. In 2007, self-production electricity amounted to 534,000,000 KWh, representing a year-on-year increase of 76.83%.

2. Analysis on principle operations and operating status during the Reporting Period

(1) Analysis on revenue from principal operations

In 2007, the Company was under the impact of rising raw materials prices including iron ore, coal, pig iron and scrap steel. Yet the Company attained increase in both production and sales volume as well as operating results through various measures such as marketing and raising production, structural adjustment, and consumption and cost reduction. As at 31 December 2007, the revenue from principal operations of the Company under the PRC accounting standards were RMB12,021,195,000, up 24.94% over 2006. Net profit was RMB449,244,000, representing a year-on-year rise of 46.45%.

- **Principal operation of the Company during the reporting period**

For the year 2007, the Company's revenue from principal operations amounted to RMB12,021,195,000, of which south-western region and other regions accounted for RMB6,722,832,000 and RMB5,298,363,000 representing a rise of 20.41% and 31.20% respectively over last year.

Region	Revenue from principal operations *(RMB'000)*	Increase/ decrease in revenue from principal operations over last year *(%)*
South-western region	6,722,832	20.41
Other regions	5,298,363	31.20
Total	12,021,195	24.94

For the year 2007, the Company's revenue from principal operations amounted to RMB12,021,195,000, of which RMB11,460,557,000 was derived from sales of steel products, representing 95.34% of the total revenue, up 27.14% over last year, and RMB560,638,000 was derived from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and water, electricity and steam, which accounted for 4.66% of the total revenue, down 7.80% from last year.

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(1) Analysis on revenue from principal operations *(Continued)*

- **Principal operation of Company during the reporting period** *(Continued)*

Product	2007 Amount (RMB'000)	2007 Percentage (%)	2006 Amount (RMB'000)	2006 Percentage (%)	Year-on-year increase (%)
Steel plates	**5,069,516**	**42.17**	4,205,946	43.71	20.53
Steel billets	**1,411,190**	**11.74**	889,964	9.25	58.57
Steel sections	**3,039,558**	**25.28**	2,400,326	24.95	26.63
Wire rods	**1,594,629**	**13.27**	1,245,013	12.94	28.08
Cold rolled plates	**345,664**	**2.88**	272,595	2.83	26.80
Subtotal	**11,460,557**	**95.34**	9,013,844	93.68	27.14
Others	**560,638**	**4.66**	608,053	6.32	(7.80)
Total	**12,021,195**	**100.00**	9,621,897	100.00	24.94

In 2007, the sales revenue of the Company's steel products (billets) increased by RMB2,446,713,000 as compared with last year, which was attributable to an increase in production and sales volume and the selling prices. During the year, the Company sold 3,141,300 tonnes of steel products (billets), representing an increase of 257,700 tonnes over last year which increased sales revenue by RMB703,540,000. Meanwhile, the average selling prices of steel products (including cold rolled plates) was RMB3,827 per tonne, representing a rise of 14.68% from last year which increased sales revenue by RMB1,743,173,000.

Sales volume by products

Product	2007 (0'000 tones)	2006 (0'000 tones)	Year-on-year increase (%)	Contribution to revneue (RMB'000)
Steel plates	**115.46**	119.53	(3.41)	(143,213)
Steel sections	**93.99**	85.71	9.66	232,006
Wire rods	**50.51**	44.05	14.67	182,583
Steel billets	**45.92**	31.89	43.99	391,540
Subtotal	**305.88**	281.18	8.78	662,916
Cold rolled plates	**8.25**	7.18	14.90	40,623
Total	**314.13**	288.36	8.94	703,540

(Unless otherwise specified, financial data contained in this report is extracted from the financial statements of the Company prepared under PRC Accounting Standards)

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(1) Analysis on revenue from principal operations *(Continued)*

- **Sales price by products**

Product	2007 (RMB / tnes)	2006 (RMB / tones)	Year-on-year increase (%)	Contribution to revneue (RMB'000)
Steel plates	**4,391**	3,519	24.78	1,006,783
Steel sections	**3,234**	2,801	15.46	407,226
Wire rods	**3,157**	2,826	11.71	167,033
Steel billets	**3,073**	2,791	10.10	129,686
Subtotal	**3,634**	3,109	16.89	1,710,728
Cool rolled thin sheets	**4,190**	3,797	10.35	32,446
Total	**3,827**	3,337	14.68	1,743,173

(2) Analysis on operating results

- **Operating results of the Company during the Reporting Period**

The net profit of the Company amounted to RMB449,244,000 for the year 2007, representing an increase 46.45% from RMB306,762,000 in 2006.

Item	2007 Amount (RMB'000)	2006 Amount (RMB'000)	Year-on-year increase (%)
Operating revenue	**12,058,453**	9,671,561	24.68
Operating cost	**(10,418,035)**	(8,787,569)	18.55
Business tax and surcharges	**(372)**	(350)	6.29
Total expenses	**(1,115,500)**	(579,952)	92.34
Assets impairment loss	**(30,562)**	7,389	(513.61)
Operating profit	**493,984**	311,079	58.80
Total profit	**470,234**	307,855	52.75
Income tax expenses	**(20,990)**	(1,093)	1,820.40
Net profit	**449,244**	306,762	46.45

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(2) Analysis on operating results (Continued)

- **Operating results of the Company during the Reporting Period** *(Continued)*

1 Gross profit from principal operations amounted to RMB1,632,757,000, up RMB758,673,000 over 2006 which was mainly attributable to rising prices of steel products and the classification of maintenance expenses as management fees which was originally accounted as operating costs under the PRC Accounting Standards.

By industry	Revenue from principal operations *(RMB'000)*	Cost of principal operations *(RMB'000)*	Gross profit ratio *(%)*	Increase/ decrease in revenue from principal operations over last year *(%)*	Increase/ decrease in cost of principal operations over last year *(%)*	Up/ down in gross profit ratio over last year *(%)*
Iron & Steel industry	11,460,557	9,928,792	13.37	27.14	20.68	4.64
Steel plates	5,069,516	3,694,805	27.12	20.53	7.05	9.18
Steel sections	3,039,558	2,933,293	3.50	26.63	23.19	2.70
Wire rods	1,594,629	1,537,195	3.60	28.08	26.68	1.07
Steel billets	1,411,190	1,374,870	2.57	58.57	57.93	0.39
Cool rolled thin sheets	345,664	388,629	(12.43)	26.80	25.06	1.57
Others	560,638	459,646	18.01	(7.80)	(11.70)	3.62
Total	12,021,195	10,388,438	13.58	24.94	18.75	4.50

During the year 2007, the average selling prices of steel products (billets) was RMB3,827 per tonne, representing a rise of 14.68% from last year which increased profit by RMB1,743,173,000. The rising raw materials prices including ore, coal and scrap steel decreased the growth in the profit of the Company.

2 According to relevant requirements of accounting standards, assets impairment loss of the Company in 2007 was RMB30,562,000, up RMB37,951,000 as compared to last year.

3 The administrative expenses of the Company in 2007 amounted to RMB665,132,000, increased by RMB461,213,000 over last year, which was mainly attributable to 1) repair expenses, originally booked in production cost, of RMB404,139,000 was consolidated in administrative expenses under relevant requirements of new accounting standards; 2) salaries and surcharges increased by RMB37,240,000 over last year; 3) provisions for diminution in value of inventories and bad debts booked in administrative expenses last year offset the expenses by RMB7,389,000 (such expenses were booked in assets impairment loss in accordance with new accounting standards in 2007); and 4) depreciation consolidated in administrative expenses increased by RMB6,305,000 over 2006.

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(2) ***Analysis on operating results*** *(Continued)*

- **Operating results of the Company during the Reporting Period** *(Continued)*

4 Selling expenses of the Company for the year 2007 amounted to RMB243,611,000, representing an increase of RMB47,826,000 as compared with last year, which was mainly attributable to the increase sales volume and in transportation charges by RMB27,519,000 and shipbuilding inspection expenses by RMB20,419,000 over 2006.

5 Financial costs of the Company in 2007 amounted to RMB206,757,000, increased by RMB26,509,000 over last year, which was mainly attributable to the increase in short and long term bank loans and a rise in interest rate, resulting in an increase in interest expenses.

6 The income tax rate of the Company was 15% for the year 2007. The income tax payable was RMB78,668,000 by deducting the income tax exemption for domestically produced equipment from the accrued income tax of RMB25,381,000, up RMB23,843,000 over last year.

- **Cash flow of the Company during the Reporting Period**

During the year 2007, with the increase in sales volume, net cash revenue from operating activities of the Company amounted to RMB479,983,000, together with the net cash flow of RMB1,152,544,000 derived from the issue of A shares, net cash equivalents of the Company for the current period increased by RMB657,310,000 after deducting net cash expenditure of RMB975,217,000 on the fund-raising project and investment projects arising from energy saving and consumption reduction and improvement in asset functions.

- **Liquidity, Financial Resources and Share Capital Structure of the Company**

As at 31 December 2007, balances of cash at bank and in hand of the Company were RMB1,093,879,000; balances of short-term loans amounted to RMB1,720,600,000 which were mainly used for supplementing capital demand for daily production; long-term loans of the Company (excluding current portion of long-term loans) amounted to RMB1,188,747,000 which were mainly used for wide-thick steel plate project and supplementing relevant capital demand. The Company analyses the structure and maturity for liabilities on a regular basis to ensure the abundance of capital. On the other hand, the Company conducted negotiations for finance with financial institutions to maintain certain credit facilities so as to lower the liquidity risk.

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(2) Analysis on operating results (Continued)

- **Liquidity, Financial Resources and Share Capital Structure of the Company** *(Continued)*

As at 31 December 2007, the share capital structure of the Company was as follows:

Unit: RMB'000

Item	Amount	Item	Amount
Current assets	5,469,575	Current liabilities	4,437,609
Non-current assets	5,489,026	Non-current liabilities	1,301,031
Total assets	10,958,601	Shareholders' equity	5,219,961

As at 31 December 2007, the total assets of the Company amounted to RMB10,958,601,000, representing a year-on-year increase of 23.95%, and the total liabilities amounted to RMB5,738,640,000. The gearing ratio was 52.37%. Current assets amounted to RMB5,469,575,000, current liabilities amounted to RMB4,437,609,000 and current assets/current liabilities ratio was 1.23.

Note: Gearing ratio = total liabilities/ total assets x 100%

Current assets/current liabilities ratio = current assets/current liabilities x 100%

- **Pledge of Assets**

The net carrying value of the buildings and plant and equipment pledged by the Company for bank loans as at 31 December 2007 amounted to RMB923,287,000. Meanwhile, part of the land use right of the parent company was pledged.

- **Capital Commitments and Contingent Lliability**

As at 31 December 2007, capital commitments of the Company amounted to RMB 2,970,410,000, which was mainly attributable to the construction and equipment contracts entered into for the hot-rolling plate-strip project and wide-thick steel plate project which had not been settled or fully-settled.

- **Foreign Exchange Risk**

Given that the sales of products and purchase of raw materials for production of the Company were mainly denominated in Renminbi, the Company did not have any significant foreign currency risk in respect of transactions.

(Unless otherwise specified, financial data contained in this report is extracted from the financial statements of the Company prepared under PRC Accounting Standards)

(I) Review on the Company's operation during the Reporting Period *(Continued)*

2. Analysis on principle operations and operating status during the Reporting Period *(Continued)*

(3) Major suppliers and customers

Percentage in total procurement for major suppliers of the Company:	
Percentage in total procurement for the largest supplier of the Company:	9.61%
Percentage in total procurement for the top five suppliers of the Company:	35.04%
Percentage in total sales for major customers of the Company:	
Percentage in total sales for the largest customer of the Company:	5.06%
Percentage in total sales for the top five customers of the Company:	18%

Save for two fellow subsidiaries in the top five suppliers and one fellow subsidiary in the top five customers of the Company, none of directors, supervisors or their respective associates or any shareholders (which to the knowledge of the directors has 5% or more of equity interest in the Company) of the Company was beneficially interested in the top five suppliers or the top five customers of the Company.

3. Analysis on financial position

(1) Items of balance sheet

Unit: RMB'000

Item	At the end of 2007	At the end of 2006	Increase or decrease (%)	Percentage of assets and liabilities in total assets for the year (%)
Cash at bank and in hand	**1,093,879**	377,642	189.66	9.98
Prepayments	**1,053,169**	147,156	615.68	9.61
Inventories	**2,660,245**	2,146,968	23.91	24.28
Fixed assets	**5,249,670**	4,767,865	10.11	47.9
Construction in progress	**124,830**	671,926	(81.42)	1.14
Construction material	**22,777**	108,218	(78.95)	0.21
Intangible assets	**25,820**	10,215	152.77	0.24
Short-term loan	**1,720,600**	1,826,653	(5.81)	15.7
Taxes payable	**62,951**	32,176	95.65	0.57
Long-term loan	**1,188,747**	295,000	302.97	10.85
Share capital	**1,733,127**	1,383,127	25.3	15.82
Capital reserve	**1,164,384**	546,333	113.13	10.63

(I) Review on the Company's operation during the Reporting Period *(Continued)*

3. Analysis on financial position *(Continued)*

(1) Items of balance sheet (Continued)

Explanations:

1 The increase of cash at bank and in hand was mainly attributable to the increase of cash receipts from increased sales revenue of the Company. Secondly, the Company issued A shares in February 2007 which led to additional cash at bank and in hand. Thirdly, investment of hot rolling plate-strip project and wide-thick steel plate project resulted in an increase of loans granted by respective financial institutions.

2 The increment in prepayment was mainly attributable to the shortage in raw material market, pushing the raw material price upward. More and more suppliers request prepayment. Secondly, the hot rolling plate-strip project and wide-thick steel plate project recorded prepayment for construction equipment amounting to RMB255,553,000 and RMB231,783,000. Thirdly, the prepayment for the land usage fees of RMB300,000,000 in respect of hot rolling plate-strip project and wide-thick steel plate project to Chongqing Yan Jia Industrial Park Construction and Development Company Limited.

3 The increase of fixed assets as well as the decrease of the construction in progress and construction materials were mainly due to the completion of the technological renovation construction which commenced in and before 2006 and being transferred to fixed assets in 2007. In 2007, the number of new construction projects reduced, leading to the increase of the balance of fixed assets at the end of the period whereas the outstanding amount of construction in progress and construction materials decreased.

4 The increase of intangible assets was mainly attributable to the reclassification of the land of the Company's cold roll plants at cost of RMB17,585,000 from fixed assets to intangible assets in accordance with the new PRC GAAP.

5 The increase of taxes payable in 2007 was mainly attributable to the income tax payable of RMB78,668,000 based on the profit for the year and the applicable income tax rate of 15%. After taking into account the deduction of income tax for purchase of domestic manufactured equipment, the actual tax payable was RMB25,381,000, representing an increase of RMB23,843,000 over last year.

6 Decrease of short-term loan and the increase of long-term loan was mainly due to the adjustment of the loan structure by the Company which mitigated the pressure of repaying short-term liabilities and raising funds for the project of wide-thick steel plates and energy-saving and consumption reduction related projects.

7 The increase of share capital and capital reserve was mainly attributable to the additional share capital of RMB350,000,000 and capital reserve of RMB618,051,000 as a result of the A share listing of the Company in February 2007.

(2) Items of income statement (please see (2) "Analysis on principal operations and operating status during the Reporting Period " of "Review on the Company's operation during the Reporting Period")

(Unless otherwise specified, financial data contained in this report is extracted from the financial statements of the Company prepared under PRC Accounting Standards)

(I) Review on the Company's operation during the Reporting Period *(Continued)*

3. Analysis on financial position *(Continued)*

(3) Items of cash flow statement

Unit: RMB'000

Items	2007	2006	Major reasons of changes
Net cash flow from operating activities	479,983	854,231	Due to substantial increase of the price of raw materials, the fund paying for purchase increased significantly
Net cash flow from investing activities	(975,217)	(604,287)	Net cash outflows from raising proceeds and investment project as a result of saving energy and material consumption and improving asset function increased over last year.
Net cash flow from financing activities	1,152,544	(387,392)	Fund and borrowings arising from the issue of A share and acquisition increased.
Net increase/(decrease) of cash and cash equivalents	657,310	(137,448)	Net increase of cash and cash equivalents was mainly due to the increase of net cash flow arising from fund raising activities.

(II) Prospects

Looking into 2008, giving priority to "two-prevention" in macroeconomic control, the China government will continue to enhance and improve macroeconomic control by implementing prudent financial policy and tight monetary policy. China will maintain last year's fast economic growth momentum and domestic steel market demand will remain flourishing. Since macroeconomic control further enhanced restriction on steel products export and steel price gap between domestic and international market narrowed, steel products delivery will shift to domestic market. Domestic steel market will face increasing pressure on environment protection and resource supply, surplus of production capacity over the demand as well as significant rise in cost. Boosted by rising cost, steel price will maintain at a high level. Therefore, product cost control will become a main factor which influences the profitability of enterprises.

In 2008, increased price of raw materials such as iron ore, scrap steel, pig iron and iron alloy and short supply of resources including coal, electricity and natural gas, will bring greater pressure for the company in respect of cost control and guarantee of normal production and supply, thus shrinking profit margin of the Company. In 2008, the Company will focus on the following: (1) To enhance raw materials procurement, reasonably allocate resources and provide condition for smooth production; (2) To strengthen equipment management and improve stable operation rate of equipment, so as to provide guarantee for enlarging production capacity; (3) To enhance coordination between production and marketing, optimize production organization management and improve the sale percentage of profitable products; (4) To take initiatives in development of key technologies and keep on developing new products, in order to improve product competitiveness; (5) To develop recycling economy and push forward energy saving and emission reduction.

(II) Prospects *(Continued)*

Main targets of the Company's production and operations in 2008 are as follows:

(1) To achieve output of 2,960,000 tonnes, 3,400,000 tonnes, 3,250,000 tonnes for pig iron, steel and steel products (billets) respectively;

(2) To sell 3,250,000 tonnes of steel products (billets) in 2008, with a collection rate of accounts receivable amounting to 100%;

(3) To develop more than 3 new products, with aggregate volume of complete new R&D products and new products amounting to 55,000 tonnes.

(III) Investment during the reporting period

1. Use of raised proceeds

On 29 January 2007, the Company issued 350,000,000 A shares with a carrying amount of RMB1 per share in accordance with "Notification of approval of initial public offering of shares of Chongqing Iron & Steel Company Limited" (zhenjianfaxinzhi [2007] No. 23) issued by CSRC. The offer price was RMB2.88. 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 on 13 February 2007.

In 2007, the Company strictly complied with the requirements of laws, regulations and Chongqing Iron & Steel Company Limited Management Rules on Proceeds Management to manage and utilize the raised proceeds. As at 31 December 2007, the Company has utilized a total of RMB898,079,783 of raised proceeds (including fees in relation to the issue and underwriting). The Company totally invested RMB880,966,592 (excluding fees in relation to the issue and underwriting) in the technological renovation project of the construction technology of hot-rolling ("hot rolling project") , among which RMB858,130,283 of raised proceeds and RMB22,836,308 of bank borrowings or equity fund were used respectively. In 2007, Details of use of raised proceeds in 2007:

Project:	**Amount paid** *(RMB)*
Land acquisition fee of projects	210,000,000
Payment for project equipment	248,130,000
Repayment of bank borrowings of cold rolling project and payment of equity fund	400,000,000
Procedure fees	283
Total	858,130,283

(III) Investment during the reporting period *(Continued)*

1. Use of raised proceeds *(Continued)*

Use of proceeds by the Company in 2007

Unit: RMB

Total proceeds raised	1,008,000,000	Total use of raised proceeds for the year (including fees in relation to underwriting, issuance and other fees)	898,079,783
		Accumulated total use of raised proceeds (including fees in relation to underwriting, issuance and other fees)	898,079,783

Items	Change of project	Amount to be invested	Actual amount of investment (excluding fees in relation to underwriting, issuance and other fees)	In line with schedule	Estimated earnings	Return incurred
Technological renovation project of plate-strip project	No	2,038,110,000	880,966,592	Yes	Upon full commencement of production, the first two years recorded an earnings of 138,920,000. After commencement of production, earnings after 3 to 5 years will be RMB205,490,000.	N/A
Total		2,038,110,000	880,966,592	—	—	—

Reason for the failure in keeping in line with the schedule and estimated return (by specific item)	N/A
Reason and procedure for the change	N/A
Use of outstanding proceeds	Deposited designated bank account for further usage in the technological renovation project of plate-strip project.

(III) Investment during the reporting period *(Continued)*

2. Use of proceeds for undertaken projects

On 27 February 2007, in the Prospectus of the Initial Public Offering of A Shares of Chongqing Iron & Steel Company Limited, the Company disclosed that all the proceeds from issue of shares will be used the investment of technical improvement of the plate-strip project ("Plate-strip Project"). The aggregate investment in Plate-strip Project amounted to RMB 2,038,000,000. As at 30 September 2006 before the proceeds target was met, injection of bank loans and internal capital for the purposes of construction of phase I of the cold rolling Plate-strip Project accumulated to RMB 414,000,000. All balance of proceeds from repaying the advances for cold rolling project amounting to RMB 400,000,000 will be used for the development of Plate-strip Project.

The hot rolling Plate-strip Project has commenced its construction in the second half of 2007.The project is expected to be completed and start operation in September 2009 with a total investment of RMB 1,400,000,000, excluding current capital and interest incurred during the construction .

3. Projects financed by non-raised proceeds

Unit: Rmb

Project name	Amount	Progress	Earnings
4100 Wide-thick steel plates	1,918,000,000	1%	Under construction
Total	1,918,000,000	1%	—

(IV) Reasons and impact of changes in accounting policies or estimation basis and correction to material accounting errors

According to the Cai Kuai [2003] No.3 Notice on Publication of 38 Provisions including Accounting Standards for Business Enterprises No.1 —Inventories by the Ministry of Finance, the Company has adopted the new Accounting Standards for Business Enterprises since 1 January 2007. In accordance with article 5 to article 19 of the Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises, the Company made retroactive adjustments to financial statements. Details of such adjustment are set out in Note 4 to the financial statements prepared under the PRC GAAP.

(Unless otherwise specified, financial data contained in this report is extracted from the financial statements of the Company prepared under PRC Accounting Standards)

(V). Ongoing Work of the Board

1. During the reporting period, the Board held 8 meetings and passed relevant resolutions.

(1) The 3rd meeting of the fourth session Board of the Company was held on 21st April 2007, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 22nd April 2007.

(2) The 4th meeting of the fourth session Board was held on 28th June 2007, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 29th June 2007.

(3) The 5th meeting of the fourth session Board was held on 23rd August 2007, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 24 August 2007.

(4) The 6th meeting of the fourth session Board was held on 14th September 2007, at which the following resolution was passed: to authorize the Company as the borrower to acquire loan facilities of US$60,000,000 and RMB500,000,000 from Shanghai Branch of HSBC Bank (China) Company Limited and other banks and financial institutions with the Holding Company as the guarantor; and to authorize Mr. Luo Fu Qin, Mr. Yuan Jin and Mr. Sun Yi Jie to sign relevant documents on behalf the Company.

(5) The 7th meeting of the fourth session Board was held on 18th September 2007, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 19th September 2007.

(6) The 8th meeting of the fourth session Board was held on 19th October 2007, at which the 2007 Third Quarterly Report of the Company was approved.

2. Implementation of Resolutions of the General Meeting by the Board

During the reporting period, as resolved and authorised by the general meetings, the Board of Directors earnestly implemented the resolutions passed at the general meetings in compliance with the Company Law, the Articles of Association and relevant laws and regulations.

(1) The Company convened 2006 AGM on 18th June 2007, at which the annual profit distribution proposal for 2006 was considered and approved; it was approved to distribute cash dividend to all shareholders on the basis of RMB1.00 (tax inclusive) for every 10 shares. Such distribution proposal had been completed on 12th July 2007.

(2) The Company convened 2006 AGM on 18th June 2007, at which the resolution in relation to amendment to the Articles of Association was considered and approved. Details of the amendments to the Articles of Association were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po and The Standard on 28th April 2007. The proposal for amendments to the Articles of Association of the Company was approved by PRC Ministry of Commerce through Reply to Capital Increase of Chongqing Iron & Steel Company Limited by Ministry of Commerce (Shang Zi Pi [2007] No.1502) on 6th September 2007.

(3) The proposal for issue of short-term debentures with a total amount not more than RMB1.5 billion by the Company was approved at the 2006 AGM. However, it was terminated since the banks did not approve it due to the macro economic control in PRC.

(V). Ongoing Work of the Board *(Continued)*

3. Report on Performance of Duties of Audit Committee

The 2nd meeting of the third session Audit Committee was held on 19th April 2007, at which the 2006 Annual Report and its summary of the Company, 2006 financial statements and auditors'report for year 2006 prepared under PRC Accounting Standards and Hong Kong Financial Reporting Standards were considered and approved; connected transactions were confirmed; the Board was proposed to appoint KPMG and KPMG Huazhen as the Company'international and domestic auditor respectively; the report submitted to the Audit Committee by auditors was reviewed; and a report regarding matters to which the management should pay attention was made to the Board.

The 3rd meeting of the third session Audit Committee was held on 21st August 2007, at which the 2007 unaudited interim financial statements of the Company, 2007 Interim Report and Interim Results Report was considered and approved; the report submitted to the meeting by auditors was reviewed; and a report regarding matters to which the management should pay attention was made to the Board.

In addition, according to the relevant provisions of CSRC and Shanghai Stock Exchange, the Rules of Procedure on Annual Report for Independent Directors, Procedures on Annual Report for Audit Committee under the Board, the Audit Committee performed the following duties with duly diligence:

(1) Carefully reviewed the plan for 2007 audit works and relevant information, consulted with the CPA from KPMG Huazhen responsible for the annual audit of the Company (the "CPA for annual audit") and fixed the schedule for the auditing the 2007 financial report of the Company;

(2) Carefully reviewed the financial statement preliminarily prepared by the Company prior to the commencement of audit by CPA for annual audit and issued its review opinion in writing;

(3) Upon the commencement of audit by CPA for annual audit, the Audit Committee communicated and exchanged opinions with the CPA for annual audit about the problems found out during the auditing and consulted with them for the submitting time of the auditors'report;

(4) After the CPA for annual audit issued the preliminary opinion for the audit, the Audit Committee reviewed the Company'2007 Financial Statements again and issued its review opinion in writing;

(5) Upon the issue of auditors'report for 2007 by KPMG Huazhen, the Audit Committee held a meeting, at which it made a summary to the audit provided by KPMG Huazhen; reviewed the report submitted to it by the auditors; and voted on the proposal regarding the Company'annual financial statements and appointment of auditors for 2008 and approved it as a resolution.

(V). Ongoing Work of the Board *(Continued)*

4. Performance of Duties of Salary and Remuneration Review Committee

During the reporting period, the Salary and Remuneration Review Committee duly performed its duties in diligence in accordance with relevant laws, regulations, Articles of Associations and Rules of Procedure for the Salary and Remuneration Review Committee.

The 2nd meeting of second Salary and remuneration Review Committee was held on 28th December 2007, at which the following resolutions were passed:

(1) The 2007 annual remuneration paid to the Company'Directors, Supervisors and senior management members were determined based on the remuneration policy passed at the general meeting held on 9th June 2007 (i.e. the annual remuneration of Directors was paid at 4 to 10 times the annual average remuneration of all the employees of the Company, while the annual remuneration of Supervisors was paid at 3 to 8 times the annual average remuneration of all the employees of the Company. The remuneration policy is reasonable.

(2) The proposal on remuneration for Directors, Supervisors and senior management for year 2008 was passed.

(3) The Company was proposed to further improve and detail the effective internal incentive and restriction mechanism.

5. Report on Performance of Duties of Strategic Committee

During the reporting period, the Strategic Committee duly performed its duties in diligence in accordance with relevant laws, regulations, Articles of Associations and Work Rules of the Strategic Committee.

The 2nd meeting of second Strategic Committee was held on 8th August 2007, at which the following resolutions were passed:

(1) approved the investment in construction of project for 3800 mm wide-thick steel plates with self-raised fund by the Company;

(2) proposed the Company to appoint professional institution for the preparation of the feasibility report for 3800 mm wide-thick steel plates project, through which presented the Board to review investment in the construction of 3800 mm wide-thick steel plates project.

Note: The above 3800mm wide-thick steel plate project is the same project as the 4100mm wide-thick steel plate project approved at the 7th meeting of the fourth Board of the Company.

6. Special statement of auditor on the capital appropriation by Company'controlling shareholder and its related parties

According to the requirements from relevant notices of CSRC, domestic auditors KPMG Huazhen reviewed the capital appropriation of Company, the Chongqing Iron & Steel Company (Group) Limited, a controlling shareholder and other related parties; and stated that: as at 31st December 2007, the capital transactions between the Company and its controlling shareholder and other related parties mainly arose from connected transactions constituted in ordinary operation activities between the Company and its related parties. Save for the above capital transactions arose from connected transactions in ordinary operation activities, no violation of Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies was found in the Company.

(V). Ongoing Work of the Board *(Continued)*

7. Special statement and independent opinion from Independent Directors for guarantee provided by the Company

According to Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies (Zheng Jian Zi [2003] No.56) by CSRC, the Independent Directors of the Company carefully reviewed the Company'decision-making procedures for guarantee and status of guarantees. They are of the view that the Company'decision-making procedures for guarantee is in line with relevant laws, regulations and the Articles of Association; as at 31 December 2007, the Company did not provide guarantee to its controlling shareholder, other related companies in which the Company holds less than 50% equity interest, any other non-legal entity or individuals, whether on accumulate basis or in the current period.

8. Profit distribution proposal for the year: the Board proposed to distribute final dividend of RMB0.10 per share (tax inclusive) for the year 2007, and did not recommend converting capital reserve into share capital.

Audited by domestic and overseas auditors, in 2007, the Company achieved net profit of RMB449,244,000 under PRC accounting standards, or RMB448,680,000 under HKFRS. After 10% statutory capital reserve was transferred from the net profit under PRC accounting standards, together with the retained profit at the end of 2006, the total profit attributable to shareholders of the Company for 2007 was RMB1,988,913,000 under PRC accounting standards and RMB2,024,745,000 under HKFRS. According to Article 221 of the Company'Articles of Association, the lesser of profits in the two statements will be adopted as basis when the Company distributes its profit. Therefore, the profit attributable to shareholders of the Company for 2007 is RMB1,988,913,000.

Based on the total share capital of 1,733,127,200 shares as at 31 December 2007, the Board proposed to distribute to all shareholders a cash bonus of RMB1 (tax inclusive) per share for every 10 shares held with an estimated amount of RMB173,312,720. The remaining undistributed profit will be carried forward to subsequent years. The dividend plan will be put forward to 2007 AGM for approval and come into effect in two months after the AGM if it is approved. Dividends for H shares will be paid in Hong Kong dollars and be translated into HK dollars at the average exchange rate of Renminbi to Hong Kong dollar as quoted by the People's Bank of China for the week before the date of the 2007 Annual General Meeting of the Company.

According to the provisions of the document Hui Fa (1999) No. 372 issued by the Foreign Exchange Administration Bureau of the State and the State Taxation Bureau, the final dividends to holders of H Shares for 2007 which would be paid by the Company to its shareholders were tax free.

(V). Ongoing Work of the Board *(Continued)*

9. Other Events

(1) Fixed Assets

For the year ended 31st December 2007, movements in the fixed assets of the Company are set out in Note 13 to the financial statements prepared under the PRC accounting standards and Note 7 to the financial statements prepared under the HKFRS.

(2) Pre-emptive Right

There is no provision for pre-emptive rights requiring the Company to issue new shares to existing shareholders according to their shareholding in the Company's Articles of Association and PRC Laws.

(3) Public Float

As at the date hereof, as far as the Directors are aware, the Company has sufficient public float as provided by the Listing Rules.

(4) Purchase, Sale or Redemption of the Securities of the Company

For the year ended 31st December 2007, the Company has not redeemed any securities issued by it, nor did the Company purchase or sell any of its listed securities.

(5) Reserves

For the year ended 31st December 2007, movements in the reserves of the Company are set out in Note 31 and Note 32 to the financial statements prepared under the PRC Accounting Standards, Note 16 to the financial statements prepared under HKFRS and the statement of changes in equity .

(6) Entrusted Deposits and Overdue Time Deposits

As at 31st December 2007, the Company had not entrusted deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(7) Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

(8) Compliance with Code on Corporate Governance Practices

With comparing with provisions from the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules, Directors of the Company was of the view that the Company had complied with the provisions set out in Code on Corporate Governance Practices and no significant deviations had been found.

(9) Remuneration of Auditors

During the reporting period, remunerations of the domestic auditor KPMG Huazhen and international auditor KPMG paid by the Company for their audit of the enclosed financial statements prepared under the PRC GAAP and the financial statements prepared under the HKFRS amounted to RMB2,600,000. As at the end of the reporting period, the current auditors had provided auditing service for the Company for 1 year.

(V). Ongoing Work of the Board *(Continued)*

9. Other Events *(Continued)*

(10) Qualified Accountants

Mr. Tu De Ling resigned from the position as the qualified accounts of the Company on 25th June 2007. The Company appointed Ms. Song Ying as financial controller of the Company on 29th June 2007. As at the date hereof, the Company is in active communication with the Hong Kong Stock Exchange for the application of appointment of Ms. Song Ying as the qualified accountants of the Company.

(11) On 2nd November 2007, the fourth session of the Board held its 38th meeting and resolved: The combination of Power Plant and Thermal Power Plants into Power Plant.

(12) Special statement of auditor on the capital appropriation by Company'controlling shareholder and its related parties

According to the requirements from relevant notices of CSRC, domestic auditors KPMG Huazhen reviewed the capital appropriation of Company, the controlling shareholder and other related parties; and stated that: as at 31st December 2007, the capital transactions between the Company and its controlling shareholder and other related parties mainly arose from connected transactions constituted in ordinary operation activities between the Company and its related parties. Save for the above capital transactions arose from connected transactions in ordinary operation activities, no violation of Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies was found in the Company.

(13) Special statement and independent opinion from Independent Directors for guarantee provided by the Company

According to Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies (Zheng Jian Zi [2003] No.56) by CSRC, the Independent Directors of the Company carefully reviewed the Company'decision-making procedures for guarantee and status of guarantees. They are of the view that the Company'decision-making procedures for guarantee is in line with relevant laws, regulations and the Articles of Association; as at 31 December 2007, the Company did not provide guarantee to its controlling shareholder, other related companies in which the Company holds less than 50% equity interest, any other non-legal entity or individuals, whether on accumulate basis or in the current period.

Acknowledgements

The Board hereby express heartfelt gratitude to all customers for their trust in the Company, all shareholders for their great support to the Company, and all employees for their efforts and contributions in the development of the Company!

By order of the Board of Directors
Luo Fu Qin
Chairman

Chongqing, the PRC
23rd April 2008

The fourth session Supervisory Committee of the Company hereby presents the 2007 work report of Supervisory Committee to the general meeting. As the supervisory organization of the Company, the Supervisory Committee, in the spirit of responsible for all shareholders, had diligently performed their supervising duties in compliance with the provisions of the Company Law and relevant laws, regulations and Articles of Associations, providing strong guarantee for the standardized operation and healthy development of the Company. The Supervisory Committee completed the following works in 2007:

(I) The Supervisory Committee convened three meetings during the year, details of which are as follows:

1. The 3rd meeting of the fourth session Supervisory Committee was convened on 19th April 2007, at which the Company's 2006 audited financial statements, 2006 Annual Report and its summary, Report of Supervisory Committee for year 2006, and 2007 First Quarterly Report were considered and approved.

2. The 4th meeting of the fourth session Supervisory Committee was convened on 21st August 2007, at which the Company's 2007 unaudited interim financial statements and 2007 Interim Report were considered and approved; it proposed the management to pay attention to enhance control to account receivables due from related parties.

3. The 5th meeting of the fourth session Supervisory Committee was convened on 19th October 2007, at which the Company's 2007 Third Quarterly Report was considered and approved.

(II) Independent opinions of the Supervisory Committee

1. Legality of the Company's operation

During the reporting period, the Supervisory Committee supervised the decision-making procedures of general meetings and Board meetings and the duties performance of Directors and senior management in accordance with relevant laws, regulations and Articles of Association by supervisory ways including attending Boarding meetings as non-voting participants. The Supervisory Committee is of the view that the procedures for convening general meetings and Board meetings and the implementation of the resolutions passed at general meetings by the Board were in line with the relevant provisions from laws, regulations and the Articles of Association, safeguarding the legality of the Company's operation; the Company established sound internal control system and implemented it effectively, which prevented risks during its operation management; None of the Directors and other senior management acted in violation of laws, regulations, Articles of Association of the Company, the Company's interests or the shareholders' interests when performing their duties.

2. Inspection of the Company's Financial Status

The Supervisory Committee reviewed the Company's daily production, operation and financial status on a timely basis according to financial statements and financial analysis reports submitted monthly by the management of the Company. The Supervisory Committee, in accordance with Company Law and its terms of reference as provided in Articles of Association, reviewed documents to be presented at the general meeting by the Board, including 2007 Annual Report, financial and accounting report; and heard the financial officer's explanations in respect of the preparation of the financial reports. The Supervisory Committee was of the view that the Company's financial statements were explicitly prepared under PRC Accounting Standards and HKFS, giving a true view to the Company's financial status and operating results. The comments from the auditors' opinion issued by external auditor in respect of the Company's 2007 financial report are objective and fair.

(II) Independent opinions of the Supervisory Committee *(Continued)*

3. Independent opinion of the Supervisory Committee on the actual utilization of the Company's last raised proceeds

The net proceeds raised from issue of new shares by the Company in February 2007 amounted to RMB968,050,500, which had been managed and utilised in strict compliance with the Management Systems of Raised Proceeds. The Company established a special account for raised proceeds, utilised the proceeds in strict compliance with approval procedures and undertaken plan. No raised proceeds were appropriated illegally.

4. Connected transaction of the Company

During the reporting period, connected transactions between the Company and the Holding company and its subsidiaries (excluding the Company, "Holding company group") were carried out in compliance with relevant provisions; and the decision-making procedures for such transactions were in line with relevant laws and regulations. All connected transactions based on market prices, were fair and reasonable without detriment of the interest of the Company and the shareholders.

Acknowledgements

The Supervisory Committee hereby express heartfelt gratitude to all shareholders, the Board, Management and all employees for their trust and support during the year.

By order of the Supervisory Committee
Zhu Jian Pai
Chairman of the Supervisory Committee

Chongqing, the PRC
22nd April 2008

SIGNIFICANT EVENTS

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

2. **During the period, the Company did not hold equity interests in other listed companies or have equity investment in financial institutions such as commercial banks.**

3. **During the reporting period, the Company did not have events concerning assets acquisition, assets disposal or business combination.**

4. **Contracts with Holding Company**

(1) Service and Supply Agreement

On 20th October 2005, the Company and the Holding Company entered into the New Service and Supply Agreement (the "New Service and Supply Agreement") to amend certain terms of the Service and Supply Agreement dated 29th September 1997 (the "Original Service and Supply Agreement"). The New Service and Supply Agreement contains substantially the same terms as the Original Service and Supply Agreement, save that the Holding Company agreed to continue to supply or to procure its subsidiaries to supply certain equipments and materials and provide certain welfare and support services to the Company; the Company agreed to continue to supply certain materials and provide certain services to the Parent Group; the Company and the Parent Group will allow each other to use and occupy their respective factory premises. The term of the New Service and Supply Agreement is three years with effect from 1st January 2005 till 31st December 2007; the fees payable in respect of such services are determined by reference to market prices or profit mark-up above the cost / depreciation or prices prescribed by the relevant Chongqing governmental departments (as applicable).

(2) Lease Agreements

Under the Lease Agreements dated 14th August 1997 and 13th August 1997, as amended by a supplementary agreement dated 29th September 1997, the Company and Hengda leased land on which the Company's plants are located from the Holding Company for a term of 50 years from 14th August 1997 and 13th August 1997 respectively. For the years 1998 to 2000, the total rental was RMB11,994,000 per annum. Thereafter, the rent will be adjusted subject to a maximum increment of 10% of the latest applicable rental amount every three years by negotiation between the Company and the Holding Company.

On 12th January 2001, the Holding Company entered into supplementary agreements with the Company and Hengda respectively in respect of the adjustment on the rent for the lease of land. The rent for the lease of land from the Holding Company was increased at 10% based on the latest applicable rental amount. The annual rent amount paid by the Company was approximately RMB13,200,000 for the years 2001 to 2003.

On 8th December 2002, the Company and the Holding Company entered into the Lease Agreement to rent the land with an area of 216,430 square meters, which is currently occupied by Henda, for a term of 45 years. The rental is RMB1,028,475 per annum and such rental may be adjusted after 1st January 2004 and for at least every three years after the last rent adjustment. Any adjustment made shall not exceed 10% of the rent paid by the Company at that time.

On 20th October 2005, the Company and the Holding Company entered into the Supplemental Lease Agreement to shorten the duration of the two Land Lease Agreements dated 14th August 1997 and 8th December 2002 from 50 years to 20 years and from 45 years to 15 years respectively.

4. Contracts with Holding Company *(Continued)*

(2) Lease Agreements *(Continued)*

Pursuant to the Lease Agreement entered into between the Company and the Holding Company on 10th February 2006, the Company will lease another parcel of land with an area of 337,473 square meters for a term of three years from 1st January 2006 to 31st December 2008 from the Holding Company. The rental for each of the three years from 2006 to 2008 will be RMB1,764,986, RMB1,940,472 and RMB1,940,472 respectively.

5. Major Connected Transactions

(1) Continuing connected transactions constituted by the New Service and Supply Agreement

On 20th October 2005, the Company and the Holding Company entered into the New Service and Supply Agreement with a term of three years from 1st January 2005 to 31st December 2007.

Pursuant to the New Service and Supply Agreement, the Parent Group has agreed to continually supply certain equipments and materials and provide social welfare services (including medical, unemployment and pension funds management) to the Company, the fees in respect of which will be paid by the Company through the Parent Group but no fee will be charged by the Parent Group for managing such social welfare services for the Company's employees; the Company has also agreed to continue to supply certain materials and provide certain services to the Parent Group; the Company and the Parent Group will allow each other to use and occupy their respective factory premises. According to the Original Service and Supply Agreement, the Company and the Parent Group has been mutually providing raw materials, production materials, social and utility services to each other since 1997. As the transactions between the Company and the Parent Group are of recurring nature, the continuation of the said transactions is necessary to facilitate and consolidate the business of the Company and the Parent Group.

Pursuant to the New Service and Supply Agreement, the annual consideration paid by the Parent Group to the Company is as follows:

	Year ended 31st December 2005 *Rmb*	Year ending 31st December 2006 *Rmb*	Year ending 31st December 2007 *Rmb*
Product Cap of the Company (including water, electricity and natural gas, steel products (steel plates, billets, etc.) and ancillary products (cement, hardware, timber etc.) used in the production process of the Parent Group)c	1,020,000,000	1,250,000,000	**1,400,000,000**
Service Cap of the Company (Railway transportation and others (technical services such as quality control, technical consultancy services etc.))	4,600,000	7,200,000	**11,000,000**
Lease Cap of the Company (Lease of the Company's factory premises)	1,400,000	2,800,000	**4,000,000**
Subtotal	1,026,000,000	1,260,000,000	**1,415,000,000**

5. Major Connected Transactions *(Continued)*

(1) Continuing connected transactions constituted by the New Service and Supply Agreement *(Continued)*

Pursuant to the New Service and Supply Agreement, the annual consideration paid by the Company to the Parent Group is as follows:

	Year ended 31st December 2005 *Rmb*	Year ending 31st December 2006 *Rmb*	Year ending 31st December 2007 *Rmb*
Product cap of the Parent Group (Products (such as oxygen, equipment and spare parts etc.) and raw materials (such as pig iron, iron ore, ferroalloy, scrap steel, refractory materials, and ancillary products (including white marble, limestone) etc.)	1,230,000,000	1,450,000,000	**1,700,000,000**
Service cap of the Parent Group (Transportation services, environmental services, technical services (such as construction service, property, plant and equipment project monitoring service, software development service and labour service etc.)	390,000,000	350,000,000	**350,000,000**
Lease cap of the Parent Group (Lease of the Parent Group's factory premises)	600,000	600,000	**600,000**
Welfare cap	93,200,000	100,000,000	**106,800,000**
Subtotal	1,713,800,000	1,900,600,000	**2,157,400,000**

Basis of price determination: (i)the annual cap of raw materials including (steel products (steel plates, billets, etc.), pig iron, iron ore, ferroalloy, scrap steel, refractory materials, as well as ancillary products (white marble, limestone etc.) are determined by reference to the current market price of such materials and profit mark- up above the cost of providing such products as agreed between the Company and the Parent Group respectively; (ii) the annual cap of equipment and spare parts were determined by reference to the price offered by suppliers of such equipment and spare parts; (iii) the annual cap of water, electricity and natural gas supply and social welfare services were determined by reference to the prices as prescribed by the relevant Chongqing governmental departments; (iv) the annual cap of transportation services and the provision of oxygen were determined by reference to market prices; (v) the annual cap of technical services were determined primarily by reference to market prices or a profit mark-up above the cost of providing such services as agreed between the Company and the Parent Group or prices prescribed by the relevant Chongqing governmental departments (as the case may be, depending on the nature/type of technical services provided); (vi) the annual cap of railway transportation services and environmental services were determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the Parent Group; and (vii) the annual cap of the lease of factory premises was determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.

5. Major Connected Transactions *(Continued)*

(2) Connected transactions constituted by the Lease Agreements

Pursuant to the land lease agreement dated 14 August 1997 and its supplemental lease agreement ("First Land Lease"), the land lease agreement dated 8 December 2002 and its supplemental lease agreement ("Second Land Lease"), and the land lease agreement dated 10 February 2006 ("Third Land Lease") entered into between the Company and its Holding Company, the Company leased from the Holding Company lands with area of 2,559,973 square meters, 216,430 square meters and 337,473 square meters respectively, with respective term of 20 years, 15 years and 3 years. The leases are renewable upon maturity.

Pursuant to the First Land Lease, the yearly rent was RMB4.32 per square meter without adjustment within 3 years and thereafter the yearly rent may be adjusted at intervals of not less than 3 years provided that each increment shall not exceed 10% of the then prevailing yearly rent, namely each adjusted yearly rent shall not exceed 110% of the then prevailing yearly rent. With effect from 1 January 2001 and 1 January 2004, the yearly rent was increased to RMB4.75 per square meter and RMB5.23 per square meter respectively.

Pursuant to the Second Land Lease, the yearly rent was RMB4.75 per square meter, which was adjusted to RMB5.23 per square meter since 1 January 2004. Thereafter the yearly rent may be adjusted at intervals of not less than 3 years provided that each increment shall not exceed 10% of the then prevailing yearly rent, namely each adjusted yearly rent shall not exceed 110% of the then prevailing yearly rent.

The yearly rent under the Third Land Lease was determined with reference to the same in the First Land Lease and the Second Land Lease, being RMB5.23 per square meter for 2006 and RMB5.75 per square meter for 2007 and 2008.

5. Major Connected Transactions *(Continued)*

(3) Connected transactions of the Company during the year ended 31st December 2007

Details of the major related party transactions entered into by the Company during the year ended 31st December 2007 are set out in Note 48 to the financial statements prepared under the PRC GAAP and Note 31 to the financial statements prepared under HKFRS.

Related party	Products sold to related party Amount *(RMB'000)*	Products sold to related party Percentage in similar transactions *(%)*	Products purchased from related party Amount *(RMB'000)*	Products purchased from related party Percentage in similar transactions *(%)*
Chongqing Iron & Steel Group Mining Company Limited	10,692	1.91	720,033	15.38
Chongqing Iron & Steel Group Iron Company Limited	—	—	544,412	56.17
Chongqing Iron & Steel Group Construction and Engineering Company Limited	4,928	0.88	22,511	7.16
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	160,971	28.71	243,233	85.25
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	32,233	5.75	72,238	17.86
Chongqing Iron & Steel Group Electronic Company Limited	—	—	22,240	5.5
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	14,650	18
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	—	—	6,475	7.96
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	—	—	7,750	0.99
Chongqing Si Gang Steel Company Limited	373,970	3.26	2,761	0.73
Chongqing Iron & Steel Group San Feng Industry Company	—	—	17,490	2.54
Chongqing Iron & Steel Group Design Institute	—	—	14,999	4.77
Chongqing Iron & Steel Group Steel Pipe Company Limited	220,586	1.92	—	—
Chongqing San Gang Steel Company Limited	174,552	1.52	—	—
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	2,792	0.02	—	—
Chongqing Iron & Steel Group Transportation Company Limited	5,957	1.06	—	—
Others	69,912		7,586	
Total	1,056,593		1,696,378	

In addition, during the reporting period, the amount of connected transactions in respect to the Company's provision of labour service and receipt of labour services to/or the parent and its subsidiaries amounted to RMB3,376,000 and RMB220,691,000 million, respectively, and the land rental and advance paid on behalf of the controlling shareholder was RMB17,957,000 and RMB87,544,000, respectively.

5. Major Connected Transactions *(Continued)*

(3) Connected transactions of the Company during the year ended 31st December 2007 *(Continued)*

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the Board of Directors of the Company; (b) have not exceeded the relevant caps as described in the continuing connected transactions Agreements; and (c) have been entered into in accordance with the terms of the continuing connected transactions agreements governing the transactions.

The independent directors of the Company have reviewed the above continuing connected transactions and confirmed that they were carried out: (a) in the usual and ordinary course of business of the Company; (b) on normal business terms or terms no less favorable than those available to or from independent third parties; and (c) on terms set out in agreements governing the relevant transactions which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

(4) Creditor's rights and debts between the Company and related parties as at the end of the reporting period

Related party transactions and balance were all arose from normal business activities of products purchase and sale and had no adverse impact on the Company's production and operation. Relevant details are set out in Note48 to the financial statements prepared under PRC GAAP and Note 31 to the financial statements prepared under HKFRS.

5. Major Connected Transactions *(Continued)*

(4) Creditor's rights and debts between the Company and related parties as at the end of the reporting period *(Continued)*

Unit: Rmb'000

Related party	Capital provided to related party Amount	Capital provided to related party transactions	Capital provided by related party Amount	Capital provided by related party transactions
Chongqing Iron & Steel Group Mining Company Limited	10,692	0	720,033	0
Chongqing Iron & Steel Group Iron Company Limited	—	—	544,412	0
Chongqing Iron & Steel Group Construction and Engineering Company Limited	4,928	50	22,511	19,716
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	160,971	0	243,233	0
Chongqing Xinteng Metallurgical Burden Materials Company Limited	0	1,705	—	—
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	32,233	2,984	72,238	0
Chongqing Iron & Steel Group Electronic Company Limited	—	—	22,240	0
Chongqing Iron & Steel Group Refractory Materials Company Limited	0	2,556	14,650	0
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	0	7,385	6,475	0
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	0	10,036	7,750	0
Chongqing Si Gang Steel Company Limited	373,970	94,267	2,761	0
Chongqing Iron & Steel Group Design Institute	—	—	14,999	6,320
Chongqing Iron & Steel Group San Feng Industry Company	0	5,205	17,490	0
Chongqing Iron & Steel Group Steel Pipe Company Limited	220,586	58,943	—	—
Chongqing San Gang Steel Company Limited	174,552	67,814	—	—
Chongqing San Feng Environmental Industry Company Limited	—	—	0	550
Chongqing Iron & Steel Group Transportation Company Limited	5,957	0	—	—
Chongqing Iron & Steel Group Yingsite Molding Company Limited	0	2,757	—	—
Chongqing San Huan Construction Supervision and Consultation Company Limited	—	—	0	265
Chongqing Iron & Steel (Group) Company Limited	—	—	—	3,059
Others	69,912	1,110	7,586	681
Total	1,056,593	254,812	1,696,378	30,591

6. Employee Social Security and Benefits

The Company participates in employee social security plans, including pension and medical insurance, housing and other welfare benefits organized by the government bodies in accordance with relevant regulations of the PRC. In addition, the Company also participated in the supplementary non-social pension plan organized by the Parent Group for retired employees. The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance and maternity insurance organized by labor and social security bodies, and makes welfare contribution to other non-social retirement benefit plans through the Parent Group which charges no fees therefore.

Save for the above retirement benefit, housing allowance and other social issuance expenses, the Company has no additional commitment to other retirement or social issuance benefits. The Parent Group is liable for payment of any other retirement benefit and social issuance expenses other than the retirement benefit, housing allowance and other social issuance expenses as required above.

7. Income Tax

The Company is established 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 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 enterprise 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. Meanwhile, the Company was exempted from local income tax according to .Supplementary Regulations on Preferential Policies to Encourage Foreign Investment in Chongqing (Yu Fu Fa [1998]43)

The Law of the People's Republic of China on Enterprise Income Tax ("New Tax Law") has been approved on the fifth meeting of Tenth National People's Congress of PRC on 16th March 2007 and come into effect on 1 January 2008. According to the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (Guo Fa [2007] No. 39) issued by PRC State Council on 2nd December 2007, the enterprises enjoying preferential tax policies on development of the western region for regular income tax exemption and reduction will continue to enjoy preferential measures and periods as stipulated in previous income tax law, administrative laws and regulations, and relative documents upon the implementation of the new tax law until the expiring date. Accordingly, the applicable income tax rate of the Company remains 15% from 1st January 2008 to 31st December 2010. New income tax law had no impact on the carrying value of income tax payable in the balance sheet of the Company as at 31 December 2007.

The Company purchased certain domestic manufactured equipment during the period from 2004 to 2006. 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 utilized to reduce the Company's enterprise income tax.

7. Income Tax *(Continued)*

In accordance with on the Reply to the Application for Income Tax Reduction Lodged by Chongqing Iron & Steel CompanyLimited Relating to the Purchase of Domestic Manufactured Equipment in 2004 (Da Dukou Guo Shui Han [2006] No.3) and the application forms for the same in 2005 approved in 2006 and in 2007 by the State Administration of Taxation of Dadukou District, Chongqing, the Company is entitled to a tax reduction of Rmb210,905,000 in 2004, 2005 and 2006. In particular, Rmb12,178,000, Rmb52,394,000 and Rmb53,287,000 were used to offset the Company's income tax payable for 2005, 2006 and 2007 respectively.The remaining Rmb52,413,000 approved in 2006 and Rmb40,084,000 approved in 2007 could 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.

The applicable income tax rate for the Company is 15% (2006: 15%).

8. Performance of undertakings of shareholders holding 5% or more of share capital of the company

In the Company's "PROSPECTUS of Initial Public Offering of Shares (A Shares)", the controlling shareholder of the Company undertook that: within 36 months from the listing date of the Company's A shares, they would neither transfer or entrust others to manage shares held by them, nor agree the Company to repurchase such shares. As at the date hereof, the controlling shareholders of the Company has not violate the above undertakings.

9. Appointment and Dismissal 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 of the Company, and appointed KPMG Huazhen and KPMG as the domestic and international auditors (the "Auditors") of the Company respectively for 2007. The change in auditors was made from the Company's consideration. the Board and the Audit Committee confirmed that the Company and former auditor had no different opinions.

10. The company has not involved in any material custody, contracting or leasing of assets for other parties or of its assets by other parties and entrusted any party for cash asset management.

11. During the reporting period, none of the company, the board and directors of the company has been a subject of inspection, administrative punishment, reprimand by announcement by CSRC or public censure by stock exchanges; and none of the directors and management members has been a subject of judicial enforcement measures.

Independent auditor's report

To the shareholders of Chongqing Iron and Steel Company Limited

(incorporated in The People's Republic of China with limited liability)

We have audited the financial statements of Chongqing Iron and Steel Company Limited (the "Company") set out on pages 63 to 105, which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of the Company's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 April 2008

BALANCE SHEET

at 31 December 2007
(Expressed in RMB)

	Note	2007 Rmb'000	2006 Rmb'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	**5,397,278**	5,532,413
Land use right	8	**25,820**	26,914
Available-for-sale financial asset	9	**5,000**	5,000
Deferred income tax assets	10	**7,329**	2,938
Trade and other receivables	12	**53,600**	62,600
		5,489,027	5,629,865
Current assets			
Inventories	11	**2,660,245**	2,146,968
Trade and other receivables	12	**1,715,449**	688,061
Prepayment for income tax		**—**	21,871
Restricted cash	13	**122,797**	63,870
Cash and cash equivalents	14	**971,082**	313,772
		5,469,573	3,234,542
Total assets		**10,958,600**	8,864,407
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	15	**1,733,127**	1,383,127
Other reserves	16	**1,617,179**	954,204
Retained earnings			
— Proposed final dividend	26	**173,313**	173,313
— Others		**1,678,120**	1,447,677
Total equity		**5,201,739**	3,958,321

The notes on pages 69 to 105 form part of these financial statements.

	Note	2007 Rmb'000	2006 Rmb'000 (restated)
LIABILITIES			
Non-current liabilities			
Borrowings	18	**1,188,747**	295,000
Trade and other payables	17	**95,361**	217,358
Deferred income	19	**35,145**	34,440
		1,319,253	546,798
Current liabilities			
Trade and other payables	17	**2,427,498**	2,011,635
Borrowings	18	**2,006,600**	2,347,653
Current taxation		**3,510**	—
		4,437,608	4,359,288
Total liabilities		**5,756,861**	4,906,086
Total equity and liabilities		**10,958,600**	8,864,407
Net current assets/(liabilities)		**1,031,965**	(1,124,746)
Total assets less current liabilities		**6,520,992**	4,505,119

Approved and authorised for issue by the board of directors on 23 April 2008.

Luo Fu Qin	**Chen Shan**
Chairman	*Director*

The notes on pages 69 to 105 form part of these financial statements.

Income statement

for the year ended 31 December 2007
(Expressed in RMB)

	Note	2007 Rmb'000	2006 Rmb'000 (restated)
Sales	20	**12,021,195**	9,621,897
Cost of goods sold	22	**(10,390,292)**	(8,756,533)
Gross profit		**1,630,903**	865,364
Selling and marketing costs	22	**(243,611)**	(195,785)
Administrative expenses	22	**(695,314)**	(191,028)
Other (losses)/gains-net	21	**(10,102)**	9,037
Operation profit		**681,876**	487,588
Finance costs	24	**(212,206)**	(184,010)
Profit before income tax		**469,670**	303,578
Income tax expense	23	**(20,990)**	(1,093)
Profit for the year		**448,680**	302,485
Dividends	26	**173,313**	283,963
Earnings per share for profit attributable to the Company's shareholders during the year	27		
— Basic and diluted		**Rmb0.268**	Rmb0.219

Approved and authorised for issue by the board of directors on 23 April 2008.

Luo Fu Qin — *Chairman*

Chen Shan — *Director*

The notes on pages 69 to 105 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2007
(Expressed in RMB)

		Attributable to the shareholders of the Company			
			Other	Retained	
		Share capital	reserves	earnings	Total
	Notes	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Balance at 31 December 2005 as previously reported		1,063,944	922,720	1,929,260	3,915,924
Change in accounting policy	5(a)	—	—	10,154	10,154
Balance as at 1 January 2006 as restated		1,063,944	922,720	1,939,414	3,926,078
Cash dividends relating to 2005	27	—	—	(159,592)	(159,592)
Cash dividends relating to 2006	27	—	—	(110,650)	(110,650)
Bonus dividends relating to 2005	27	319,183	—	(319,183)	—
Profit for the year		—	—	302,485	302,485
Appropriation	16	—	31,484	(31,484)	—
Balance at 31 December 2006		1,383,127	954,204	1,620,990	3,958,321
Balance at 1 January 2007		1,383,127	954,204	1,620,990	3,958,321
Issuance of A shares	15	350,000	618,051	—	968,051
Cash dividends relating to 2006	27	—	—	(173,313)	(173,313)
Profit for the year		—	—	448,680	448,680
Appropriation	16	—	44,924	(44,924)	—
Balance at 31 December 2007		1,733,127	1,617,179	1,851,433	5,201,739

Approved and authorised for issue by the board of directors on 23 April 2008.

Luo Fu Qin	**Chen Shan**
Chairman	*Director*

The notes on pages 69 to 105 form part of these financial statements.

Cash flow statement

for the year ended 31 December 2007
(Expressed in RMB)

	Notes	2007 Rmb'000	2006 Rmb'000 (restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	28	**479,983**	857,262
Interest paid		**(204,856)**	(173,507)
Income tax paid		**—**	(3,031)
Net cash generated from operating activities		**275,127**	680,724
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(986,162)**	(612,408)
Proceeds from disposals of property, plant and equipment	28(a)	**2,027**	3,686
Interest received		**8,918**	4,435
Net cash used in investing activities		**(975,217)**	(604,287)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from shares issued		**977,260**	—
Proceeds from borrowings		**3,337,265**	2,676,357
Repayments of borrowings		**(2,782,226)**	(2,620,000)
Dividends paid		**(173,313)**	(270,242)
Other cash paid relating to financing activities		**(1,586)**	—
Net cash generated/(used in) from financing activities		**1,357,400**	(213,885)
Net increase/(decrease) in cash and cash equivalents		**657,310**	(137,448)
Cash and cash equivalents at beginning of the year		**313,772**	451,220
Cash and cash equivalents at end of the year	14	**971,082**	313,772

Approved and authorised for issue by the board of directors on 23 April 2008.

Luo Fu Qin	**Chen Shan**
Chairman	*Director*

The notes on pages 69 to 105 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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 ("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, whereupon the Company issued 650,000,000 state-owned shares of Rmb1 each to the Holding Company. The 413,944,000 H shares of the Company have been listed on The Stock Exchange of Hong Kong Limited since 17 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.

In June 2006, the Company has declared dividends of bonus shares of 319,183,000 shares. In February 2007, the Company has issued 350,000,000 ordinary A shares. The A shares of the Company have been listed on the Stock Exchange of Shanghai on 28 February 2007. As at 31 December 2007, the total number of shares of the Company has increased to 1,733,127,200.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 5 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets (Note 2(h)) and financial liabilities are stated at their fair value as explained in the accounting policies.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. (Note 2(x))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those segments operating in other economic environments.

(d) Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Renminbi ("Rmb"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs less their estimated residual values over their estimated useful lives, as follows:

— Buildings	40 years
— Plant and machinery	8-20 years
— Transportation vehicles and equipment	8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(g)).

Construction in progress represents plant and property under construction and machinery under installation and testing and is stated at cost. This includes costs of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and are capable of operating in the manner intended by management.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other (losses)/gains - net, in the income statement.

(f) Land use right

Land use right acquired is classified as operating leases. The up-front prepayment made for the land use right is amortised in the income statement on a straight-line basis over the period of the land use right (50 years).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation/ depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2(j)).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are recognised initially at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in income statement. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payments is established.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(j).

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and the impairment loss is recognised in the income statement. Such impairment losses shall not be reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour cost, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less provision for impairment of trade and other receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(k) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Company applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. (Notes (g) and (h)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of available-for-sale equity securities is recognised directly in equity. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs incurred are recognised in the income statement.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(q) Pension obligations

The Company's employees participate in defined contribution retirement schemes organised by the municipal government and the Holding Company whereby the Company is required to make monthly contributions to the plans at certain percentages of the employees' salaries. The municipal government and the Holding Company have respectively undertaken to assume the retirement benefit obligation of all existing and future retired employees' payable under the relevant plans. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Contributions to the retirement benefit schemes are recognised as employee benefit expense and recognised in the income statement as incurred.

(r) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Provision of services

Provision of transportation and other services are recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iv) Operating lease (as the lessor)

Operating lease rental income (as the lessor) is recognised on a straight-line basis over the period of the lease.

(t) Operating lease (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(u) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognised as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(w) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Non-current assets held for sale and discontinued operations *(Continued)*

(ii) Discontinued operations

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

(y) Related parties

(i) The party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

(ii) The Company and the party are subject to common control;

(iii) The party is an associate of the Company or a joint venture in which the Company is a venture;

(iv) The party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) The party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) The party is a post employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(Expressed in RMB)

3 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. These risks are limited by the Company's financial management policies and practices described below.

(a) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. The Company requires advance payment from most customers. The Company has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. It also has policies that limit the amount of credit exposure to any financial institution. Normally, the Company does not obtain collateral from customers. The exposures to these credit risks are monitored on an ongoing basis and full bad debt provision are provided for those with significant credit risk.

The ageing analysis of trade and other receivables is set in Note 12.

(b) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
At 31 December 2007				
Bank borrowings	2,006,600	708,747	480,000	3,195,347
Trade and other payables	2,427,498	95,361	—	2,522,859
	4,434,098	804,108	480,000	5,718,206
At 31 December 2006				
Bank borrowings	2,347,653	270,000	25,000	2,642,653
Trade and other payables	2,011,635	135,256	82,102	2,228.993
	4,359,288	405,256	107,102	4,871,646

(c) Interest rate risk

The Company's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively.

The Company adopts an interest rate policy of ensuring that interest rate risk lies within the controllable range. The interest rates are set out in Note 18.

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Company's profit after tax by approximately RMB 27,190,000 (2006: RMB 25,127,000).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk

The Company has assets and liabilities that are subject to fluctuations in foreign currency exchange rates. However, the Company does not use any derivative instruments to reduce its economic exposure to changes in exchange rates. As at 31 December 2007, the Company had the following foreign currency denominated assets and liabilities:

	2007		2006	
	USD'000	***HKD'000***	*USD'000*	*HKD'000*
Cash at bank	**24,768**	**41**	75	41
Bank borrowings	**(32,000)**	**—**	(7,500)	—
	(7,232)	**41**	(7,425)	41

The significant exchange rates applied by the Company are as follow:

	Average rate		**Reporting date mid-spot rate**	
	2007	2006	**2007**	2006
USD	**7.5567**	7.9395	**7.3046**	7.8087
HKD	**0.9706**	1.0225	**0.9364**	1.0047

A 5% strengthening of the renminbi against the US dollar and HK dollar at 31 December 2007 would increase the Company's profit after tax by approximately Rmb360,000 (2006: Rmb369,000).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Company's exposure to currency risk for all financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(e) Price risk

As the Company sells steel products and purchases iron ore at market prices, it is exposed to fluctuations in these prices.

(f) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The carrying amounts of all financial instruments are not materially different from their fair values as at 31 December 2007.

4 CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of financial assets and liabilities

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Company has used discounted cash flow analysis for various financial assets and liabilities that were not traded in active markets.

(ii) Depreciation

The Company's management determines the estimated residual value, useful lives and related deprecation/ amortisation charges for the property, plant and equipment with reference to the estimated periods that the Company intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Estimated impairment of property, plants and equipment

The Company reviews annually whether events or changes in circumstances indicate that the property, plants and equipment has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

5 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

(a) Changes in accounting policies and their effects

Regarding the issuance of Joint Declaration of the China Accounting Standards Committee and the HKICPA on the converged China Accounting Standards for Business Enterprises ("CAS (2006)") and HKFRSs on 6 December 2007, the Company has changed the accounting policy on Foreign Enterprise Income Tax ("FEIT") reduction in relation to the purchase of domestically produced equipment in order to consistent with the accounting policy on income tax in preparing the financial statements under the CAS (2006) issued by the Ministry of Finance and HKFRSs.

Prior to 2007, the FEIT reduction in relation to the purchase of domestically produced equipment was recorded as deferred income and recognised as income on straight-line basis over the expected lives of the related assets. Starting from 2007, the Company has changed the related accounting policy to net off the FEIT reduction in relation to the purchase of domestically produced equipment with the income tax liabilities upon the receipt of the notices from tax bureau for approval of income tax reduction.

As a result of this new policy, which has been applied retrospectively, the Company's profit after tax for the year ended 31 December 2007 has increased by Rmb42,265,000 as a result of no amortisation of deferred income and the recognition of FEIT reduction entitled during the year and the Company's shareholders' equity as at 31 December 2007 has increased by Rmb100,809,000.

5 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(a) Changes in accounting policies and their effects *(Continued)*

The effects of the above changes in accounting policy on the Company's profit after tax and shareholders' equity for 2006 and prior year are summarised as follows:

	Profit after tax for 2006 *Rmb'000*	Shareholders' equity as at 31 December 2006 *Rmb'000*	Shareholders' equity as at 1 January 2006 *Rmb'000*	Earnings per share for 2006 *Rmb'000*
Before the change in accounting policy	254,095	3,899,777	3,915,924	0.184
Effect on the change in accounting policy in respect of FEIT reduction in relation to the purchase of domestically produced equipment	48,390	58,544	10,154	0.035
After the change in accounting policy	302,485	3,958,321	3,926,078	0.219

The impact on the balance sheet as at 31 December 2006 and income statement for the year then ended in respect of the change in accounting policy is set out as below:

	Before adjustment *Rmb'000*	Adjustment *Rmb'000*	After adjustment *Rmb'000*
Balance sheet			
Non-current trade and other payables	233,038	(15,680)	217,358
Deferred income	77,304	(42,864)	34,440
Total	310,342	(58,544)	251,798
Income statement			
Cost of goods sold	(8,752,529)	(4,004)	(8,756,533)
Income tax expense	(53,487)	52,394	(1,093)
Total	(8,806,016)	48,390	(8,757,626)

The HKICPA has also issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, financial instruments: Disclosures, there have been some additional disclosures provided as follows:

5 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES *(Continued)*

(a) Changes in accounting policies and their effects *(Continued)*

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Company's financial instruments and the nature and extent of risk arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 3.

HKFRS 7 does not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 34).

(b) Change in accounting estimates

The Company has performed on-going review on estimated useful lives and residual value of property, plant and equipment in 2007. The Company estimates the maximum useful lives of buildings, plant and machinery is 40 years and 20 years respectively. The depreciation policy on buildings has been changed from 40-45 years in prior years to 40 years in 2007. The depreciation policy on plant and machinery has been changed from 8-22 years in prior years to 8-20 years in 2007. The estimated residual value of property, plant and equipment is standardised at 3%. The impact on the Company's profit after tax in respect of the change of estimates in useful lives and residual value of property, plant and equipment is not material.

6 SEGMENT REPORTING

The Company mainly conducts its business within one business segment - the business of manufacture and sale of steel products in the PRC. Therefore no business segment information has been prepared by the Company for the year ended 31 December 2007. The Company also operates within one geographical segment because its revenue is entirely generated in the PRC and its assets and liabilities are all located in the PRC. Accordingly, no geographical segment information is presented.

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings *Rmb'000*	Plant and machinery *Rmb'000*	Transportation vehicles and equipment *Rmb'000*	Construction in progress *Rmb'000*	Total *Rmb'000*
At 1 January 2006					
Cost	1,932,374	4,160,322	21,535	1,460,441	7,574,672
Accumulated depreciation and impairment	(775,956)	(1,728,188)	(15,791)	—	(2,519,935)
Net book amount	1,156,418	2,432,134	5,744	1,460,441	5,054,737
Year ended 31 December 2006					
Opening net book amount	1,156,418	2,432,134	5,744	1,460,441	5,054,737
Additions	995	2,100	3,648	743,506	750,249
Transfers	486,684	936,499	308	(1,423,491)	—
Disposals *(Note 28)*	(4,621)	(2,516)	(541)	—	(7,678)
Depreciation charge *(Note 22)*	(47,658)	(215,149)	(2,088)	—	(264,895)
Closing net book amount	1,591,818	3,153,068	7,071	780,456	5,532,413
At 31 December 2006					
Cost	2,410,110	5,064,552	23,477	780,456	8,278,595
Accumulated depreciation and impairment	(818,292)	(1,911,484)	(16,406)	—	(2,746,182)
Net book amount	1,591,818	3,153,068	7,071	780,456	5,532,413
Year ended 31 December 2007					
Opening net book amount	1,591,818	3,153,068	7,071	780,456	5,532,413
Reclassification	(118,230)	113,571	4,659	—	—
Additions	3,020	4,397	1,099	212,924	221,440
Transfers	80,215	751,625	207	(832,047)	—
Disposals *(Note 28)*	(3,923)	(6,502)	(112)	(13,725)	(24,262)
Depreciation charge *(Note 22)*	(57,613)	(251,462)	(3,538)	—	(312,613)
Impairment loss *(Note 22)*	(2,193)	(17,507)	—	—	(19,700)
Closing net book amount	1,493,094	3,747,190	9,386	147,608	5,397,278
At 31 December 2007					
Cost	2,301,464	5,882,729	26,517	147,608	8,358,318
Accumulated depreciation and impairment	(808,370)	(2,135,539)	(17,131)	—	(2,961,040)
Net book amount	1,493,094	3,747,190	9,386	147,608	5,397,278

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Company has transferred significant amount of completed construction in progress to property, plant and equipment in 2006 based on the estimation of the management. In 2007, the Company has adjusted the opening balance of property, plant and equipment by category based on the completion reports.

(b) As at 31 December 2007, property, plant and equipment with an aggregate carrying amount of Rmb923,287,000 (2006: Rmb579,260,000) was pledged as security for the Company's borrowings (Note 18).

(c) As at 31 December 2007, the Company was in the process of obtaining ownership certificates of certain buildings with carrying amount of Rmb258,643,000 (2006: Rmb218,797,000).

(d) As at 31 December 2007, property, plant and equipment with gross carrying amount of Rmb21,730,000 (2006: Rmb18,529,000) was fully depreciated and still in use.

(e) Depreciation expense of Rmb300,823,000 (2006: Rmb258,874,000) has been charged in cost of goods sold, Rmb1,277,000 (2006: Rmb1,472,000) in selling and marketing costs, Rmb9,845,000 (2006: Rmb3,540,000) in administrative expenses (Note 22). and Rmb668,000 (2006: 1,009,000) in other net (loss)/gain (Note 21).

(f) The Company has provided impairment loss of Rmb19,700,000 (Note 22) in 2007 (2006: Nil) for those damaged and unused property, plant and equipment which are ready to be disposed in 2008.

8 LAND USE RIGHT

The Company's interest in land use right represents prepaid operating lease payment for a parcel of land in the PRC with a lease period of 50 years. The net book amount of land use right is analysed as follows:

	2007 ***Rmb'000***	2006 *Rmb'000*
Opening net book amount	**26,914**	27,290
Amortisation *(Note 22)*	**(1,094)**	(376)
Closing net book amount	**25,820**	26,914

As at 31 December 2007, land use right with carrying amount of Rmb25,820,000 (2006: Rmb26,914,000) was pledged as security for the Company's borrowings (Note 18).

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2007 ***Rmb'000***	2006 *Rmb'000*
Unlisted shares, at cost	**5,000**	5,000

Non-current available-for-sale financial asset represents a 2% shareholding in Xiamen Shipbuilding Industry Co., Ltd. This investment is stated at cost because there is no quoted market price available in an active market, nor any other alternative method available that can reasonably estimate the fair value of the investment.

There were no disposal or impairment provisions on available-for-sale financial asset in 2007.

10 DEFERRED INCOME TAX ASSETS

Deferred income tax assets were calculated in full on temporary differences under the liability method using tax rate of 15% (2006: 15%) (Note 25 (a)).

The movement on the deferred income tax assets is as follows:

	2007	2006
	Rmb'000	*Rmb'000*
Beginning of the year	**2,938**	2,493
Charged to the income statement *(Note 25)*	**4,391**	445
End of the year	**7,329**	2,938

The components of deferred income tax assets during the year are as follows:

	Beginning of the year	**Credited to the income statement**	**End of the year**
	Rmb'000	*Rmb'000*	*Rmb'000*
Deferred income tax assets:			
Year ended 31 December 2006			
— Provisions for impairments of receivables and inventories	976	445	1,421
— Provision for impairment of property, plant and equipment	1,517	—	1,517
	2,493	445	2,938
Year ended 31 December 2007			
— Provisions for impairments of receivables and inventories	1,421	1,630	3,051
— Provision for impairment of property, plant and equipment	1,517	2,761	4,278
	2,938	4,391	7,329

The above deferred income tax assets arising from provisions for impairments of receivables, inventories and property, plant and equipment are not tax deductible until approved by the local tax authority.

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2007, the Company did not recognise deferred income tax assets of approximately Rmb29,273,000 (2006: Rmb32,382,000) in respect of provisions for impairments for receivables, inventories and property, plant and equipment that are not tax deductible.

11 INVENTORIES

	2007 *Rmb'000*	2006 *Rmb'000*
Raw materials	**1,590,298**	1,453,107
Work in progress	**648,535**	383,790
Finished goods	**150,367**	148,656
Spare parts and consumables	**271,045**	161,415
	2,660,245	2,146,968

During the year ended 31 December 2007, the Company recognised a write-down of inventories of Rmb15,503,000 (2006: recognised a reversal of write-down of Rmb13,450,000). The amount recognised has been included in cost of goods sold in the income statement (Note 22).

The cost of inventory recognised as expenses and included in cost of goods sold amounted to Rmb8,817,062,000 (2006: Rmb7,179,794,000).

12 TRADE AND OTHER RECEIVABLES

	2007 **Rmb'000**	2006 *Rmb'000*
Notes receivables	**341,177**	315,426
Accounts receivable *(Note (a))*	**198,807**	258,685
Trade receivables	**539,984**	574,111
Less: provision for impairment of trade receivables	**(144,880)**	(150,948)
Trade receivables - net	**395,104**	423,163
Receivables from fellow subsidiaries of the Holding Company *(Note (b) and Note 31(d))*	**258,630**	116,818
Less: provision for impairment of receivables from fellow subsidiaries of the Holding Company	**(10,079)**	(10,079)
Receivables from fellow subsidiaries of the Holding Company - net	**248,551**	106,739
Prepayments and deposits	**1,106,767**	209,756
Other receivables	**30,345**	22,721
Less: provision for impairment of other receivables	**(11,718)**	(11,718)
Other receivables - net	**18,627**	11,003
	1,769,049	750,661
Less non-current portion: prepayment to a supplier	**(53,600)**	(62,600)
Current portion	**1,715,449**	688,061

The fair values of trade and other receivables are as follows:

	2007 **Rmb'000**	2006 *Rmb'000*
Trade receivables	**395,104**	423,163
Receivables from fellow subsidiaries of the Holding Company	**248,551**	106,739
Prepayments and deposits	**1,106,767**	209,756
Other receivables	**18,627**	11,003
	1,769,049	750,661

12 TRADE AND OTHER RECEIVABLES *(Continued)*

The maturity of non-current prepayment to a supplier is as follows:

	2007	2006
	Rmb'000	*Rmb'000*
Between 1 and 2 years	**10,800**	9,600
Between 2 and 5 years	**42,800**	42,600
Over 5 years	**—**	10,400
	53,600	62,600

(a) 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 as at 31 December 2007 is as follows:

	2007	2006
	Rmb'000	*Rmb'000*
Within 3 months	**48,068**	101,420
Between 3 months and 1 year	**4,679**	1,360
Between 1 and 2 years	**1,557**	5,308
Between 2 and 3 years	**491**	2,089
Over 3 years	**144,012**	148,508
	198,807	258,685

There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, domestically dispersed.

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
	Rmb'000	*Rmb'000*
At 1 January	**150,948**	153,702
Reversal of impairment of trade receivables	**(4,641)**	(2,367)
Receivables written off during the year as uncollectible	(1,427)	(387)
At 31 December	**144,880**	150,948

The amount reversed has been included in administrative expenses in the income statement (Note 22).

12 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) The ageing analysis of receivables from fellow subsidiaries of the Holding Company as at 31 December 2007 is as follows:

	2007 **Rmb'000**	2006 Rmb'000
Within 3 months	**182,272**	86,261
Between 3 months and 1 year	**54,889**	11,072
Between 1 and 2 years	**3,819**	5,062
Between 2 and 3 years	**5,028**	—
Over 3 years	**12,622**	14,423
	258,630	116,818

(c) During the year ended 31 December 2005, the Company received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to certain debts owed by the Holding Company and Chongqing Special Steel (Group) Limited Company ("CSSG"; former subsidiary of the Holding Company who ceased to have shareholding relationship with the Holding Company since June 2003) to their creditors amounting to Rmb18,200,000 and Rmb18,340,000, respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate Rmb36,540,000 dividend attributable to the Holding Company ("the Dividend"). The Company did not withhold the Dividend and without notifying the Company, two of the Courts seized Rmb4,528,000 and Rmb1,059,000 from the Company's bank accounts in 2005 and 2006 respectively.

In November 2006, as the Holding Company settled its debts amounting to Rmb18,200,000, the Courts repealed those verdicts and enforcement orders against the Holding Company, and accordingly the Company was not required to assist the execution of the verdicts.

As at the date of these financial statements are approved for issue, the case relating to the debts of Rmb18,340,000 owed by CSSG has not been finalised. Based on the advice from the Company's legal counsellor, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Holding Company or the Company, and accordingly the Company has no obligation to assist the execution of the order against CSSG. The Company has appealed to the Courts and seek assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress. The State Supreme Court of the People's Republic of China issued The Notice Of Exemption for Obligation of Chongqing Iron and Steel Company (Group) Limited Related To The Cases Of CSSG's Residual Debts (Fa (Zhi) Ming Chuan (2007) ("the notice") to the Supreme Court of Sichuan Province at 2007 May 25. According to the notice, since the cases of CSSG's residual debts were still in the process of coordinating, The Supreme Court of Sichuan Province should suspend the execution of these cases until receive final comments from The State Supreme Court of The People's Republic.

As the recoverability of the bank deposits under seizure (recorded as other receivable) is uncertain, management of the Company made a full provision of Rmb5,587,000 in prior years.

13 RESTRICTED CASH

	2007 **Rmb'000**	2006 Rmb'000
Restricted cash deposits for letters of credit	**859**	26,126
Restricted cash deposits for issuance of bills for settling trade payables	**121,938**	37,744
	122,797	63,870

Restricted cash of Rmb122,768,000 (2006:Rmb55,930,000) are deposited in state-owned banks (Note 31(d)).

14 CASH AND CASH EQUIVALENTS

	2007 Rmb'000	2006 Rmb'000
Cash in hand	**681**	784
Cash and short-term bank deposits	**970,401**	312,988
	971,082	313,772

The effective interest rate on short-term bank deposits was 1.23% (2006: 1.06%).

Short-term bank deposits of Rmb413,966,000 (2006: Rmb289,043,000) are deposited in state-owned banks (Note 31(d)).

15 SHARE CAPITAL

	Number of shares ('000)	State-owned shares RMB'000	A shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid:					
At 1 January 2006					
(nominal value of RMB1.00 each)	1,063,944	650,000	—	413,944	1,063,944
Bonus share dividend *(Note 27)*	319,183	195,000	—	124,183	319,183
At 31 December 2006					
(nominal value of RMB1.00 each)	1,383,127	845,000	—	538,127	1,383,127

	Number of shares ('000)	State-owned A shares RMB'000	A shares RMB'000	H shares RMB'000	Total RMB'000
At 1 January 2007	1,383,127	845,000	—	538,127	1,383,127
Issuance of A share	350,000	—	350,000	—	350,000
At 31 December 2007					
(nominal value of RMB1.00 each)	1,733,127	845,000	350,000	538,127	1,733,127

As approved by China Securities Regulatory Commission on 29 January 2007, the Company issued 350,000,000 ordinary A shares denominated in renminbi on 6 February 2007 and which was traded on 28 February 2007 at Stock Exchange of Shanghai, with a face value of Rmb1.00 each.

The 845,000,000 state-owned shares held by the Holding Company has been automatically converted into 845,000,000 A shares after the issuance of the A shares. The Holding Company has undertaken that, within a period of 36 months from the date of the listing of the A shares, it will not transfer or nominate any other persons to manage its A shares and will not proceed with any re-purchase of such A shares by the Company.

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

16 OTHER RESERVES

	Share premium *Rmb'000*	Capital surplus *Rmb'000*	Statutory common reserve *Rmb'000*	Statutory provident fund *Rmb'000*	Total *Rmb'000*
At 1 January 2006	276,208	216,071	286,961	143,480	922,720
Transfer statutory provident fund to statutory common reserve *(Note (c))*	—	—	143,480	(143,480)	—
Transfer from retained earnings *(Note (b))*	—	—	31,484	—	31,484
At 31 December 2006	276,208	216,071	461,925	—	954,204
At 1 January 2007	276,208	216,071	461,925	—	954,204
Issuance of A shares *(Note (a))*	658,000	—	—	—	658,000
Shares issuance expenses *(Note (a))*	(39,949)	—	—	—	(39,949)
Transfer from retained earnings *(Note (b))*	—	—	44,924	—	44,924
At 31 December 2007	894,259	216,071	506,849	—	1,617,179

(a) The increase in share premium in 2007 represents the difference between the total amount of the par value of A shares issued and the amount of the gross proceeds received from the issuance of A shares.

(b) According to the Company's Articles of Association, the Company is required to appropriate 10% of its net profit as stated in the statutory accounts prepared under the CAS (2006) to statutory common reserve until the reserve reaches 50% of the registered capital. The appropriation to this reserve must be made before the distribution of dividend to shareholders. For 2007, the Company appropriated 10% (2006: 10%) of the net profit as reported in the PRC statutory accounts to the statutory common reserve, totalling Rmb44,924,000 (2006: Rmb31,484,000).

The statutory common reserve shall only be used to make up losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve into share capital and issue bonus shares to existing shareholders in proportion to their existing shareholdings or increase the nominal value of each share. After converting the Company's statutory common reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

(c) According to the Company Law of PRC amended on 27 October 2005 and effective from 1 January 2006, and the Company's Articles of Association amended on 30 March 2006, the Company is not required to make appropriation to any statutory provident fund from 1 January 2006.

According to the "Circular on Accounting Treatment Following the Implementation of Company Law" issued by the Ministry of Finance of the PRC on 15 March 2006, the Company transferred the balance of statutory provident fund as at 31 December 2005 to statutory common reserve in 2006.

17 TRADE AND OTHER PAYABLES

	2007 **Rmb'000**	2006 Rmb'000 (restated)
Trade payables *(Note (a))*	**1,411,962**	1,183,647
Advances from customers	**956,108**	884,062
Amounts due to the Holding Company and its subsidiaries *(Note 31(d))*	**30,592**	57,678
Value added tax and other tax payables	**59,441**	54,047
Salaries payable	**21,747**	16,296
Deposits from customers	**5,540**	4,275
Other payables	**37,469**	28,988
	2,522,859	2,228,993
Less non-current portion:		
— Advances from a customer *(Note (10))*	**(95,361)**	(215,897)
— Other payables	**—**	(1,461)
	(95,361)	(217,358)
	2,427,498	2,011,635

(a) The ageing analysis of trade payables as at 31 December 2007 is as follows:

	2007 **Rmb'000**	2006 Rmb'000
Within 6 months	**1,256,784**	1,130,075
Between 6 months and 1 year	**92,328**	23,366
Between 1 and 2 years	**32,112**	8,908
Between 2 and 3 years	**11,908**	4,734
Over 3 years	**18,830**	16,564
	1,411,962	1,183,647

(b) The maturity of non-current advances from a customer is as follows:

	2007 **Rmb'000**	2006 Rmb'000
Between 1 and 2 years	**95,361**	115,431
Between 2 and 5 years	**—**	100,466
	95,361	215,897

The original effective interest rates on non-current advance from a customer received in 2007 are 5.48% to 7.19% (2006: 5.58%).

18 BORROWINGS

	2007 **Rmb'000**	2006 Rmb'000
Non-current		
Secured bank borrowings *(Note (a))*	**230,000**	220,000
Unsecured bank borrowings *(Note (b))*	**958,747**	75,000
	1,188,747	295,000
Current		
Secured bank borrowings *(Note (a))*	**356,600**	778,000
Unsecured bank borrowings *(Note (b))*	**1,650,000**	1,569,653
	2,006,600	2,347,653
Total borrowings	**3,195,347**	2,642,653

(a) Bank borrowings of Rmb291,600,000 (2006: Rmb848,000,000) are secured by the Company's property, plant and equipment with net book amount of Rmb231,701,000 (2006: Rmb135,990,000) as at 31 December 2007 (Note 7(b)) together with certain parcels of land use right owned by the Holding Company(Note 31(a)).

Bank borrowings of Rmb295,000,000 (2006: Rmb150,000,000) are secured by the Company's property, plant and equipment with net book amount of Rmb691,586,000 (2006: Rmb443,270,000) (Note 7(b)) together with a parcel of land use right with net book amount of Rmb25,820,000 (2006: Rmb26,914,000) (Note 8) as at 31 December 2007 owned by the Company.

(b) Unsecured bank borrowings of Rmb2,141,747,000 (2006: Rmb1,415,000,000) are guaranteed by the Holding Company (Note 31(a)).

(c) Bank borrowings of Rmb1,463,600,000 (2006: Rmb1,419,000,000) are borrowed from state-owned banks (Note 31(d)).

The maturity of borrowings is as follows:

	2007 **Rmb'000**	2006 Rmb'000
Within 1 year	**2,006,600**	2,347,653
Between 1 and 2 years	**708,747**	270,000
Between 2 and 5 years	**480,000**	25,000
	3,195,347	2,642,653

18 BORROWINGS *(Continued)*

The effective interest rates per annum at the balance sheet dates were as follows:

	2007		2006	
	Rmb	**USD**	Rmb	USD
Bank borrowings	**6.12% to 8.02%**	**5.78% to 6.08%**	2.88% to 7.13%	6.39% to 6.48%

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Bank borrowings	**1,188,747**	295,000	**1,192,153**	296,089

The fair values are based on cash flows discounted using rates based on the borrowings rates of 4.22% to 7.47% (2006: 5.76% to 6.34%). The carrying amounts of current borrowings approximate their fair value. The carrying amounts of the borrowings are denominated in the following currencies:

	2007	2006
	Rmb'000	*Rmb'000*
Rmb	2,961,600	2,584,088
USD	233,747	58,565
	3,195,347	2,642,653

As at 31 December 2007, the Company has the following undrawn borrowing facilities:

	2007	2006
	Rmb'000	*Rmb'000*
Fixed rate		
— expiring within one year	**440,000**	201,000
Variable rate		
— expiring within one year	**204,529**	—
	644,529	201,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2008. The other facilities have been arranged to help finance the operation of the Company.

19 DEFERRED INCOME

The movement of deferred income is as follows:

	2007 Rmb'000	2006 Rmb'000 (restated)
At 1 January	**34,440**	700
Additions	**1,260**	33,740
Credited to the income statement	**(555)**	—
At 31 December	**35,145**	34,440

The Company was exempted from repayment of loans of Rmb18,760,000 in 2006 and received government grants in cash of Rmb16,940,000 in 2007 relating to the construction of environmental protection equipment and facilities. These government grants are recorded as deferred income and are to be recognised as income on a straight-line basis over the expected lives of the related assets after the completion of the construction.

20 SALES

Sales represent the revenues derived from sales of steel products, net of value added tax and after allowance for trade discounts.

21 OTHER NET (LOSS)/INCOME

	2007 Rmb'000	2006 Rmb'000
Profit on sale of by-products, net	**5,390**	5,197
Operating lease rental income	**1,967**	1,261
Utility installation service income	**2,222**	1,883
Interest income *(Note (a))*	**8,918**	4,435
Depreciation *(Note 7(e))*	**(668)**	(1,009)
Loss on disposals of property, plant and equipment *(Note 28(a))*	**(22,235)**	(3,992)
Provision of impairment for other receivables *(Note 12 (c))*	**—**	(1,059)
Bank charges	**(9,020)**	(673)
Others	**3,324**	2,994
	(10,102)	9,037

(a) Interest income of Rmb4,826,000 (2006: Rmb2,644,000) is generated from cash and short-term bank deposits in state-owned banks (Note 31(b)).

22 EXPENSE BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2007 **Rmb'000**	2006 Rmb'000
Depreciation *(Note 7(e))*	**311,945**	263,886
Amortisation *(Note 8)*	**1,094**	376
Provision for/(written-back of) impairment of receivables *(Note 12)*	**(4,641)**	5,002
Provision for impairment of property, plant and equipment *(Note 7(f))*	**19,700**	—
Staff costs *(Note 23)*	**696,961**	610,507
Changes in inventories of finished goods and work in progress	**(265,095)**	(33,704)
Raw materials and consumables used	**9,066,654**	7,209,655
Write-down /(reversal of write-down) of inventories *(Note 11)*	**15,503**	(13,450)
Auditors' remuneration	**2,600**	2,631
Maintenance expenses	**404,139**	345,513
Rental for land use rights *(Note 31(b))*	**17,957**	16,286
Transportation expenses	**120,318**	92,799
Plate inspection fees	**65,807**	45,388
Other expenses	**876,275**	598,457
	11,329,217	9,143,346

The Company recorded the maintenance expenses in cost of goods sold in prior years. In accordance with the CAS (2006), maintenance expenses have been recorded in administrative expenses in 2007.

23 EMPLOYEE BENEFIT EXPENSE

	2007 **Rmb'000**	2006 Rmb'000
Salaries	**443,220**	405,980
Retirement benefit costs - defined contribution plans	**92,554**	79,821
Other social welfare costs	**161,187**	124,706
	696,961	610,507

In accordance with the labour regulations of the PRC, the Company participates in various defined contribution retirement schemes organised by the municipal government for its employees. The Company is required to make contributions to the retirement schemes at rate of 20% of the salaries, bonuses and certain allowance of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing of his or her retirement date.

The Company has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

23 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2007 is set out below:

Name of director and supervisor	Fees *Rmb'000*	Basic salaries, housing allowances and other allowances *Rmb'000*	Bonuses *Rmb'000*	Pension *Rmb'000*	2007 Total *Rmb'000*
Director:					
Mr. Luo Fu Qin	—	96	142	12	250
Mr. Yuan Jin Fu	—	96	123	12	231
Mr. Chen Shan	—	21	212	12	245
Mr. Sun Yi Jie	—	21	200	12	233
Mr. Tu De Ling (v)	—	11	95	12	118
Mr. Chen Hong	—	21	171	12	204
Mr. Wang Xiang Fei	—	60	—	—	60
Mr. Liu Xing	—	40	—	—	40
Mr. Sun Yu	—	40	—	—	40
Supervisor:					
Mr. Zhu Jian Pai	—	97	140	12	249
Mr. Huang You He	—	18	120	12	150
Ms. Yuan Xue Bin (v)	—	9	41	6	56
Ms. Gong Jun (iv)	—	6	30	4	40
Ms. Chen Hong	—	14	108	12	134
Ms. Lu Kang Mei (v)	—	9	63	12	84
	—	559	1,445	130	2,134

23 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

The remuneration of every director and supervisor for the year ended 31 December 2006 is set out below:

Name of director and supervisor	Fees *Rmb'000*	Basic salaries, housing allowances and other allowances *Rmb'000*	Bonuses *Rmb'000*	Pension *Rmb'000*	2006 Total *Rmb'000*
Director:					
Mr. Tang Min Wei *(i)*	—	8	42	2	52
Mr. Yang Zhi Wei *(iii)*	—	9	63	4	76
Mr. Luo Fu Qin	—	65	77	7	149
Mr. Yuan Jin Fu	—	97	113	10	220
Mr. Chen Shan	—	21	187	10	218
Mr. Sun Yi Jie	—	20	157	10	187
Mr. Tu De Ling	—	19	157	10	186
Mr. Chen Hong	—	11	72	10	93
Mr. Wang Xiang Fei	—	60	—	—	60
Mr. Wu Zhong Fu *(ii)*	—	—	—	—	—
Mr. Liu Xing	—	40	—	—	40
Mr. Sun Yu	—	40	—	—	40
Supervisor:					
Mr. Zhu Jian Pai	—	97	116	10	223
Mr. Huang You He	—	19	93	10	122
Ms. Yuan Xue Bin	—	17	82	10	109
Ms. Chen Hong	—	16	81	10	107
Ms. Lu Kang Mei	—	18	105	10	133
	—	557	1,345	113	2,015

(i) *Resigned on 26 April 2006.*

(ii) *Resigned on 9 June 2006.*

(iii) *Resigned on 20 September 2006.*

(iv) *Appointed on 23 August 2007.*

(v) *Resigned on 26 June 2007.*

23 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

The emoluments fell within the following band:

	Number of directors and supervisors	
	2007	2006
Emoluments band		
Nil-HK$1,000,000	**15**	17

No directors and supervisors waived their emoluments and no emoluments were paid or payable by the Company to any directors and supervisors as inducement to join or as compensation for loss of office in respect of the year ended 31 December 2007 (2006: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the years ended 31 December 2007 and 2006 were directors or supervisors and their emoluments are reflected in the analysis presented above.

24 FINANCE COSTS

	2007	2006
	Rmb'000	*Rmb'000*
Interest expense on bank borrowings wholly repayable within 5 years	**207,198**	173,507
Interest expense on trade and other payables	**18,993**	17,074
Net foreign exchange transaction gains	**(2,915)**	(6,571)
Less: capitalised interest expense	**13,415**	—
capitalised foreign exchange transaction gains	**(2,345)**	—
	212,206	184,010

The borrowing costs have been capitalised at a rate of 5.78%~7.32% per annum.

Interest expense of Rmb101,729,000 (2006: Rmb128,833,000) is paid/payable for borrowings from state-owned banks (Note 31(b)).

25 INCOME TAX EXPENSE

	2007 **Rmb'000**	2006 Rmb'000 (restated)
Current PRC income tax	**25,381**	1,538
Deferred income tax assets *(Note 10)*	**(4,391)**	(445)
	20,990	1,093

The taxation on the Company's profit before income tax differs from the theoretical amount that would arise using the income tax rate applicable to the Company as follows:

	2007 **Rmb'000**	2006 Rmb'000 (restated)
Profit before taxation	**469,670**	303,578
Calculated at income tax rate of 15% *(Note (a))*	**70,451**	45,537
Utilisation of previously unrecognised temporary differences	**(1,693)**	(1,554)
Expenses not deductible for/income not subject to taxation	**5,519**	9,504
FEIT reduction in relation to the purchase of domestically produced equipment *(Note (b))*	**(53,287)**	(52,394)
	20,990	1,093

(a) As a production enterprise with foreign investment established at the riverside of Yangtze River, the Company was originally entitled to a preferential enterprise 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 approvals (Yu Guo Shui Han [2003] No. 57 and Da Dukou Guo Shui Han [2003] No. 8) issued by the relevant tax authorities under which the preferential enterprise income tax treatment for enterprises in the western development region is granted to the Company. 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 enterprise income tax rate is reduced to 15% for the period from 2001 to 2010. As approved by the tax authority, the Company is exempted from local income tax in 2007 (2006: Nil).

(b) The Company purchased domestic manufactured equipment from 2004 to 2006. In accordance with Cai Shui Zi [2000] No. 49 "The Notice concerning the FEIT reduction in relation to the purchase of domestically produced equipment" issued by the Ministry of Finance and State Tax Bureau, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company's enterprise income tax

As at 31 December 2007, the Company entitles the FEIT reduction in relation to the purchase of domestically produced equipment of Rmb92,497,000 that can be used for offsetting the Company's future income tax liability for not more than 5 years. The extent of income tax reduction being utilised to offset the Company's income tax liability is depended on the approval from tax bureau.

(c) On 16 March 2007, the National People's Congress approved the new Corporate Income Tax Law (the "new CIT Law") of the People's Republic of China, which is effective from 1 January 2008. The preferential tax policies enjoyed by the enterprises operating in western development region of the PRC as mentioned in Note (a) above remain effective after the implementation of the new CIT Law until the preferential period is expired.

(d) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the year (2006: Nil).

26 DIVIDENDS

In accordance with the relevant regulations of the PRC and the Company's Articles of Association, the Company declares dividends based on the lower of the retained earnings as reported in the PRC statutory accounts and financial statements prepared in accordance with HKFRSs. As the statutory accounts have been prepared in accordance CAS (2006), the retained earnings as reported in the statutory accounts will be different from the amount reported in the accompanying financial statements.

During the Annual General Meeting of shareholders on 9 June 2006, it was resolved to declare dividends in respect of 2005 of Rmb0.15 per share (2004: Rmb0.15 per share), totalling Rmb159, 592,000 (2004: Rmb159, 592,000), and a bonus share dividend of 3 shares per 10 shares (2004: Nil), totalling bonus shares of 319,183,000 shares (2004: Nil). The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,063,944,000 as at 31 December 2005.

During the Board of Directors' meeting on 30 August 2006, the directors of the Company resolved to declare an interim dividend for 2006 of Rmb0.08 per share, totalling Rmb110,650,000, which was authorised by' the general meeting of shareholders on 9 June 2006. The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,383,127,000 as at 30 June 2006.

During the Annual General Meeting of shareholders on 18 June 2007, it was resolved to declare dividends in respect of 2006 of Rmb0.10 per share (2005: Rmb0.15 per share), totalling Rmb173,313,000 (2005: Rmb159,592,000). The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,733,127,000 as at 28 February 2007, including 350,000,000 A Shares issued by the Company in 2007.

During the Board of Directors' meeting on 23 April 2008, the directors of the Company resolved to declare dividends in respect of 2007 of Rmb0.10 per share (2006: Rmb0.10 per share), totalling Rmb173,313,000 (2006: Rmb173,313,000), which is to be proposed at the forthcoming Annual General Meeting. The allocation basis of the dividends being distributed to the shareholders is based on the number of shares in issue of 1,733,127,000 as at 31 December 2007.

	2007 ***Rmb'000***	2006 *Rmb'000*
Final, proposed, of Rmb0.10 (2006: Rmb0.10) per share	**173,313**	173,313

27 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company of Rmb448,680,000 (2006: Rmb302,485,000) by the weighted average number of ordinary shares in issue during the year of 1,674,794,000 shares (2006: 1,383,127,000 shares). In determining the weighted average number of ordinary shares in issue for the year ended 31 December 2006, the 319,183,000 bonus shares issued in 2006 were treated as if it had occurred as at 1 January 2006. The weighted average number of ordinary shares for the year ended 31 December 2007 also reflects the issuance of 350,000,000 A shares in February 2007.

Diluted earnings per share equals to basic earnings per share as there are no potential dilutive shares outstanding as at 31 December 2007 (2006: Nil).

28 CASH GENERATED FROM OPERATIONS

	2007 **Rmb'000**	2006 Rmb'000
Operating activities		
Profit for the year	**448,680**	302,485
Adjustments for:		
Income tax expense *(Note 25)*	**20,990**	1,093
Depreciation and amortisation *(Note 7(e) and 8)*	**313,707**	265,271
Provision for impairment of property, plant and equipment *(Note 7(f))*	**19,700**	—
Provision for impairment of receivables *(Note 12)*	**(4,641)**	6,061
Written-down /(reversal of write-down) of inventories *(Note 11)*	**15,503**	(13,450)
Loss on disposals of property, plant and equipment *(Note (a))*	**22,235**	3,992
Finance costs *(Note 24)*	**212,206**	184,010
Interest income *(Note 21)*	**(8,918)**	(4,435)
Operating changes in working capital:		
Inventories	**(528,780)**	(301,470)
Trade and other receivables	**(292,275)**	(48,244)
Restricted cash	**(58,927)**	(50,528)
Trade and other payables	**320,503**	512,477
Cash generated from operations	**479,983**	857,262

(a) In the cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2007 **Rmb'000**	2006 Rmb'000
Net book amount *(Note 7)*	**24,262**	7,678
Loss on disposals of property, plant and equipment*(Note 21)*	**(22,235)**	(3,992)
Proceeds from disposals of property, plant and equipment	**2,027**	3,686

29 CONTINGENT LIABILITIES

As at 31 December 2007, other than the pending litigation as disclosed in Note 12 (c), the Company had no material contingent liabilities.

30 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	2007 **Rmb'000**	2006 Rmb'000
Contracted but not provided for	**2,662,417**	525,493
Authorised but not contracted for	**307,993**	301,145
	2,970,410	826,638

(b) Operating lease commitments

As at 31 December, the future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2007 **Rmb'000**	2006 Rmb'000
Not later than 1 year	**17,904**	17,904
Later than 1 year and not later than 5 years	**63,857**	65,796
Later than 5 years	**79,821**	90,463
	161,582	174,163

Included in the above operating lease commitments are commitments in respect of three parcels of land for a period of 20 years, 15 years and 3 years from the Holding Company commencing from August 1997, December 2002 and January 2006, respectively. According to the supplementary agreement between the Company and the Holding Company signed in January 2007, the annual rental of the first 2 abovementioned leases in total have been increased from Rmb14,521,000 to Rmb15,964,000 per annum with effect from 1 January 2007 to 31 December 2009. As at 31 December 2007, the future aggregate minimum lease payments under such operating leases amounted to Rmb147,197,000 (2006: Rmb157,013,000), Rmb12,445,000 (2006: Rmb13,270,000) and Rmb1,940,000 (2006: Rmb3,880,000) respectively.

31 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by the Holding Company (incorporated in the PRC), a state-owned enterprise which owns 49% of the Company's shares. The directors of the Company considered the Holding Company to be immediate and the ultimate holding company.

Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, the majority of the Company's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including the Holding Company, its subsidiaries, associated companies and jointly controlled entities in the ordinary course of business. In accordance with the revised HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under the Holding Company, directly or indirectly controlled by the PRC government are also defined as related parties of the Company.

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

The following transactions were carried out with related parties:

(a) The Company's bank borrowings of Rmb291,600,000(2006: Rmb848,000,000) as at 31 December 2007 are secured by certain parcels of land use right of the Holding Company together with certain property, plant and equipment of the Company (Note 18(a)).

Included in abovementioned bank borrowings as at 31 December 2007, no bank borrowings (2006: Rmb99,000,000) are secured by certain Property, Plant and equipment of certain fellow subsidiaries of the Holding Company.

In addition, as at 31 December 2007 the Company's bank borrowings of Rmb2,141,747,000 (2006: Rmb1,415,000,000) are guaranteed by the Holding Company (Note 18(b)).

(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, fellow subsidiaries and other state-owned enterprises/banks during the year:

	2007 *Rmb'000*	2006 *Rmb'000*
Income		
Sales to fellow subsidiaries of the Holding Company *(Note (i))*	**1,056,593**	753,096
Sales to other state-owned enterprises *(Note (x))*	**3,253,156**	3,113,915
Fees received for supporting services *(Note (ii))*	**1,926**	2,746
Fees received for lease rental *(Note (iii))*	**1,450**	1,101
Interest income from state-owned banks *(Note 21(a) and Note (x))*	**4,826**	2,644
Expenditure		
Fees paid for supporting services *(Note (iv))*	**220,178**	263,353
Fees paid for lease rental *(Note (v))*	**513**	541
Purchase of raw materials and spare parts *(Note (vi))*	**1,664,520**	1,354,130
Purchase of Property, Plant and equipment *(Note (vii))*	**31,858**	79,197
Rental for land use rights *(Note 22 and Note (viii))*	**17,957**	16,286
Social welfare expenses paid through the Holding Company to schemes administered by the PRC government *(Note (ix))*	**53,186**	57,316
Staff welfare expenses and supplementary retirement benefit contribution paid to defined contribution retirement schemes administered by the Holding Company	**34,358**	24,033
Purchase from other state-owned enterprises *(Note (x))*	**1,130,081**	2,573,017
Interest paid/payable to state-owned banks *(Note 24 and Note (x))*	**101,729**	128,833
Borrowings from state-owned banks *(Note (x))*	**1,278,922**	1,419,000

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

(i) Sales to the fellow subsidiaries were made at prices determined by reference to market price or the prices as prescribed by the relevant Chongqing government departments.

(ii) 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.

(iii) 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.

(iv) 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 market price 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.

(v) Fees paid for lease rental mainly represents fee paid to the fellow subsidiaries for the lease of the subsidiaries' factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.

(vi) Purchase of raw materials and spare parts was made at prices determined by reference to market price 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.

(vii) Purchase of property, plant and equipment was made at prices determined by reference to the prices offered by suppliers of such equipment.

(viii) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.

(ix) For social welfare expenses which were paid through the Holding Company, no handling fee was charged by the Holding Company.

(x) Related party transactions with other state-owned enterprises/banks were conducted in the normal course of business at normal commercial terms

(c) Key management compensation

	2007 ***Rmb'000***	2006 *Rmb'000*
Salaries and other short-term employee benefits *(Note 23)*	**2,134**	2,015

31 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Year-end balances arising from sales/purchases of goods/services and other transactions

	2007 **Rmb'000**	2006 Rmb'000
Short-term bank deposits in state-owned banks *(Note 14)*	**413,966**	289,043
Restricted cash in state-owned banks *(Note 13)*	**122,768**	55,930
Receivables due from related parties		
— Fellow subsidiaries of the Holding Company *(Note 12)*	**258,630**	116,818
— Trade and other receivables from other state-owned enterprises	**90,531**	280,733
	349,161	397,551
Trade and other payables due to related parties		
— The Holding Company *(Note 17)*	**3,059**	38,458
— Fellow subsidiaries of the Holding Company *(Note 17)*	**27,533**	19,220
— Trade and other payables to other state-owned enterprises	**47,615**	454,282
	78,207	511,960
Bank borrowings from state-owned banks *(Note 18)*	**1,463,600**	1,419,000

The amounts due from/to the Holding Company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

32 EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 26.

33 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, certain comparative figures have been adjusted by the Group to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of the related changes are disclosed in Note 3 and 5.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

REPORT OF THE AUDITORS

KPMG-A(2008)AR No.0277

All Shareholders of Chongqing Iron and Steel Company Limited by Shares:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited by Shares (the Company), which comprise the balance sheet as at 31st December 2007, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements comply with the requirement of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Company as at 31st December 2007, and the results of operations and the cash flows of the Company for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

William Grong

Jason Lin

Beijing, the People's Republic of China

April 23rd, 2007

BALANCE SHEET

as at 31 December 2007
(Expressed in thousands of renminbi yuan)

	Notes	**2007**	2006
Assets			
Current assets			
Cash at bank and on hand	6	**1,093,879**	377,642
Bills receivable	7	**496,769**	350,504
Accounts receivable	8	**146,886**	179,398
Prepayments	9	**1,053,169**	147,156
Other receivables	10	**18,627**	11,003
Inventories	11	**2,660,245**	2,146,968
Total current assets		**5,469,575**	3,212,671
Non-current assets			
Long-term equity investments	12	**5,000**	5,000
Fixed assets	13	**5,249,670**	4,767,865
Construction in progress	14	**124,830**	671,926
Construction materials	15	**22,777**	108,218
Intangible assets	16	**25,820**	10,215
Deferred income tax assets	17	**7,329**	2,938
Other non-current assets	18	**53,600**	62,600
Total non-current assets		**5,489,026**	5,628,762
Total assets		**10,958,601**	8,841,433

The notes on pages 114 to 175 form part of these financial statements.

Balance Sheet (Continued)

as at 31 December 2007
(Expressed in thousands of renminbi yuan)

	Notes	**2007**	2006
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	21	**1,720,600**	1,826,653
Bills payable	22	**—**	110,000
Accounts payable	23	**1,411,961**	1,073,647
Advances from customers	24	**860,747**	668,164
Employee benefits payable	25	**21,747**	16,296
Taxes payable	5(3)	**62,951**	32,176
Interest payable		**2,342**	—
Other payables	26	**71,261**	90,640
Non-current liabilities due within 1 year	27	**286,000**	521,000
Total current liabilities		**4,437,609**	4,338,576
Non-current liabilities			
Long-term loans	28	**1,188,747**	295,000
Other non-current liabilities	29	**112,284**	231,878
Total non-current liabilities		**1,301,031**	526,878
Total liabilities		**5,738,640**	4,865,454
Shareholders' equity			
Share capital	30	**1,733,127**	1,383,127
Capital reserve	31	**1,164,384**	546,333
Surplus reserve	32	**506,849**	461,925
Retained earnings	33	**1,815,601**	1,584,594
Total shareholders' equity		**5,219,961**	3,975,979
Total liabilities and shareholders' equity		**10,958,601**	8,841,433

These financial statements have been approved by the Board of Directors of the Company on 23 April 2008.

Luo Fu Qin	**Song Ying**	**Song Ying**	
Legal representative	*Chief Financial Officer*	*Chief Accountant*	(Company stamp)
(Signature and seal)	(Signature and seal)	(Signature and seal)	

The notes on pages 114 to 175 form part of these financial statements.

Income Statement

For the year ended 31 December 2007
(Expressed in thousands of renminbi yuan)

	Notes	2007	2006
Operating Income	35	**12,058,453**	9,671,561
Less: operating cost		**10,418,035**	8,787,569
Business tax and surcharges	36	**372**	350
Selling and distribution costs	37	**243,611**	195,785
General and administrative expense		**665,132**	203,919
Financial expenses	38	**206,757**	180,248
Impairment losses	39	**30,562**	(7,389)
Operating profit		**493,984**	311,079
Add: Non-operating income	40	**11,403**	3,458
Less: Non-operating expenses	41	**35,153**	6,682
(Including: Loss from the disposal of non-current assets)		**22,235**	3,992
Profit before income tax		**470,234**	307,855
Less: Income tax expenses	42	**20,990**	1,093
Net profit from the year		**449,244**	306,762
Earnings per share	51(1)		
Basic earnings per share (Rmb)		**0.27**	0.22
Diluted earnings per share (Rmb)		**0.27**	0.22

These financial statements have been approved by the Board of Directors of the Company on 23 April 2008.

Luo Fu Qin	**Song Ying**	**Song Ying**	
Legal representative	*Chief Financial Officer*	*Chief Accountant*	(Company stamp)
(Signature and seal)	(Signature and seal)	(Signature and seal)	

The notes on pages 114 to 175 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2007
(Expressed in thousands of renminbi yuan)

	Note	2007	2006
Cash flows from operating activities			
Cash received from			
rendering of services		**14,433,123**	11,611,533
Other cash received relating to operating activities		**23,669**	1,372
Subtotal of cash inflows from operating activities		**14,456,792**	11,612,905
Cash paid for goods and services		**(12,515,357)**	(9,011,738)
Cash paid to and for employees		**(691,510)**	(582,011)
Cash paid for all types of taxes		**(651,210)**	(521,114)
Other cash paid relating to operating activities		**(118,732)**	(643,811)
Subtotal of cash outflows from operating activities		**(13,976,809)**	(10,758,674)
Net cash inflow from operating activities	43(1)(a)	**479,983**	854,231
Cash flows from investment activities:			
Net cash received from disposal of fixed			
assets, intangible assets and other long-term assets		**2,027**	3,686
Other cash received relating to investing activities		**8,918**	4,435
Subtotal of cash inflows from investment activities		**10,945**	8,121
Cash paid for acquisition of fixed assets,			
intangible assets and other long-term assets		**(986,162)**	(612,408)
Subtotal of cash outflows from investment activities		**(986,162)**	(612,408)
Net cash flows from investing activities		**(975,217)**	(604,287)

The notes on pages 114 to 175 form part of these financial statements.

For the year ended 31 December 2007
(Expressed in thousands of renminbi yuan)

	Note	**2007**	2006
Cash flows from financing activities:			
Cash received from investors		**977,260**	—
Cash received from borrowings		**3,337,265**	2,676,357
Subtotal of cash inflows from financing activities		**4,314,525**	2,676,357
Cash repayments of borrowings		**(2,782,226)**	(2,620,000)
Cash payments for dividends, profits distribution or interest		**(378,169)**	(443,749)
Other cash paid relating to financing activities		**(1,586)**	—
Subtotal of cash outflows form financing activities		**(3,161,981)**	(3,063,749)
Net cash flows from financing activities		**1,152,544**	(387,392)
Net increase/(decrease) in cash and cash equivalents	43(1)(b)	**657,310**	(137,448)
Add: Balance of cash and cash equivalents at the beginning of the year		**313,772**	451,220
Balance of cash and cash equivalents at the end of the year		**971,082**	313,772

These financial statements have been approved by the Board of Directors of the Company on 23 April 2008.

Luo Fu Qin	**Song Ying**	**Song Ying**	
Legal representative	*Chief Financial Officer*	*Chief Accountant*	(Company stamp)
(Signature and seal)	(Signature and seal)	(Signature and seal)	

The notes on pages 114 to 175 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2007
(Expressed in thousands of renminbi yuan)

	Notes	Share Capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
Balance as at 31st December 2006		1,383,127	546,333	461,925	1,600,132	3,991,517
Changes in accounting policies	4(2)	—	—	—	(15,538)	(15,538)
Balance as at 1 January 2007		1,383,127	546,333	461,925	1,584,594	3,975,979
Changes in equity for the year						
1. Net profit for the year		—	—	—	449,244	449,244
2. Shareholders' contribution and decrease of capital						
— Capital injected by shareholders	30	350,000	618,051	—	—	968,051
3. Appropriation of profits	34					
— Appropriation for surplus reserve		—	—	44,924	(44,924)	—
— Distributions to shareholders		—	—	—	(173,313)	(173,313)
Balance as at 31st December 2007		1,733,127	1,164,384	506,849	1,815,601	5,219,961

These financial statements have been approved by the Board of Directors of the Company on 23 April 2008.

Luo Fu Qin	**Song Ying**	**Song Ying**	
Legal representative	*Chief Financial Officer*	*Chief Accountant*	(Company stamp)
(Signature and seal)	(Signature and seal)	(Signature and seal)	

The notes on pages 114 to 175 form part of these financial statements.

(Expressed in thousands of renminbi yuan)

	Notes	Share Capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
Balance as at 31st December 2005		1,063,944	527,573	430,441	1,906,204	3,928,162
Changes in accounting policies	4(2)	—	—	—	(7,463)	(7,463)
Balance as at 1 January 2006		1,063,944	527,573	430,441	1,898,741	3,920,699
Changes in equity for in the year						
1. Net profit for the year		—	—	—	306,762	306,762
2. Appropriation of profits	34					
— Appropriation for surplus reserve		—	—	31,484	(31,484)	—
— Distribution to shareholders		—	—	—	(270,242)	(270,242)
3. Bonus dividends relating to 2005	34(2)	319,183	—	—	(319,183)	—
4. Others						
— Government grants		—	18,760	—	—	18,760
Balance as at 31st December 2006		1,383,127	546,333	461,925	1,584,594	3,975,979

These financial statements have been approved by the Board of Directors of the Company on 23 April 2008.

Luo Fu Qin	**Song Ying**	**Song Ying**	
Legal representative	*Chief Financial Officer*	*Chief Accountant*	(Company stamp)
(Signature and seal)	(Signature and seal)	(Signature and seal)	

The notes on pages 114 to 175 form part of these financial statements.

Notes to the Financial Statements

1 Company Status

Chongqing Iron & Steel Company Limited (the "Company") is a joint stock limited company incorporated in Chongqing on 11 August 1997.The Company's parent company is the Chongqing Iron & Steel Group Company Limited ("Parent Group").

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under State Council. For the implementation of a part of the restructuring, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda") under the Restructuring Agreement. As the consideration, the Company issued 650,000,000 state-owned legal person shares of Rmb1 each to the Parent Group. The assets and liabilities mentioned above has been assessed by Zhongzi Assets Appraisal Office, and the net assets were valued at Rmb999,538,500.The legality of the valuation was reviewed and confirmed by the circular (Guo Zi Ping [1997] No. 706) issued by the State-owned Assets Supervision and Administration Bureau.

On 27 August 1997, the Company was approved by the circular (Zheng Wei Fa [1997] No.51) from the Securities Commission of the State Council to issue overseas listed foreign shares. The Company issued 410,000,000 ordinary shares and 3,944,000 ordinary shares for over-allotment on the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 15 October 1997 and 6 November 2007 respectively. Such shares, with a par value of Rmb1, were listed on the Hong Kong Stock Exchange on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company's total share capital was 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 overseas listed H shares.

On 7 December 1998, as approved by the Ministry of Commerce through the circular (Shang Wai Zi Zi Shen Zi [1998] No. 0087), the Company became a stock limited company with foreign investment.

The Company acquired all assets and liabilities of Hengda in December 2002. Meanwhile, the Company transferred all state-owned shares of Hengda to the Parent Group. Upon the completion of the transaction, the Company did not have investment in subsidiaries any longer.

On 9 August 2006, 319,183,200 bonus shares were distributed to holders of ordinary shares by the Company, at three bonus shares for every ten shares as approved at the AGM held on 9 June 2006. Upon the distribution of bonus shares, the Company's total share capital increased to 1,383,127,200 shares from 1,063,944,000 shares, including 845,000,000 domestic shares and 538,127,200 overseas listed H shares.

As approved by CSRC, the Company issued 350,000,000 A shares (Renminbi-denominated domestic shares) and raised a total proceeds of Rmb1,008,000,000 on 29 January 2007. Such shares were listed on the Shanghai Stock Exchange on 28 February 2007.Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group changed into A shares automatically upon the issuance of the abovementioned A shares. The Parent Group undertook that it would neither transfer or entrust any other party to manage the shares held by it, nor agree the Company to repurchase such shares within 36 months from the listing date of the Company's A shares. Upon the issuance of A shares, the Company's total share capital increased to 1,733,127,200 shares from 1,383,127,200 shares, including 1,195,000,000 domestic A shares and 538,127,200 overseas listed H shares.

The principal activities of the Company are the production and sale of medium-gauge steel plates, steel billets, steel sections, wire rods and coking by-products.

2 Basis of preparation

(1) Declaration on compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company were prepared under the requirements of Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China ("Ministry of Finance"), reflecting the Company's financial positions, operating results, cash flows on a true and complete basis.

In addition, the financial statements of the Company also are in compliance with disclosure requirements for financial statements and its notes as set out in Rule 15 on Information Disclosure and Financial Records of Companies Publicly Issuing Securities °VGeneral Provisions on Financial Reports promulgated by China Securities Regulatory Commission ("CSRC") in 2007.

(2) Accounting year

Accounting year of the Company is the calendar year from January 1 to December 31.

(3) Measurement Attributes

In preparing financial statements, the Company generally adopts historical cost for measurement, except for assets and liabilities items as below:

— Financial asset and financial liability at fair value through profit or loss (including financial asset or financial liability held for trading) (refer to note 3(9))

— Available-for-sale financial assets (refer to note 3(9))

(4) Reporting currency and presentation currency

The Company's reporting currency is the Renminbi. The Company adopts Renminbi as currency for the purpose of preparing financial statements.

3 Significant Accounting Policies and Accounting Estimates

(1) Translation of foreign currencies

In initial recognition of foreign currency business, it shall be translated into Renminbi at the spot exchange rate of the transaction date.

The spot exchange rate means Renminbi foreign exchange rate as quoted by the People's Bank of China.

The foreign currency monetary items at the end of the year shall be translated at the spot exchange rate on the balance sheet date. Except for exchange differences on principal and interests of the specific borrowings for the acquisition and construction of assets qualified for capitalization (refer to note 3(15)), other exchange differences are included into the current profit or loss. For the foreign currency non-monetary items measured at the historical cost, the amount of its recording currency shall remain unchanged. Foreign currency non-monetary item measured at the fair value are translated at the spot exchange rate on the date of determination of fair value. For the difference between before and after the translation of the amount of functional currency, where foreign currency non-monetary item is classified as available-for-sale financial assets, its difference shall be included into capital reserve; where foreign currency non-monetary item is measured at fair value through profit or loss, its difference shall be recorded into the current profit and loss.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(2) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(3) Inventories

Inventories are carried at the lower of cost or net realisable value.

Inventory cost comprises all costs of purchase, costs of processing and other costs. Inventories are accounted for at actual cost upon acquisition. Actual cost of inventories delivered is measured using the weighted average method. Save as purchase cost of raw materials, work in progress and commodity inventories comprise direct labour and production and manufacture expenses distributed under appropriate proportion when in normal production.

If the costs measured at single inventory item are higher than net realisable value, the difference between the two is accounted into loss for diminution in value of inventories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale.

Circulation materials comprises low-value consumables, Packaging materials and other circulation materials, shall be amortised at one-off write-off method and included in relevant asset costs or current profit or loss.

The Company adopts perpetual inventory record policy.

(4) Long-term equity investment

The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Where the investor can exercise control over the investee, the investee is a subsidiary of the investor, which shall be included in the consolidated financial statements of the investors.

Joint control is the contractually agreed sharing of control over an economic activity, which does not exist unless the agreements are required from investing parties sharing the control power for important financial and operating decisions related to the economic activity. Where the investor can jointly control over the investee with other parties, the investee is joint venture of the investor and the said parties.

Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. Where the investor can exercise significant influence over the investee, the investee is association of the investor.

The Company has no investment on the subsidiaries, joint ventures or associations.

Other long-term equity investment refers to long-term equity investment without control or joint control or significant influence over the investee, without quotation in the active market and whose fair value cannot be measured reliably.

In initial reorganisation of other long-term equity investment, for a long-term equity investment acquired by cash payment, the initial investment cost shall be the actual purchase price that has been paid and subsequently measured based on cost. As at the end of the period, provision for impairment of long-term equity investments is made according to Note 3(9).

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(5) Fixed assets and construction in progress

Fixed assets are tangible assets that are held by the Group for using the production or for administrative purposes, and have useful lives more than one accounting year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment provision (refer to note 3(8)). Construction in progress is stated in the balance sheet at cost less impairment provision (refer to note 3(8)).

The initial cost of a purchased fixed asset consists of the expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the fixed asset. The initial cost of a self-constructed fixed asset consists of constructive materials, direct labour costs, borrowing costs qualified for capitalization (refer to note 3(15)) and necessary expenses that bring the fixed asset to the expected conditions for use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

For each component of fixed assets, where each has different useful life or producing economic benefits for the Company in various ways and is applicable for different depreciation rate or depreciation methods, the Company will recognize each component as single fixed asset respectively.

Where subsequent expenses of fixed assets, including the relevant expenses for replacement of certain component of fixed assets, met the recognition conditions of fixed assets will be included in the cost of fixed asset, net of the book value of the substituted part. The expenditure related to ordinary maintenance of fixed assets shall be included in current profit and loss.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

The Company's fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful life and estimated residual value of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Depreciation rate
Plant and property	40 years	3%	2.43%
Machine equipment and other equipment	8-20 years	3%	4.85%-12.13%
Transportation instruments	8 years	3%	12.13%

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(6) Lease

(a) Operating lease charges

Lease payments under assets leased by way of operating leasing are recognized as relevant asset costs or expenses on a straight-line basis over the lease term.

(b) Assets leased out under operating leases

Provision for depreciation of assets leased out by way of operating leasing is made under depreciation policy set out in Notes 3(5), and impairment provision is made under accounting policy set out in Notes 3(8). Lease income from assets leased out by way of operating leasing is recognized as income using the straight-line method over the lease term. Substantial initial direct costs arising from assets leased out by way of operating leasing shall be capitalized, and be included in the current profits and losses on the same basis with recognising lease income over its life; Unsubstantial initial direct costs shall be directly included in the current profits and losses.

(7) Intangible Assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (only for intangible assets with finite useful life) and impairment provision (refer to Notes 3(8)). Cost of intangible assets with finite useful life, after less accumulated amortisation and impairment provision, will be amortized over the estimated useful life with the straight-line method by the Company. The amortization period of each intangible assets are as follows:

	Useful life
Land use right	50 years
Trademark use right	10 years

If it is unable to forecast the term in which the intangible asset can bring economic benefits to the Company, it shall be regarded as an intangible asset with uncertain useful life, and such intangible assets are not amortised. As at the balance sheet date, the Company has no intangible assets with an indefinite useful life.

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase. Research refers to scheduled innovative investigations to obtain and understand scientific or technological knowledge. Development means to apply the research outcomes or other knowledge to one or more plans or design prior to a commercial production or use in order to produce new or essentially-improved materials, devises, products or has new work flow, etc.

Expenses in the research phase are included in current profit and loss when occurred. For the expenses in the development phase, if a particular product or work flow from development outcomes is technically or commercially feasible and the expenses in the development phase can be reliably measured, the expenses in the development phase shall be capitalized. Capitalized development expenses are stated in the balance sheet at cost less impairment provision (refer to Notes 3(8)). Other development expenditure is recognised as an expense in the period in which it is incurred.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(8) Impairment of non-financial long-term assets

The Company shall, on the balance sheet date, make a judgment on whether there is any sign of possible assets impairment according to internal and external information, including:

— Fixed assets
— Construction in progress
— Intangible assets

Where any evidence shows that there is possible assets impairment, an impairment test shall be made for the assets and the recoverable amount of the assets shall be estimated.

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 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, sets of asset group, same as below) 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.

The net amount of the fair value less costs of disposal of an asset 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. The present value of the future cash flows expected to be derived from the asset is determined based on the future cash flows expected to be derived from the continuing use and from the final disposal of the asset discounted at an appropriate pre-tax discount rate determined.

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as asset impairment loss through the current profit and loss. Meanwhile, a provision for the asset impairment shall be made accordingly. The impairment loss related to asset group or sets of asset group, will firstly be charged to the goodwill allocated to the asset groups or sets of asset groups, and then be charged to the book value of the asset groups or sets of asset groups proportionally based on the percentage of the book value of assets other than the goodwill in the asset groups or set of asset groups. However, the book value of each asset after elimination shall not be less than the highest of the net amount of the fair value less costs of disposal of such asset (if determinable), the present value of the future cash flows of such assets (if determinable) and zero.

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

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(9) Financial Instruments

The financial instruments of the Company comprise Cash and bank balance, accounts receivables, prepayments, accounts payables, borrowings and equities.

(a) Recognition and Measurement of Financial Assets and Financial Liabilities

When the Company becoming a party to a financial instrument, financial asset and financial liability shall be recognized in the balance sheet.

In initial recognition, for the purpose of acquiring assets or assuming liabilities, financial instrument has been classified into different categories by the Company: financial asset and financial liability, loans and receivables, held-to-maturity investments and other financial liabilities at fair value through profit or loss.

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. After initial recognition, financial assets and financial liabilities are subsequently measured as follow:

— 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 as well as derivatives held by the Company for the purpose of selling or repurchasing in the near term.

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.

— Receivables

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

After the initial recognition, accounts receivables are carried at amortised cost applying the effective interest method.

— 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 Significant Accounting Policies and Accounting Estimates *(Continued)*

(9) Financial Instruments *(Continued)*

(a) Recognition and Measurement of Financial Assets and Financial Liabilities *(Continued)*

— 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 shareholders' equity 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.

— Other financial liabilities

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

Other financial liabilities include financial guarantee contracts liabilities. Financial guarantee contracts are the contracts under which the company (as guarantor and creditor) agree to repay liabilities or undertake responsibilities when debtor fails to repay liabilities. Financial guarantee contracts liabilities are subsequently measured at the higher of the amount initially recognised less accumulated amortisation and the expected amount of liability determined in accordance with the principles of contingent (refer to Note 3(12))..

Other financial assets other than those described above, subsequent to initial recognition, are measured at amortised cost using the effective interest method.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(9) Financial Instruments *(Continued)*

(b) 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.

— Receivables and held-to-maturity investments

Held-to-maturity investments are assessed for impairment on an individual basis. Accounts receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis and the current value of the predicted future cash flow (excluding the loss of future credits not yet occurred) of accounts receivables and held-to-maturity investments discounted at the original effective interest rate is less than their carrying amount, their carrying amount shall be written down to above current value, and the amount as written down shall be recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period.

The assessment is made collectively where accounts receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable figures reflecting present economic conditions.

Upon recognition of the impairment loss on accounts receivables and held-to-maturity investments, if there is an objective evidence showing that the value of the financial assets has been restored which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognized will be reversed through profit and loss, yet the carrying value so reversed will not exceed the amortized cost of the financial assets on the date of reversal as if no provisions for impairment has been made.

— Available-for-sale financial assets and other long-term equity investments

Available-for-sale financial assets and other long-term equity investment are assessed on an individual basis.

Where available-for-sale financial asset is impaired, even the financial assets are not derecognised, the accumulative losses arising from the decrease of the fair value of the shareholder's equity which was directly included will be transferred out and recorded into the profits and losses of the current period by the Company.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, there is a rise in fair value in subsequent accounting periods which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognised will be reversed through profit and loss. An impairment loss recognised for available-for-sale equity instrument investments is not reversed through profit or loss.

For other long-term equity investments (refer to Note 3(4)), the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, which shall be recognized as impairment loss and shall be recorded into the profits and losses of the current period. Such impairment loss is not reversed.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(9) Financial Instruments *(Continued)*

(c) Determination of fair values

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, and may not deduct the transaction expenses that may occur when it disposes of the said financial asset in the future. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price; For a financial asset to be acquired or a financial liability assumed, it is the current asking price.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using the price adopted in recent market transactions between knowledgeable, willing parties, reference to the current market pricing of other instrument that is substantially the same and discounted cash flow analysis. The Company calibrates the valuation technique and tests it for validity periodically.

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Company's contractual rights to the cash flows from the financial asset expire or if the Company transfers substantially all the risks and rewards of ownership of the financial asset.

If the transfer of an entire financial asset satisfies the conditions for terminating recognition, the difference between the amounts of the following two items shall be recorded in the profits and losses of the current period:

— Carrying amount of the financial asset transferred

— The sum of the consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the shareholder's equities.

When the prevailing obligations of a financial liability are relieved in all or in part, the Company will terminate the recognition of the financial liability in all or part.

(e) Equity instruments

An equity instrument is a contract that evidences a residual interest in the Company's assets after deducting all the liabilities.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

If the Company repurchase the equity instrument, the consideration and transaction fees should be reduced in the shareholders' equity interests.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(10) Employee benefits

Employee benefits are to all kinds of payment and other relevant expenditures given by the Company in exchange of the services offered by the employees. Except for termination benefits, for the accounting period in which an employee has offered services to the Company, the Company recognises the employee compensation payable as a liability and makes corresponding increase in assets costs or current expenses.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Company has joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Company makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition, the Company also participated in the non-social retirement benefit plans organised by the Parent Group for employees.

(b) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Company has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis. The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance and maternity insurance organised by labour and social security bodies, and makes welfare contribution to other social insurances through the Parent Group.

Save for the above retirement benefits, housing fund and other social insurances as required, the Company has no additional commitment to other retirement benefits and social insurances benefits. the Parent Group is liable for payment of any other payable employee retirement benefits and social insurances other than the above-mentioned retirement benefits, housing fund and other social insurances.

(11) Income taxes

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.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

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.

Deferred tax is not recognised for the temporary differences arising in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or the deductible loss).

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.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(12) Estimated liabilities and contingent liabilities

If the Company has present obligations in relevant with contingent events, the performance of which is likely to cause an outflow of economic benefits and the relevant amount of which can be measured reliably, the Company shall recognize estimated liabilities. Where the effect of time value of money is material, estimated liabilities are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events; or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(13) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Company's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised when it is probable that the economic benefits will flow to the Company, the revenue and costs can be measured reliably and the following respective conditions are met. Revenue is recognised by following ways:

(a) Sale of goods

Revenue from sale of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

— The major risks and rewards attached to ownership of the goods have been transferred to the buyers by the Company;

— The Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

(b) Interest income

Interest income is recognised based on the length of time for which Cash and bank balance is used by others and the applicable effective interest rate.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(14) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the Government to the Company at no consideration except for the capital contribution from the government as an shareholder of the Company. 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.

(15) Borrowing costs

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction of a qualifying asset for capitalization, it shall be capitalized and recognized as costs of relevant assets.

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

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization with discounts or premiums) in each accounting period shall be determined according to the following provisions:

— As for the specific borrowings for the acquisition and construction of assets qualifying for capitalization, the to-be-capitalized amount of interests shall be determined in light of the current specific borrowings calculated based on applicable effective interests rate minus the income of interests earned from the unused borrowings by depositing it in the bank or investment income from such borrowing by making it as a temporary investment.

— Where a general borrowing is used for the acquisition and construction assets qualifying for capitalization, the Company shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average effective interest rate of the general borrowing.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

The capitalization period is the period starting from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs. Capitalisation of borrowing costs commences when expenditure for the asset and borrowing costs being incurred, and the acquisition and construction or production activities which enable the assets reach the working condition for its intended use or sale being commenced. Capitalization of borrowing cost shall be ceased when acquisition, construction or production of the qualifying asset has prepared for its intended use or sale. Where acquisition and construction of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended by the Company.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(16) Dividends Distribution

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(17) Related parties

If the Company has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and other party are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. 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. The Company's related parties include, but are not limited to:

(a) Parent Company of the Company;

(b) Subsidiaries of the Company;

(c) Other enterprises under the control of the same parent company of the Company;

(d) Investors that have joint control over the Company;

(e) Investors that exercise significant influence over the Company;

(f) Joint ventures of the Company;

(g) Associates of the Company;

(h) Principal individual investors and close family members of such individuals;

(i) Key management personnel of the Company and close family members of such individuals;

(j) Key management personnel of the Company's parent;

(k) Close family members of key management personnel of the Company's parent; and

(l) Other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Company, and close family members of such individuals.

Besides the related parties stated above determined in accordance with the requirements of the Accounting Standards for Business Enterprises (2006) ("CAS (2006)"), the following enterprises and individuals, among others, are considered as related parties based on the disclosure requirements of Administrative Method on Information Disclosure of Listed Companies issued by the CSRC:

(m) Enterprises that hold 5% or more of the Company's shares or persons that act in concert;

(n) Individuals who directly or indirectly hold 5% or more of the Company's shares and close family members of such individuals;

(o) Enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

(p) Individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(q) Enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such individual assumes the position of a director or senior executive.

3 Significant Accounting Policies and Accounting Estimates *(Continued)*

(18) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The key assumptions in estimates and judgments of uncertainties are evaluated by the management of the Company on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for data about the assumptions and risk factors relating to fair value of financial instruments set out in Notes 44, other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

As described in Note 3(9)(b), accounts receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is evidence of impairment. Actual amount of impairment loss shall be evaluated if any impairment existed. Objective evidence of impairment includes observable data about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the impairment, the impairment loss recognised in prior years is reversed.

(b) Impairment of non-financial long-term assets

As described in Note 3(8), non-financial long-term assets are assessed for impairment at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. If evidence showing the carrying amount of long-term assets may not be recovered, relevant assets are considered being impaired and corresponding impairment loss shall be recognized.

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). Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of estimated future cash flows, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(c) Depreciation and amortisation

As described in Note 3(5) and 3(7), fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is a significant change in the previous estimation, the expenses of depreciation or amortisation shall be adjusted in the future periods.

4 Changes in accounting policies and accounting estimates

(1) Changes in accounting policies and their effects

The Company adopted CAS (2006) on 1 January 2007. The significant accounting policies applicable to the Company under CAS (2006) are summarised in Note 3.

The Company has issued H shares, and the financial statements in prior years were reported by using the applicable PRC accounting regulations and Hong Kong Financial Reporting Standards (HKFRS). Pursuant to the requirements of the Q&A No.1 in Accounting Standards for Business Enterprises - Ints 1 ("Ints 1") issued by the MOF in November 2007, the Company, at the date of first-time adoption, made retrospective adjustments to relevant items affected by the changes in accounting policies due to adoption of Accounting Standards for Business Enterprises (2006) based on the following principles.

Where the principles stipulated in Accounting Standards for Business Enterprises (2006) differ from accounting standards adopted in prior years, and these principles in Accounting Standards for Business Enterprises (2006) are same as those adopted by the Company in preparing the financial statements in accordance with HKFRS in prior years, the Company made retrospective adjustments to those items affected by the changes in accounting policies due to the first-time adoption of Accounting Standards for Business Enterprises (2006), based on the information used in preparing the financial statements in accordance with HKFRS. In addition, the Company made retrospective adjustments to other items in accordance with the requirements of "Accounting Standards for Business Enterprises 38 °VFirst-time Adoption of Accounting Standards for Business Enterprises" (Accounting Standards for Business Enterprises No.38) and Ints 1.

Except for the retrospective adjustments described in articles 1 "(a) financial instruments" as below which was made in accordance with the requirements of Accounting Standards for Business Enterprises No.38 and Ints 1, no other retrospective adjustments resulted from the changes in accounting policies.

Upon the adoption of Accounting Standards for Business Enterprises (2006), the Company's significant accounting policies changed as follows:

(a) Financial Instruments

Before 1 January 2007, financial assets, financial liabilities and equity instruments, were measured at historical cost. At present, accounting treatment is on the basis of their fair values, amortized cost and cost in different categories classified under the principle set out in Notes 3(9).

Following adjustment have been made by the Company for the change of accounting policy of Financial Instruments as at 1 January 2007:

— Retrospective adjustments have been made by the Company for the change of accounting policy of financial assets (excluding the derivatives instrument designated as hedging instruments) as at 1 January 2007.

— Financial liability (excluding the derivatives instrument designated as hedging instruments) held by the Company was divided into financial liability at fair value through profit or loss and other financial liabilities as at 1 January 2007. For the financial liabilities at fair value through profit or loss, the Company treated its fair value as at 1 January 2007 as its book value, and the difference between the fair value and original book value was adjusted into retained earnings, and retrospective adjustments was made to the relevant items of 2006 comparative financial statements.

4 Changes in accounting policies and accounting estimates *(Continued)*

(1) Changes in accounting policies and their effects *(Continued)*

(b) Reversal for impairment loss of non-financial long-term assets

For long-term equity investments in subsidiaries, associated companies and joint-controlled entities, fixed assets, construction in progress, intangible assets, if there is an indication that there has been a change in the factors used to determine the impairment in prior years and, as a result, recoverable amount is higher than the carrying amount, before 1 January 2007, the Company will reverse impairment loss recognised in prior years, subject to the carrying amount of the assets after reversal not exceeding the carrying amount without impairment provision for asset. At present, the impairment loss is not reversed.

No retrospective adjustment has been made by the Company for the above change of accounting policy on impairment loss.

(c) Governmental grant

Before 1 January 2007, a government grant related to an asset (excluding capital contribution from the government) was recognised in capital reserve once it complied with the conditions associated. At present, such government grant is recognised initially as deferred income and equally distributed in profit or loss over the useful life of the asset.

No retrospective adjustment has been made by the Company for the above change of accounting policy on government grants.

(d) Borrowing costs

Before 1 January 2007, borrowing costs on funds borrowed for general purposes and used for the acquisition or construction of fixed assets, and borrowing costs on parts of the funds borrowed specifically for the acquisition or construction of fixed assets which have not been put into use (less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset), and borrowing costs on the funds borrowed and used for the acquisition or construction of intangible assets, were recognised in profit or loss when incurred. At present, such borrowing costs are now capitalised as part of the cost of assets, when certain conditions are satisfied.

No retrospective adjustment has been made by the Company for the above change of accounting policy on borrowing costs.

(e) Staff welfare fees

Before 1 January 2007, the Company accrued staff welfare fees based on 14% of the total salaries. At present, they are measured based on the Company's actual conditions and employee benefit plan.

The balance of staff welfare payable was transferred to employee benefits payable (staff welfare) at 1 January 2007. Subsequently any difference between such balance and the amount of a liability incurred for employee benefits measured based on the Company's actual conditions and employee benefit plan has been adjusted to general and administrative expenses for 2007.

4 Changes in accounting policies and accounting estimates *(Continued)*

(2) Effects of the above changes in accounting policies on the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows:

	Notes	2006 Net profit	2006 Closing balance of shareholder's equity	2006 Opening balance of shareholder's equity
Net profit and shareholders' equity before adjustments		314,837	3,991,517	3,928,162
Financial liabilities at fair value through profit or loss	(a)	(8,075)	(15,538)	(7,463)
Net profit and shareholders' equity after adjustments		306,762	3,975,979	3,920,699

Affected assets and liabilities items in the balance sheet as at 31 December 2006

	Notes	Before adjustment	Adjustment	After adjustment
Prepayments	(a)	(658,523)	(9,641)	(668,164)
Other non-current liabilities	(a) (b)	(210,000)	(21,878)	(231,878)
Accrued payroll	(b)	(16,296)	16,296	—
Salaries Payable	(b)	—	(16,296)	(16,296)
Specific payables	(b)	(15,981)	15,981	—
Total		(900,800)	(15,538)	(916,338)

Affected income and expenses items in the income statement in 2006

	Notes	Before adjustment	Adjustment	After adjustment
Income from principal operations	(a) (c)	(9,612,897)	9,612,897	—
Income from other operations	(c)	(49,664)	49,664	—
Sales income	(c)	—	(9,671,561)	(9,671,561)
Cost of principal operations	(c)	8,747,813	(8,747,813)	—
Cost of other operations	(c)	40,106	(40,106)	—
Sales cost	(c)	—	8,787,569	8,787,569
Sales tax and extra charges	(c)	—	350	350
Administrative expenses	(c)	196,530	7,389	203,919
Impairment loss of assets	(c)	—	(7,389)	(7,389)
Financial expenses	(a)	163,173	17,075	180,248
Total		(514,939)	8,075	(506,864)

4 Changes in accounting policies and accounting estimates *(Continued)*

(2) Effects of the above changes in accounting policies on the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: *(Continued)*

(a) subsequent measurement on its financial liabilities is made on the basis of the amortised costs by adopting the actual interest rate method. According to long term sales contract ("the Contract") entered into by the Company and one of major customers ("the Customer") in 2005 and 2006, the Company obtained long term advance from the customer in 2005 and 2006. The payment of goods will be settled during the period from 2006 to 2009 on monthly basis, and the Customer is entitled to certain amount of discount in selling price every month. The Company confirmed, the long term advance is mainly a financing loan obtained for the purpose of its operating activities, bearing an actual interest rate of 5.58% per annum in 2006. As provided in Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments Article 33, an enterprise shall make subsequent measurement on its financial liabilities on the basis of the post-amortization costs by adopting the actual interest rate method. Accordingly, the long term advance is recognized as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the actual interest rate method. At 31 December 2006, the accumulated downward adjustment in shareholder's equity as a result of accounting treatment difference of above financial liabilities was Rmb15,538,000.

(b) Except for retrospective adjustments made to balance sheet items at 31 December 2006 as set out in Notes 4(1), financial statement items of 2006 were re-classified according to Accounting Standards for Business Enterprises No. 38.

(c) Except for retrospective adjustments made to income statement items in 2006 as set out in Notes 4(1), financial statement items of 2006 were re-classified according to Accounting Standards for Business Enterprises No. 38.

(3) Change in accounting estimates

The Company conducted review for the useful lives of fixed assets in 2007. The useful lives of buildings were estimated to be 40 years, while they were estimated to be above 40 years previously. The useful lives of machinery and equipment were estimated to be 20 years, while they were estimated to be above 20 years previously. The estimated residual values of part of plant and building and machinery and other equipment is standardised at 3%, which resulting in the following changes in depreciation charges of sales cost at present and future periods:

Unit: Rmb'000	2007	2008	2009	Future periods
Increase/(decrease) in depreciation expense	11	11	11	(33)

5 Taxation

(1) The types of taxes applicable to the Company's sale of goods and rendering of services include business tax and value added tax.

Business tax rate	5%
Value added tax rate	17%

5 Taxation *(Continued)*

(2) Income taxes

The Company applies the liability method for accounting of income tax. The applicable income tax rate for the Company for the year is 15% (2006: 15%).

(a) 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 addition, in accordance with the Notice on Issuing Some Policies for Encouraging Foreign Investment by the People's Government of Chongqing Municipality (YFF(1998) 43), the Company was exempted from local income tax.

Enterprise Income Tax Law of the PRC ("new PRC EIT law") has been approved by 5th Session of the 10th National People's Congress on 16 March 2007, and came into force from 1 January 2008. According to the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39) issued by State Council on 2 December 2007, the new PRC EIT law provides that, as from 1st January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the grand development of China's Western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax law, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010. The new PRC EIT law has no impact on the carrying amount of tax payable in the balance sheet as at 31 December 2007.

(b) 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 2004 and the application form for the income tax reduction lodged by the Company relating to purchase of domestic manufactured equipment in 2006 and the application form for the income tax reduction lodged by the Company relating to purchase of domestic manufactured equipment in 2007 approved by the State Administration of Taxation of Da Dukou District, Chongqing, the Company is entitled to a tax reduction of Rmb210,905,000 during the period from 2004 to 2006. Of them, Rmb12,178,000, Rmb52,394,000 and Rmb53,287,000 were utilised to offset the Company's income tax liability for 2005, 2006 and 2007 respectively. The remaining Rmb52,413,000 approved in 2006 and Rmb40,084,000 approved in 2007 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.

The new PRC EIT law do not have relevant provisions regarding income tax reduction relating to the purchase of domestic manufactured equipment. The Company has not yet confirmed outstanding income tax reduction amount.

5 Taxation *(Continued)*

(3) Taxes Payable

	2007 Rmb'000	2006 Rmb'000
Value added tax payable	**57,367**	52,866
Business tax payable	**56**	26
Income tax payable	**3,510**	(21,871)
Others	**2,018**	1,155
Total	**62,951**	32,176

6 Cash at bank and on hand

	2007 Rmb'000	2006 Rmb'000
Cash on hand	**681**	784
Deposits with banks	**848,765**	303,229
Other monetary funds	**244,433**	73,629
Total	**1,093,879**	377,642

Other monetary funds includes:

	2007 Rmb'000	2006 Rmb'000
Guarantee for letter of credit	**859**	26,126
guarantee for bills	**121,938**	37,744
Deposit check in bank	**115,000**	—
Fund in float	**6,636**	9,759
Total	**244,433**	73,629

7 Bills receivable

All of bills receivables held by the Company are bank acceptance due within six months.

Above balance includes no bills receivables due from shareholders with 5% or above of shareholding with voting power in the Company. Note receivables due from related parties are set out in Notes 48(5)(b).

8 Accounts receivable

(1) Accounts receivable by customer type:

	2007 Rmb'000	2006 Rmb'000
Amount due from related parties	**103,038**	81,740
Amounts due from other customers	**198,807**	258,685
Sub-total	**301,845**	340,425
Less: Provision for bad debts	**154,959**	161,027
Total	**146,886**	179,398

The Company's accounts receivable due from related parties amounted to Rmb103,038,000 (2006: Rmb81,740,000) (refer to Notes 48(5)(a)), representing 34% of the carrying value of account receivables (2006: 24%).

Above balance includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

At 31 December 2007, the total amounts of accounts receivable due from the Company's biggest five debtors are as follows:

	2007 Rmb'000	2006 Rmb'000
Amounts (Rmb'000)	**119,295**	118,473
Percentage of accounts receivable	**40%**	35%

The analysis on years past due:

	2007 Rmb'000	2006 Rmb'000
Within 3 month (inclusive)	**104,698**	89,943
4 to 12 month (inclusive)	**—**	—
1 to 2 years (inclusive)	**—**	—
2 to 3 years (inclusive)	**—**	—
Over 3 years	**14,597**	28,530
Sub-total	**119,295**	118,473
Less: Provision for bad debts	**14,597**	28,530
Total	**104,698**	89,943

8 Accounts receivable *(Continued)*

(2) The ageing analysis of accounts receivable is as follows:

Amount due from a related companies:

	2007	2006
	Rmb'000	*Rmb'000*
Within 3 month (inclusive)	**81,112**	51,183
4 to 12 month (inclusive)	**457**	11,072
1 to 2 years (inclusive)	**3,819**	5,062
2 to 3 years (inclusive)	**5,028**	—
Over 3 years	**12,622**	14,423
Sub-total	**103,038**	81,740
Less: Provision for bad and doubtful debts	**10,079**	10,079
Total	**92,959**	71,661

Amount due from other customers:

	2007	2006
	Rmb'000	*Rmb'000*
Within 3 month (inclusive)	**48,068**	101,420
4 to 12 month (inclusive)	**4,679**	1,360
1 to 2 years (inclusive)	**1,557**	5,308
2 to 3 years (inclusive)	**491**	2,089
Over 3 years	**144,012**	148,508
Sub-total	**198,807**	258,685
Less: Provision for bad debts	**144,880**	150,948
Total	**53,927**	107,737

The ageing is counted starting from the date accounts receivable is recognised.

8 Accounts receivable *(Continued)*

(3) An analysis of provision for bad and doubtful debts is as follows:

	2007 Amount Rmb'000	2007 Percentage of Total accounts receivable	2007 Bad debts provision Rmb'000	2007 Rate of provision	2006 Amount Rmb'000	2006 Percentage of Total accounts receivable	2006 Bad debts provision Rmb'000	2006 Rate of provision
Individually significant	**119,295**	**40%**	**(14,597)**	**12%**	118,473	35%	(28,530)	24%
Individually insignificant but with a material portfolio credit risk	**135,842**	**45%**	**(130,283)**	**96%**	128,722	38%	(122,418)	95%
Other immaterial items	**46,708**	**15%**	**(10,079)**	**22%**	93,230	27%	(10,079)	11%
Total	**301,845**	**100%**	**(154,959)**	**51%**	340,425	100%	(161,027)	47%

For amounts due from related companies, the provision for bad debt is individually assessed. As at 31 December 2007, the Company's amounts due from related parties with aging over 3 years mainly include the amount of Rmb10,079,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to unsatisfied financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that there was a slight possibility for recovering the amount. Therefore, a provision of Rmb2,710,000 was made for bad debts in full in 2005; Due to cession of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company's management considered that there was a slight possibility for recovering the amount. Therefore, a provision of Rmb7,369,000 was made for bad debts in full in 2006.

For amounts due from other companies, taking into account aging as credit risk features, account receivables individually insignificant and account receivables individually significant without impairment provision after standalone test, based on actual loss ratio of accounts receivable groups that are the same as or similar to them with similar risk features in prior year, and current positions and relevant information, provision is made for the bade debts for accounts receivables group as follows:

Aging	Percentage of provision
4 to 12 month	5%
1 to 2 years	25%
2 to 3 years	50%
Over 3 years	100%

In 2007, the Company has written off irrecoverable accounts receivable and bad debt provision with ageing over 3 years, totalling Rmb1,427,000 (2005: Rmb387,000).

9 Prepayment

	2007 Rmb'000	2006 Rmb'000
Material prepayments	**250,335**	124,721
Prepayments for construction and equipment	**502,834**	22,435
Prepaid land premiums	**300,000**	—
Total	**1,053,169**	147,156

The ageing analysis of prepayments is as follows:

	2007		2006	
	Amount Rmb'000	Percentage	Amount Rmb'000	Percentage
Within 1 year (inclusive)	**1,029,849**	**97.79%**	136,509	92.76%
1 and 2 years (inclusive)	**14,125**	**1.34%**	9,595	6.52%
2 and 3 years (inclusive)	**9,167**	**0.86%**	1,024	0.70%
Over 3 years	**28**	**0.01%**	28	0.02%
Total	**1,053,169**	**100%**	147,156	100%

The ageing is counted starting from the prepayment is recognised. At 31 December 2007, the increase in raw material prepayment was mainly due to demand exceeding supply in raw material market, significantly increased raw material price, and prepayment settlement required by more and more suppliers; The increase in prepayments for construction and equipment was due to prepayment of Rmb255,553,000 and Rmb231,783,000 for construction and equipment for hot rolling plate-strip project and wide-thick steel plates project respectively; Prepaid land premiums was prepayment of land transfers fees of Rmb300,000,000 for hot rolling plate-strip project and wide-thick steel plates project of Chongqing Yanjia Industrial Park Construction and Development Company Limited.

Above balance includes no prepayment due from shareholders with 5% or above of shareholding with voting power in the Company.

10 Other receivables

	2007 *Rmb'000*	2006 *Rmb'000*
Other receivables	**30,345**	22,721
Less: Provision for bad debts	**11,718**	11,718
Total	**18,627**	11,003

Above balance includes no amount due from shareholders with 5% or above of shareholding with voting power in the Company.

At 31 December 2007, the total amounts of accounts receivable due from the Company's biggest five debtors are as follows:

	2007 *Rmb'000*	2006 *Rmb'000*
Amounts *(Rmb'000)*	**17,958**	15,234
Years past due	**1 to 3 years**	1 to 3 years
Percentage of other receivables	**59%**	67%

(1) Ageing analysis of other receivables is as follows:

	2007		2006	
	Amount *Rmb'000*	Percentage	Amount *Rmb'000*	Percentage
Within 1 year (inclusive)	**18,812**	**61.99%**	10,760	47.36%
1 year to 2 years (2 years inclusive)	**293**	**0.97%**	5,587	24.59%
2 years to 3 years (3 years inclusive)	**5,109**	**16.84%**	22	0.10%
Over 3 years	**6,131**	**20.20%**	6,352	27.95%
Total	**30,345**	**100%**	22,721	100%

Ageing of other receivables is counted starting from the date of recognition.

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10 Other receivables *(Continued)*

(2) Analysis of provision for bad debt for other receivables:

	2007				2006			
	Amount *Rmb'000*	Percentage of total receivables	Provision for bad debts *Rmb'000*	Ratio of provision for bad debts	Amount *Rmb'000*	Percentage of total receivables	Provision for bad debts *Rmb'000*	Ratio of provision for bad debts
Individually significant	**17,350**	**57%**	**9,528**	**55%**	15,234	67%	9,528	63%
Other immaterial items	**12,995**	**43%**	**2,190**	**17%**	7,487	33%	2,190	29%
Total	**30,345**	**100%**	**11,718**	**39%**	22,721	100%	11,718	52%

For other receivables, provision for bad debts is made on the basis of individual evaluation.

During the year ended 31 December 2005, the Company had received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to certain debts owed by Chongqing Special Steel (Group) Limited Company ("CSSG"; former subsidiary of the Parent Group which ceased to have shareholding relationship with the Holding Company since June 2003) and the Parent Group to their creditors amounting to Rmb18,340,000 and Rmb18,200,000, respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate Rmb36,540,000 dividend to be distributed to the Holding Company ("the Dividend"). The Company did not withhold the Dividend and without notifying the Company, two of the Courts had withdrawn Rmb4,528,000 and Rmb1,059,000 from the Company's bank accounts in 2005 and 2006 respectively, totalling Rmb5,587,000.

In November 2006, as the Parent Group settled its debts amounting to Rmb18,200,000, the Courts withdrew those verdicts and enforcement orders against the Parent Group, and accordingly the Company was not required to assist the execution of the verdicts.

As at the date of these financial statements are approved for issue, the case relating to the debts owed by CSSG has not been finalised. Based on the advice from the Company's legal counsel, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Parent Group or the Company, and accordingly the Company has no obligation to assist the execution of the verdicts. The Company has made objections to the Courts and seek assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress. On 25 May 2007, Supreme People's Court issued the Notice on Termination of Civil Responsibility Bore by the Parent Group in respect of Cases regarding Historical Debt of Chongqing Special Steel (Fa (Zhi) Ming Chuang (2007)) (the "Notice") to Sichuan Supreme People's Court. It is stated in the Notice that, as the cases regarding historical debt of Chongqing Special Steel are being coordinated and handled, Supreme People's Court requests Sichuan Supreme People's Court to terminate the execution procedure for such cases, which will be handled upon relevant advices are given by Supreme People's Court.

Although the above objection is still in process, management of the Company is of view that the recoverability of the withdrawn bank deposits (recorded as other receivable) is uncertain, thus a total of full impairment provision of Rmb5,587,000was recorded for the years ended 31 December 2005 and 2006.

11 Inventories

(1) An analysis on the movements of inventories for the year is as follows:

	Opening balance *Rmb'000*	Increase in the year *Rmb'000*	Decrease in the year *Rmb'000*	Closing balance of the year *Rmb'000*
Raw materials	1,383,240	8,949,444	(8,741,891)	1,590,793
Work in progress	384,403	10,671,000	(10,405,750)	649,653
Commodity inventories	152,499	10,405,750	(10,405,912)	152,337
Circulation materials	279,218	404,400	(365,735)	317,883
Sub-total	2,199,360	30,430,594	(29,919,288)	2,710,666
Less: Provision for diminution in value of inventories	52,392	15,503	(17,474)	50,421
Total	2,146,968	30,415,091	(29,901,814)	2,660,245

(2) An analysis on provision for diminution in value of inventories is as follows:

	Opening balance *Rmb'000*	Provision made for the year *Rmb'000*	Write-off during the year *Rmb'000*	Closing balance of the year *Rmb'000*
Raw materials	1,597	1,154	(346)	2,405
Work in progress	613	807	(302)	1,118
Commodity inventories	3,843	4,055	(5,928)	1,970
Circulation materials	46,339	9,487	(10,898)	44,928
Total	52,392	15,503	(17,474)	50,421

Provisions for impairment of inventories are mainly the provisions made for obsolete raw materials, work in process and circulation materials and commodity inventories with net realisable value lower than inventory cost.

12 Other long-term equity investment

Long-term equity investment is made by the Company in Xiamen Shipbuilding Industry Co., Ltd., a non-listing company. With an initial investment of Rmb5,000,000, the Company held 2% equity interest in it since March 2002. The Company does not control, jointly control nor has significant influence over it.

Xiamen Shipbuilding Industry Co., Ltd.	Rmb'000
Investment costs	
Opening/closing balance of the year	5,000
Less: Impairment provision	
Opening/closing balance of the year	—
Book value	
Opening/closing book value for the year	5,000

13 Fixed assets

	Plant and buildings Rmb'000	Machinery and other equipment Rmb'000	Motor vehicles Rmb'000	Total Rmb'000
Cost				
As at the beginning of the year	2,422,582	5,050,204	23,652	7,496,438
Reclassification at the beginning of the year	(173,977)	171,751	2,226	—
Reclassification of land use rights	(17,585)	—	—	(17,585)
Transfer from construction in progress	83,292	760,969	208	844,469
Additions	3,020	4,397	1,099	8,516
Disposals	(9,550)	(82,636)	(668)	(92,854)
Transfer to construction in progress	(6,318)	(21,956)	—	(28,274)
As at the end of the year	2,301,464	5,882,729	26,517	8,210,710
Accumulated depreciation				
As at the beginning of the year	(806,246)	(1,895,038)	(16,960)	(2,718,244)
Reclassification at the beginning of the year	48,602	(52,161)	3,559	—
Reclassification of land use rights	506	—	—	506
Change for the year	(54,838)	(253,142)	(3,152)	(311,132)
Written back on disposals	4,041	74,605	556	79,202
Transfer to construction in progress	3,241	12,301	—	15,542
As at the end of the year	(804,694)	(2,113,435)	(15,997)	(2,934,126)
Less: Provision for impairment				
As at the beginning of the year	10,214	107	8	10,329
Reclassification at the beginning of the year	(7,145)	6,019	1,126	—
Provision	2,193	17,507	—	19,700
Written back on disposals	(1,586)	(1,529)	—	(3,115)
As at the end of the year	3,676	22,104	1,134	26,914
Net book value				
As at the end of the year	1,493,094	3,747,190	9,386	5,249,670
As at the beginning of the year	1,606,122	3,155,059	6,684	4,767,865

13 Fixed assets *(Continued)*

In 2007, due to wear in the utilizations and other reasons, the Company recorded the book value of relevant assets down to their recoverable amounts based on the difference between the expected income from and the expenses of the disposal of such assets, thus made an impairment provision of Rmb19,700,000. In particular, details of fixed assets to be disposal as at 31 December 2007 are as follows:

	Original book value	Accumulated depreciation	Impairment provision	Net book value	Fair value	Estimated disposal cost	Estimated disposal time
Plant and buildings	4,188	(1,870)	(2,193)	125	125	—	2008-2010
Machinery and other equipments	53,625	(34,531)	(17,485)	1,609	1,609	—	2008-2010
Total	57,813	(36,401)	(19,678)	1,734	1,734	—	2008-2010

As at 31 December 2007, except for fixed assets mentioned above, fixed assets with a net book value of Rmb1,255,000 and a original cost of Rmb42,428,000 (2006: net value of Rmb61,923,000 and original cost of Rmb78,583,000) were left used due to changes in the production structure.

As at 31 December 2007, fixed assets with a net book value of Rmb21,730,000 and a original cost of Rmb729,295,000 (2006: net value of Rmb18,529,000 and original cost of Rmb664,686,000) were fully depreciated and still in use.

As at 31 December 2007, the Company was in the process of obtaining ownership certificates of certain plants and buildings with a net value of Rmb258,643,000 and a original cost of Rmb281,233,000 (2006: net value of Rmb218,797,000 and original cost of Rmb232,420,000) .

As at 31 December, the net book value of the Company's fixed assets secured for the bank loans (Note 21, 27 and 28) are as follows:

	Plant and buildings	Machinery and other equipments	Total
Balance at end of the year			
Cost	683,077	623,605	1,306,682
Less: Accumulated depreciation	321,480	61,915	383,395
Less: Provision for impairment	—	—	—
Net book value	361,597	561,690	923,287

As at 31 December 2007, the Company's fixed assets secured for bank loans were of a book value of Rmb596,339,000 and a original cost of Rmb1,005,580,000.

13 Fixed assets *(Continued)*

As at 31 December 2007, book values of the Company's fixed assets leased out as operating lease are as follows:

	Plant and buildings	Machinery and other equipments	Total
Value at end of the year			
Original cost	37,490	808	38,298
Less: Accumulated depreciation	23,809	740	24,549
Less: Impairment provision	—	—	—
Net book value	13,681	68	13,749

As at 31 December 2006, the Company's fixed assets leased out as operating lease were of a book value of Rmb14,666,00 and a original cost of Rmb38,298,000.

14 Construction in progress

	2007 Rmb'000	2006 Rmb'000
Cost		
Balance at the beginning of the year	**671,926**	1,311,874
Additions	**306,041**	781,963
Transfer from fixed assets	**12,732**	1,580
Transferred to fixed assets	**(844,469)**	(1,423,491)
Decrease due to other reason	**(21,400)**	—
Balance at the end of the year	**124,830**	671,926

Included in the book value of construction in progress as at 31 December 2007 are borrowing costs capitalisation of Rmb11,070,000 (2006: nil), which is determined by the Company at a capitalisation rate of 6.84% (2006: 0%).

14 Construction in progress *(Continued)*

The Company's major constructions in progress as at 31 December 2007 are listed as follows:

Construction projects	Budget *Rmb'000*	Opening balance of the year *Rmb'000*	Increase in the year *Rmb'000*	transfer-in in the year *Rmb'000*	Improvement Transferred-in fixed assets in the year *Rmb'000*	Other decrease in the year *Rmb'000*	Closing balance of the year *Rmb'000*	Percentage of projects investment in budget	Resource of fund
4100 mm wide-thick steel plates	1,918,000	—	23,056	—	—	—	23,056	1%	Bank loans/self-financing
Hot-rolled strip	1,400,000	727	1,123	—	—	(436)	1,414	—	Bank loans/self-financing
Overhaul to No. blast furnace									
Cold rolling project	578,390	—	3,756	—	(3,756)	—	—	101%	Bank loans/self-financing
Technological renovation of 50MW gas-steam combined power generating set	290,000	278,400	1,600	—	(280,000)	—	—	97%	Bank loans/self-financing
Heat treatment production line	260,000	120,897	106,428	—	(225,865)	—	1,460	87%	Bank loans/self-financing
No. 6 casting machine project	200,000	11,665	6,976	—	(4,916)	(13,725)	—	9%	Bank loans/self-financing
Width and capacity expansion project for medium plates	139,980	—	1,410	—	(1,410)	—	—	101%	Bank loans/self-financing
Overhaul to No. 2 coke oven and technological renovation of support facilities	88,355	81,004	4,290	—	(71,366)	—	13,928	97%	Bank loans/self-financing
Technological renovation for the transportation and handling yard of large-scale finishing roller	49,968	97	551	—	—	—	648	86%	Bank loans/self-financing
Supporting project of cross-river baffle	48,000	29,824	4,923	—	(34,747)	—	—	72%	Bank loans/self-financing
Public and auxiliary facilities	34,975	16,377	323	—	(16,700)	—	—	52%	Bank loans/self-financing
Coking coal gas cabinet with a capacity of 70,000 cubic meters	34,890	8,165	(3,166)	—	(4,999)	—	—	32%	Bank loans/self-financing
Project of Iron ore quarry	32,620	4,894	26,097	—	(30,991)	—	—	95%	Bank loans/self-financing
Capacity expansion and modification of Dabaopo	19,990	19,990	—	—	(12,920)	(7,070)	—	100%	Bank loans/self-financing
Overhaul and renovation of No.7 Wharf	18,500	298	18,007	—	(18,305)	—	—	99%	Bank loans/self-financing
Technological renovation of waste water treatment facilities	18,500	23,999	1,025	—	—	—	25,024	135%	Bank loans/self-financing
Capacity expansion and modification project	17,600	4,231	7,774	—	(12,005)	—	—	75%	Bank loans/self-financing
Others		71,358	101,868	12,732	(126,489)	(169)	59,300		
Total		671,926	306,041	12,732	(844,469)	(21,400)	124,830		

15 Construction materials

	2007 Rmb'000	2006 Rmb'000
Construction materials for large equipment	**15,057**	47,772
Construction materials for special equipment	**7,720**	60,446
Total	**22,777**	108,218

16 Intangible assets

	Land use rights Rmb'000	Trademark use right Rmb'000	Total Rmb'000
Cost			
Balance at the beginning of the year	10,080	6,478	16,558
Reclassification of land use rights	17,585	—	17,585
Balance at the end of the year	27,665	6,478	34,143
Less: Accumulated amortization			
Balance at the beginning of the year	(245)	(6,098)	(6,343)
Reclassification of land use rights	(506)	—	(506)
Additions	(1,094)	(380)	(1,474)
Balance at the end of the year	(1,845)	(6,478)	(8,323)
Carrying amounts			
Balance at the end of the year	25,820	—	25,820
Balance at the beginning of the year	9,835	380	10,215

The amount for right to use the trade mark was invested by the Parent Group when the Company was restructured. Its original amount was determined based on the appraisal value issued by the independent valuer Zhongzi Assets Assessment Co. Ltd. certified by the state-owned assets administration department at the time of the Company's restructuring.

As at 31 December 2007, land use right with book value of Rmb25,820000 (original cost: Rmb27,665,000) was pledged as security for the Company's long-term bank loans due within one year. (Note 21, 27 and 28) (2006: original cost of Rmb10,080,000 and book value of Rmb9,835,000) .

17 Deferred tax assets and liabilities

	2007		2006	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Deferred income tax assets				
Provision for bad debt and doubtful debt	**1,419**	**213**	6,060	909
Provision for diminution in value of inventories	**18,924**	**2,839**	3,421	512
Provision for impairment against of fixed assets	**28,514**	**4,277**	10,108	1,517
Total	**48,857**	**7,329**	19,589	2,938

Deferred income tax will be recognised only when the relevant profit before tax is likely to be realised with future taxable profit. As at 31 December 2007, the Company's unrecognised deferred income tax, in respect of impairment provision for accounts receivable, inventories and fixed asset not deductible before tax, amounts to Rmb29,273,000 (2006: Rmb32,382,000).

18 Other non-current assets

Other non-current assets are long-term prepayment used for purchase of raw materials and will be settled between 2008 and 2013.

19 Provision for impairment

At 31 December 2007, the provisions for impairment of the Company are set out as follow:

Item	Notes	Balance at the beginning of the year	Charge for the year	Decrease in the year		Balance at the end of the year
				Reversal	Write-off	
	Notes	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Accounts Receivable	8	161,027	9,292	(13,933)	(1,427)	154,959
Other Receivables	10	11,718	—	—	—	11,718
Inventories	11	52,392	15,503	—	(17,474)	50,421
Fixed assets	13	10,329	19,700	—	(3,115)	26,914
Total		235,466	44,495	(13,933)	(22,016)	244,012

As for reasons of the recognition of impairment losses for various assets during the year, please refer to notes relating to such assets.

20 Restricted asset

The Company's assets of restricted title as at 31 December 2007 are as follows:

Type	Notes	Balance of the beginning of the year Rmb'000	Charge for the year Rmb'000	Reclassification Decrease during the year Rmb'000	Decrease in the year Rmb'000	Balance at the end of the year Rmb'000
Assets guaranteed						
— Cash at bank and on hand	6	63,870	58,927	—	—	122,797
— Net book value of fixed assets	13	596,339	443,319	(17,079)	(99,292)	923,287
— Intangible assets	16	9,835	—	17,079	(1,094)	25,820
		670,044	502,246	—	(100,386)	1,071,904

21 Short-term loans

2007

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credit/mortgage guarantee/pledge
Bank loans						
Unsecured loans	6.43%~7.22%	317,000	Rmb	1	317,000	Credit
Secured loans	6.14%~6.73%	136,600	Rmb	1	136,600	Mortgage
Guaranteed loans	6.12%~8.02%	1,267,000	Rmb	1	1,267,000	Guarantee
Total					1,720,600	

2006

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credit/mortgage guarantee/pledge
Bank loans						
Unsecured loans						
— Unsecured loans in Rmb	6.44%~7.22%	171,088	Rmb	1	171,088	Credit
— Unsecured loans in USD	6.93%	7,500	US dollars	7.8087	58,565	Credit
Secured loans	6.14%~6.73%	643,000	Rmb	1	643,000	Mortgage
Guaranteed loans	6.12%~8.02%	954,000	Rmb	1	954,000	Guarantee
Total					1,826,653	

The guaranteed loans are guaranteed by the Parent Group (Note 48 (4) (c)).

The secured loans are secured by the Company's fixed assets (Note 13) and land use right owned by the Parent Group (Note (V)48 (4)(c)).

In the above balance, there were no short-term loans to shareholders holding 5% or more shares of the Company with voting rights.

22 Bills payable

	2007 Rmb'000	2006 Rmb'000
Bank acceptance bills	—	110,000

The above bills are due within six months.

In the said balance, there were no bills payable to shareholders holding 5% or more shares of the Company with voting rights.

23 Accounts payable

Aging analysis of Accounts payable is as follows:

	2007		2006	
	Amount Rmb'000	Percentage	Amount Rmb'000	Percentage
Within 1 year (inclusive)	1,349,111	95.55%	1,043,441	97.19%
1year-2 years (2 years inclusive)	32,112	2.27%	8,908	0.83%
2year-3 years (3 years inclusive)	11,908	0.85%	4,734	0.44%
Over 3 years	18,830	1.33%	16,564	1.54%
Total	1,411,961	100%	1,073,647	100%

In the balance of accounts payable as at 31 December 2007, there were no payables to shareholders holding 5% or more shares of the Company with voting rights.

Payables with aging over three years mainly represent payables for engineering and equipment and for purchases, including final payment as margin for project quality and unsettled payment of goods due to disputes about the quality. As at the date of approval of the financial statements, the said payments remain unsettled.

24 Advances from customers

As at 31 December 2007, the aging of advances from customers is within one year.

In the closing balance of advances from customers, there were no advances from shareholders holding 5% or more shares of the Company with voting rights.

25 Employee benefits Payable

	Opening balance of the year Rmb'000	Amount payable for the year Rmb'000	Payment of the year Rmb'000	Closing balance of the year Rmb'000
Salaries, bonus, allowances	16,296	443,220	(446,784)	12,732
Staff welfare fees	—	13,543	(13,543)	—
Social insurance				
Medical insurance premium	—	66,483	(66,483)	—
Basic old age pension insurance premium	—	92,554	(91,509)	1,045
Unemployment insurance premium	—	9,163	(4,081)	5,082
Staff and worker injury insurance premium	—	3,566	(3,566)	—
Maternity insurance premium	—	2,250	(2,250)	—
Housing fund	—	35,797	(35,797)	—
Labour union fee and Employee education funds	—	16,788	(13,900)	2,888
Others	—	13,597	(13,597)	—
Total	16,296	696,961	(691,510)	21,747

26 Other payables

	2007 Rmb'000	2006 Rmb'000
Payables to related parties	**30,591**	57,678
Others	**40,670**	32,962
Total	**71,261**	90,640

Aging analysis of other payable is as follows:

	2007		2006	
	Amount Rmb'000	**Percentage**	Amount Rmb'000	Percentage
Within 1 year (include 1 year)	**58,359**	**82%**	85,980	95%
1year-2 years (2 years inclusive)	**9,961**	**14%**	944	1%
2year-3 years (3 years inclusive)	**495**	**1%**	1,672	2%
More than 3 years	**2,446**	**3%**	2,044	2%
Total	**71,261**	**100%**	90,640	100%

As at 31 December 2007, other payables with aging over one year mainly represent payment of project construction to related parties; other payables with aging over three years mainly represents dividends to the minority shareholders of Hengda' and quality margin received from suppliers. As at the date of approval of the financial statements, the said payments remain unsettled.

Except for the above payables shown in Note 48(5)(c), there were no other payables to shareholders holding 5% and above of the Company's voting shares in the said balance.

27 Non-current liabilities due within one year

	2007 Rmb'000	2006 Rmb'000
Long-term loans	**286,000**	521,000

Analysis of loans due within 1 year is as follows:

2007

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credited/ mortgaged guaranteed/ pledged
Bank loans						
Secured loans	6.34%~7.43%	220,000	Rmb	1	220,000	Mortgaged
Guaranteed loans	7.03%~7.56%	66,000	Rmb	1	66,000	Guaranteed
Total					286,000	

2006

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credited/ mortgaged guaranteed/ pledged
Bank loans						
Secured loans	6.34%~7.07%	135,000	Rmb	1	135,000	Mortgaged
Guaranteed loans	7.03%~7.47%	386,000	Rmb	1	386,000	Guaranteed
Total					521,000	

Guaranteed loans are guaranteed by the Parent Group (Note 48(4)(c)).

Secured loans are secured by the fixed assets (Note 13) and land use right (Note 16) of the Company together with land use right owned by the Parent Group (Note 48(4)(c)).

In the said balance, there were loans due within one year to shareholders holding 5% or more shares of the Company with voting rights.

28 Long-term loans

2007

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credited/ mortgaged guaranteed/ pledged
Bank loans						
Unsecured loans	7.23%~7.47%	150,000	Rmb	1	150,000	Credited
Secured loans	6.48%~7.92%	230,000	Rmb	1	230,000	Mortgaged
Guaranteed loans						
— Guaranteed loans denominated in US Dollars	5.78%~6.08%	32,000	US dollars	7.3046	233,747	Guaranteed
— Guaranteed loans denominated in Rmb	7.32%~7.56%	575,000	Rmb	1	575,000	Guaranteed
Total					1,188,747	

2006

	Annual interest rate	Principal '000	Currency	Exchange rate	Rmb'000	Credited/ mortgaged guaranteed/ pledged
Bank loans						
Secured loans	6.34%~7.43%	220,000	Rmb	1	220,000	Mortgaged
Guaranteed loans	7.32%~7.56%	75,000	Rmb	1	75,000	Guaranteed
Total					295,000	

Analysis on maturity dates of the Company's long-term loans are listed as follows:

	2007 ***Rmb'000***	2006 *Rmb'000*
1 year-2 years (2 years inclusive)	**708,747**	270,000
2 year-3 years (3 years inclusive)	**385,000**	25,000
Over 3 years	**95,000**	—
Total	**1,188,747**	295,000

Guaranteed loans are guaranteed by the Parent Group (Note 48(4)(c)).

Secured loans are secured by the fixed assets (Note 13) and land use right (Note 16) of the Company together with land use right owned by the Parent Group (Note 48(4)(c)).

In the said balance, there were no long-term loans to shareholders holding 5% or more shares of the Company with voting rights.

29 Other non-current liabilities

	2007 Rmb'000	2006 Rmb'000
Other financial liabilities	**95,361**	215,897
Governmental grants	**16,923**	15,680
Others	**—**	301
Total	**112,284**	231,878

According to relevant agreements, the Company received three long term advances from customer totalling Rmb500,000,000 in 2006 and 2005. Such amount was settled on monthly basis during the period form April 2006 to September 2009. The customer is entitled to certain amount of discount in selling prices every month. Such long term advance is recognized as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the actual interest rate method. The Company has made retrospective adjustments when first time adoption of Accounting Standards for Business Enterprises (2006) on 1 January 2007 (see Notes 4(2)). In 2007, the effective interest rate was 5.48%~7.19% (2006: 5.58%); interest expense for recognized financial liabilities amounted to Rmb18,993,000 (2006: Rmb17,075,000).

In 2005, 2006 and 2007, the Company received governmental grants of Rmb700,000, Rmb14,980,000 and Rmb1,260,000, totalling Rmb16,940,000, for the project construction of environment-friendly equipment. Such governmental grant was recognised as deferred income and evenly amortized over the estimated useful life of relevant assets. The amortization amount in 2007 amounted to 17,000 (2006: nil).

30 Share capital

The Company's share capital status at 31 December is as follows:

		2007 Rmb'000	2006 Rmb'000
(1)	Shares subject to selling restrictions	**—**	—
	— Shares held by state-owned legal persons	**845,000**	845,000
(2)	Shares not subject to selling restrictions		
	Rmb-denominated ordinary shares-Domestically listed A Shares	**350,000**	—
	Overseas listed foreign shares-Hong Kong Listed H Shares	**538,127**	538,127
Total		**1,733,127**	1,383,127

In February 2007, the Company issued 350,000,000 A shares to the public investors at a price of Rmb2.88 per share and raised a total proceeds of Rmb1,008,000,000, of which, Rmb39,949,000 was used to cover the issuance expenses. The Company's A shares were listed on Shanghai Stock Exchange on 28 February 2007.Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group changed into A shares automatically upon the issuance of the abovementioned A shares. the Parent Group undertook that they would neither transfer or entrust others to manage shares held by them, nor agree the Company to repurchase such shares within 36 months from the listing date of the Company's A shares.

The issued and fully paid share capital for the year has been verified by Zhong Lei Certified Public Accountants Co., Ltd, who issued a relevant capital verification report (Zhong Lei Yan Zi [2007] No. 8001) on 13 February 2007.

31 Capital reserve

	Balance at the beginning of the year *Rmb'000*	Additions during the year *Rmb'000*	Settlements/ transfers during the year *Rmb'000*	Balance at the end of the year *Rmb'000*
Share premiums	276,206	618,051	—	894,257
Transfer from items under previous standards	270,127	—	—	270,127
Total	546,333	618,051	—	1,164,384

32 Surplus reserve

	Statutory surplus reserve *Rmb'000*
Balance at the beginning of the year	461,925
Profit appropriation *(Note 34(1))*	44,924
Balance at the end of the year	506,849

33 Undistributed profit

According to the prospectus, it was resolved at the Extraordinary General Meeting convened on 16 April 2003 that, the undistributed profits of the Company generated before the issuance of A Shares shall be shared on a pro rata basis among its existing and new shareholders after the completion of the issuance of A Shares. As at 31 December 2007, the undistributed profits of the Company amounted to Rmb1,815,601,000, which shall be shared on a pro rata basis among its existing and new shareholders after the completion of the issuance. H shares and A shares rank pari passu in all aspects with each other.

34 Profit appropriation

(1) Appropriation to surplus reserves

The Company transferred the following surplus reserves for the year 2007 according to Articles of Association:

Transfer to statutory surplus reserve	10%

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions by the Board, the Company is required to transfer 5% to 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserve may be utilised to make up losses or to increase the capital of the Company upon approval by concerning authorities. Save for utilised to make up losses, after converting the Company's statutory surplus reserve into capital, the balance of such reserve must not be less than 25% of the registered capital. In 2007, the Company transferred 10% of the net profit to statutory surplus reserve, totalling Rmb44,924,000

The amount appropriated to discretionary surplus reverse is proposed by the Board of Directors and subject to the approval by shareholders at the General Meeting. Discretionary surplus reserve may be utilised to make up losses or to increase the capital of the Company upon relevant approval. No amount was appropriated to discretionary surplus reserve by the Company in 2007.

34 Profit distribution *(continued)*

(2) Dividends of ordinary shares

(a) Distribution of ordinary share dividends

On 9 August 2006, a final dividend of Rmb0.15 per share for year 2005, totalling Rmb159,592,000, as well as 319,183,000 bonus shares were distributed to holders of ordinary shares by the Company, at three bonus shares for every ten shares, as approved at the AGM held on 9 June 2006. Distribution base was the 1,063,944,000 issued shares as at 31 December 2005.

Meeting of directors held on 30 August 2006 by the Company had decided to distribute a interim dividend of Rmb0.08 per share for year 2006, totalling Rmb110,650,000 to holders of ordinary shares as authorised by the AGM held on 9 June 2006. Distribution base was the 1,383,127,000 issued shares as at 30 June 2006.

On 12 July 2007, a final dividend of Rmb0.1 per share for year 2006, totalling Rmb173,313,000 was distributed to holders of ordinary shares by the Company, as approved at the AGM held on 18 June2007.Distribution base was the 1,733,127,000 issued shares as at 28 February 2007.

(b) Dividends of ordinary shares distributed after balance sheet date

On 23 April 2008, the Board had approved to distribute cash dividend of Rmb0.1 per share (2006: Rmb0.1 per share), totalling Rmb173,313,000 (2006: Rmb173,313,000) to holders of ordinary shares of the Company. The proposal is subject to the approval of the General Meeting. Cash dividend of ordinary shares approved to be distributed after balance sheet date has not been recognised as liability as at balance sheet date.

35 Operating income

	2007 ***Rmb'000***	2006 *Rmb'000*
Operating income from principal activities		
— Sale of goods		
Steel plates	**5,069,516**	4,205,946
Steel billets	**1,411,190**	889,964
Steel sections	**3,039,558**	2,400,326
Wire rods	**1,594,629**	1,245,013
Cool rolled sheets	**345,664**	272,595
Others	**560,638**	608,053
Subtotal	**12,021,195**	9,621,897
Other operating income	**37,258**	49,664
Total	**12,058,453**	9,671,561

In 2007, revenue from sales to top five customers of the Company totalled Rmb2,197,390,000, accounting for 18% (2006: 14%) of total sales revenue for the year.

36 Operating costs

	2007 Rmb'000	2006 Rmb'000
Operating cost from principal activities		
— Sale of goods		
Steel plates	**3,694,805**	3,451,338
Steel billets	**1,374,870**	870,567
Steel sections	**2,933,293**	2,381,144
Wire rods	**1,537,195**	1,213,491
Cool rolled sheets	**388,629**	310,747
Others	**459,646**	520,526
Subtotal	**10,388,438**	8,747,813
Other operating costs	**29,597**	39,756
Total	**10,418,035**	8,787,569

37 Business taxes and surcharges

	Taxation basis and rates	2007 Rmb'000	2006 Rmb'000
Business tax	5% of operating income	**372**	350

38 Financial expenses

	2007 Rmb'000	2006 Rmb'000
Interest expenses from loans and payables	**226,191**	190,582
Less: Borrowing costs capitalised	**13,415**	—
Net Interest expenses	**212,776**	190,582
Exchange losses/gains	**(2,915)**	(6,571)
Less: Exchange losses/gains capitalised	**(2,345)**	—
Net exchange losses/gains	**(570)**	(6,571)
Interest income	**(8,918)**	(4,435)
Other financial expenses	**3,469**	672
Total	**206,757**	180,248

39 Impairments losses

	2007 Rmb'000	2006 Rmb'000
Receivables	**(4,641)**	6,061
Inventories	**15,503**	(13,450)
Fixed assets	**19,700**	—
Total	**30,562**	(7,389)

40 Non-operating Income

	Notes	2007 Rmb'000	2006 Rmb'000
Gains on disposal of fixed assets		**4,656**	2,086
Governmental grants	(1)	**3,219**	—
Others		**3,528**	1,372
Total		**11,403**	3,458

(1) Governmental grants

Government grant mainly includes compensation for impeded transportation of industrial and mining enterprises granted by Chongqing Financial Bureau. In light of Implementation Rules of Economic Compensation for Impeded Transportation of Industrial and Mining Enterprises due to Construction of Shiplock of Chongqing Three Gorges Project, the government grant compensation for increased transportation charges attributable to impeded transportation in three gorges project.

41 Non-operating Expenses

	2007 Rmb'000	2006 Rmb'000
Losses on disposal of fixed assets and construction in progress	**26,891**	6,078
Donation expenses	**7,948**	—
Others	**314**	604
Total	**35,153**	6,682

42 Income tax

(1) Income tax expenses for the year represents:

	2007 Rmb'000	2006 Rmb'000
Current tax expenses for the year	**25,381**	1,538
Deferred taxation	**(4,391)**	(445)
Total	**20,990**	1,093

The analysis of deferred income tax expenses is as follows:

	2007 Rmb'000	2006 Rmb'000
Origination of temporary differences	**4,391**	445

(2) Reconciliation between income tax expenses and accounting profits is as follows:

	2007 Rmb'000	2006 Rmb'000
Profit before tax	**470,234**	307,855
Expected income tax at a tax rate of 15%	**70,535**	46,178
Unrecognised temporary differences	**(1,693)**	(1,544)
Excess part in welfare fees, trade union funds and employee education funds	**4,280**	3,334
Other un-deductible fees	**1,155**	2,705
Exempted interest on loans	**—**	2,814
Tax credit from purchase of domestically made equipment	**(53,287)**	(52,394)
Income tax expenses for the year	**20,990**	1,093

43 Supplemental Information to Cash Flow Statement

(1) Supplemental Information to Cash Flow Statement

(a) Reconciliations of net profit to net cash flows from operating activities:

	2007 Rmb'000	2006 Rmb'000
Net profit	**449,244**	306,762
Add: Provision for impairment	**30,562**	(7,389)
Depreciation of fixed assets	**311,132**	260,187
Amortisation of intangible assets	**1,474**	810
Losses on disposal of fixed assets, intangible assets and other long-term assets	**22,235**	3,992
Financial expenses	**184,865**	169,072
Increase in deferred Tax assets	**(4,391)**	(445)
Increase in gross inventories	**(528,780)**	(301,470)
Increase in operating receivables	**(292,275)**	(98,772)
Increase in operating payables	**305,917**	521,484
Net cash flow from operating activities	**479,983**	854,231

(b) Change in cash and cash equivalents:

	2007 Rmb'000	2006 Rmb'000
Cash at the end of the year	**971,082**	313,772
Less: Cash at the beginning of the year	**313,772**	451,220
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase/(decrease) in cash and cash equivalents	**657,310**	(137,448)

43 Supplemental Information to Cash Flow Statement *(Continued)*

(2) Cash and cash equivalents held by the Company are as follows:

		2007 Rmb'000	2006 Rmb'000
(a)	Cash at bank and on hand		
	— Cash on hand	**681**	784
	— Bank deposits available on demand	**848,765**	303,229
	— Other monetary fund available on demand	**121,636**	9,759
	— Cash with restricted usage	**122,797**	63,870
(b)	Cash equivalents		
	— Bonds investment with a maturity of three months or less	**—**	—
(c)	Closing balance of cash and cash equivalents	**1,093,879**	377,642
	Less: Cash and bank balances, restricted	**122,797**	63,870
(d)	Balance of cash and cash equivalents realisable at any time at the end of the year	**971,082**	313,772

44 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments

Financial risk management of the Company covers formulation of financial risk objectives and system, analysis on the cause of formation and risk judgement. The objective of risk management if to identify and analysis risk faced, and to set up controlling method to monitor whether it is acceptable. Risk management system is the tool to control risks.

Risks of the financial instruments of the Company include credit risk, liquidity risk, interest risk and foreign exchange risk. Analysis of such risks is as follows:

(1) Credit risk

The failure to perform contract duty by customers of other parties involved in financial instruments is identified as credit risk. Credit risk mainly arise from accounts receivables. The maximum amount of credit risk the Company exposed to is the carrying amount of financial assets at the balance sheet date.

The Company requires full-amount payment by cash or bills from most of its customers prior to delivery. As for account receivables and other receivables, the limit on sales credit is determined by the Company's credit assessment on customers.

In the normal course, the Company does not require pledge from its customers, and has made adequate bad debt provision for trade receivable and other receivables with limited possibility of retrieval. Ageing analysis and bad debt provision for account receivable and other receivables are set out in note 8 and note 10, respectively.

44 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(2) Liquidity risk

Failure of the Company to perform its financial obligations at maturity date is identified as liquidity risk. The Company's liquidity management was to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to reputation of the Company. Analysis on liability structure and maturity was carried out on regular basis by the Company to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Company held negotiation with financial institutions for enough banking facilities.

The Company's banking facility was granted by certain financial institutions in China. As at 31 December 2007, there was a credit of Rmb 644,529,000 remaining available. Utilised banking facilities were set out in short term loan, current liability due within one year and long term loan. Maturity analysis of long term loan is set out in note 28.

(3) Interest rate risk

The Company's interest policy is to ensure that loan interest fluctuation risk is under control. In light of our interest policy, the Company had set up a proper combination of fixed and floating interest rate to avoid interest risk. Interest rates of short term and long term liabilities are set out in note 21, note 27, note 28 and note 29.

As at 31 December 2007, in respective of borrowings bearing floating interest rates where other variables remain unchanged, assuming that overall interest rate rise 1%, the Company's profit before tax is to decrease by Rmb27,190,000 (2006: Rmb25,127,000).

The sensitivity analysis was made on the assumption that interest rate change on balance sheet date and such changes are applicable to all financial instruments of the Company. Percentage of change was made on reasonable estimate of interest rate change between balance sheet date and next such date. Analysis for year 2006 was made upon same assumptions.

(4) Foreign currency risk

As the Company's sales of products and purchase of raw material for production are carried out in Renminbi, the Company does not have foreign currency risk.

Save for the foreign currency deposit and loans, the Company's other financial assets and liabilities are settled in Renminbi.

The Company's foreign assets and liabilities as at 31 December are listed in original currency as follows:

	2007		2006	
	USD '000	**HKD '000**	USD '000	HKD '000
Bank balances	**24,768**	**41**	75	41
Short-term loans	**—**	**—**	(7,500)	—
Long-term loans	**(32,000)**	**—**	—	—
Net amount	**(7,232)**	**41**	(7,425)	41

44 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(4) Foreign currency risk *(Continued)*

Analysis of the major foreign exchange rates applied by the Company is as follow:

	Average rate		Reporting date mid-spot rate	
	2007	2006	**2007**	2006
USD	**7.5567**	7.9395	**7.3046**	7.8087
HKD	**0.9706**	1.0225	**0.9364**	1.0047

Assuming no change in other variables, a 5% appreciation of Renminbi against the US dollar and HK dollar at 31 December 2007 would increase the Company's profit after tax by approximately Rmb360,000 (2006: Rmb369,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to all the Company's financial instruments. A 5% change in exchange rate for the period between two balance sheet dates is the Company's reasonable expectation, which is also the basis of the analysis made in 2006.

(5) Other price risks

As the Company sells steel and iron products at market prices, it is exposed to fluctuations in these prices.

(6) Fair values

Fair value is estimated according to relevant market information and information about financial instruments at specific point in time. Those estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of the Company's bank loans evaluated with discounted cash flow based on similar financial instruments' prevail market interest rate, and approximates to the book value.

The Company's other long-term equity investment without public quotation does not have a significant impact on the financial position and operating result of the Company.

The Company did not provide guarantee for other Company.

There were no significant differences between the book value and fair value of the Company's financial assets and financial liabilities as at 31st December 2007

45 Commitments

(1) Capital commitments

The Company's capital commitments at 31 December are as follows:

	2007 Rmb'000	2006 Rmb'000
Contracts entered into but not performed or performed partially	**2,662,417**	525,493
Authorised but not contracted	**307,993**	301,145
Total	**2,970,410**	826,638

The Company paid payments of construction and equipment under capital commitment for the previous year in 2007.

(2) Operating lease commitments

According to the irrevocable land use right leasing agreement, the Company's minimum payable lease payment after 31st December are as follows:

	2007 Rmb'000	2006 Rmb'000
Within 1 year (inclusive)	**17,904**	17,904
1year-2 years (2 years inclusive)	**15,964**	17,904
2 years-3 years (3 years inclusive)	**15,964**	15,964
Over 3 years	**111,750**	122,391
Total	**161,582**	174,163

The lease payments for land use right paid by the Company amounted to Rmb17,957,000 in 2007.

46 Contingencies

Save for the pending litigation and arbitration disclosed in Note 10(3), as at 31st December 2007, the Company does not have other discloseable significant or contingent events.

47 Non-adjusting post balance sheet events

The Board proposed to distribute year-end share dividend after the balance sheet date. As for relevant details, please refer to Note 34(2)(b).

48 Related party relationship and transactions

(1) Information on the parent of the Company is listed as follows

Name of the parent company	Code Organization	Registered address	Nature business	Registered capital *Rmb'000*	Shareholding percentage	Percentage of voting rights
Chongqing Iron & Steel Group Company Limited	202803370	No.1, Building No1, Dayan Village III, Dadukou District, Chongqing, the PRC	sintering, iron smelting, steel smelting, stee l rolling and the by-products of iron and steel, mining, milling, machinery, electronic, transportation by automobile, construction, refractory materials	1,579,044	49%	49%

Registered capital and changes therein

	Opening balance of the year *Rmb'000*	Increase in the year *Rmb'000*	Decrease in the year *Rmb'000*	Closing balance of the year *Rmb'000*
Parent Group	1,579,044	—	—	1,579,044

On 11 December 2007, as approved by the circular (Yu Guo Zi Chan (2007) No. 175) issued by the State-owned Assets Supervision and Administration Commission of Chongqing, equity rights of Rmb52,642,450 in Chongqing Donghua Special Steel Company Limited held by Chongqing energy investment (Group) Co., Ltd was transferred at nil consideration to Chongqing Iron & Steel (Group) Company Limited with the reference date on 31 October 2007. After the transfer, the equity rights in Chongqing Donghua Special Steel Company Limited held by Chongqing Iron & Steel (Group) Company Limited amounted to Rmb59,842,450, representing 100% of the registered capital. As at the approved date of these financial statements, change register procedures of property rights and industry and commerce for the aforesaid equity transfer have not been finished.

Shares of the Company held by the Parent Group and changes therein

	2007		2006	
	Amount ***Rmb'000***	**Percentage**	Amount *Rmb'000*	Percentage
Parent Group	**845,000**	**49%**	845,000	61%

The company distributed 3 bonus shares for every 10 shares to all shareholders of the Company in 2006. As a result, the shares held by the Parent Group increased to 845,000,000 shares with unchanged shareholding percentage.

The Company issued 350,000,000 A shares in February 2007 and made them listed on the Shanghai Stock Exchange on 28 February 2007 (Note 30). The A share issue decreased the shareholding of the Parent Group to 49%.

48 Related party relationships and transactions *(Continued)*

(2) Transactions between Company and its key management personnel

	Notes	**2007 Rmb'000**	2006 Rmb'000
Remuneration paid to key management personnel			
Luo Fu Qin		**250**	149
Chen Shan		**245**	218
Zhu Jian Pai		**249**	223
Xu Gang		**235**	157
Wu Zi Sheng		**234**	157
Sun Yi Jie		**233**	187
Yuan Jin Fu		**231**	220
Chen Hong		**204**	93
Li Ren Sheng		**202**	72
You Xiao An		**165**	106
Huang You He		**150**	122
Chen Hong		**134**	107
Wang Xiang Fei		**60**	60
Liu Xing		**40**	40
Sun Yu		**40**	40
Song Ying	(a)	**93**	—
Kong Jun	(b)	**40**	—
Tu De Ling	(c)	**118**	186
Yuan Xue Bing	(d)	**56**	109
Lu Kang Mei	(d)	**84**	133
Tang Ming Wei	(e)	**—**	52
Yang Zhi Wei	(f)	**—**	76

(a) The Board of the Company appointed Ms. Song Ying as the Chief Financial Officer on 29th June 2007.

(b) The Board of the Company appointed Ms. Kong Jun as Supervisor of the Company on 23rd August 2007.

(c) Mr. Tu De Ling resigned positions of Director, Chief Accountant and member of special Board committee on 26th June 2007. The resignation was accepted by the Board and was effective from 26th June 2007.

(d) The Company's Supervisors Ms. Yuan Xue Bing and Ms. Lu Kang Mei resigned their positions of Supervisors on 26th June 2007.

(e) The Company's Director Mr. Tang Ming Wei resigned the position of Director on 26th April 2006.

(f) The Company's Director Mr. Yang Zhi Wei resigned the position of Director on 20th September 2006.

48 Related party relationships and transactions *(Continued)*

(3) Related parties in which the Company has no control

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	20280613-3	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	62190279-5	Under the same parent company
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	20328958-8	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	20299347-7	Under the same parent company
Chongqing Iron & Steel Group Transportation Company Limited	20299344-2	Under the same parent company
Chongqing Iron & Steel Group Electronic Company Limited	50427800-6	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	20288942-6	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	20299276-5	Under the same parent company
Chongqing Xinteng Metallurgical Burden Materials Company Limited	70944633-3	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	20287686-0	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	20355285-X	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	20343945-1	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	20305150-2	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	20298850-4	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	00928742-3	Under the same parent company
Chongqing San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the same parent company
Chongqing Sanfeng Environment Industrial Company Limited	20295197-8	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construction Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company

48 Related party relationships and transactions *(Continued)*

(4) Related party transactions

(a) Set out below are purchase of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties:

	Purchase of products	2007 Transaction amount *Rmb'000*	2007 Percentage in the total amount of similar transactions *%*	2006 Transaction amount *Rmb'000*	2006 Percentage in the total amount of similar transactions *%*
Chongqing Iron & Steel Group Mining Company Limited	Ore and ancillary product	**720,033**	**15.38%**	625,294	19.59%
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	**544,412**	**56.17%**	373,532	57.51%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and construction in progress	**22,511**	**7.16%**	57,412	7.28%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Gas for industrial use	**243,233**	**85.25%**	217,215	88.45%
Chongqing Xinteng Metallurgical Burden Materials Company Limited	Ferroalloy	**—**	**—**	914	0.24%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts	**72,238**	**17.86%**	61,290	17.64%
Chongqing Iron & Steel Group Electronic Company Limited	Components of instruments	**22,240**	**5.50%**	21,052	6.06%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**14,650**	**18.00%**	11,686	18.32%
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Refractory materials	**6,475**	**7.96%**	8,414	13.19%
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Scrap steel and spare parts	**7,750**	**0.99%**	1,399	0.22%
Chongqing Si Gang Steel Company Limited	Scrap steel	**2,761**	**0.73%**	4,094	1.40%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and construction in progress	**14,999**	**4.77%**	24,300	3.08%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and gas for industrial use	**17,490**	**2.54%**	13,200	2.23%
Chongqing San Gang Steel Company Limited	Scrap steel	**—**	**—**	4,872	1.67%
Others		**7,586**		8,653	
Total		**1,696,378**		1,433,327	

48 Related party relationships and transactions *(Continued)*

(4) Related party transactions *(Continued)*

(a) Set out below are purchase of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties: *(Continued)*

Save for the purchase aforesaid, the Company had no purchase from shareholders holding 5% or more of its shares with voting rights.

The price of raw materials and spare parts purchased from related parties were determined with reference to the price for similar transactions between such related parties and other third party, sum of cost and profit premium or bidding price of suppliers;

Prices for fixed assets purchased from related parties were determined with reference to the bidding price of suppliers.

(b) Sale of products to related parties by the Company is summarised as follows:

	Sale of Products	2007 Transaction amount Rmb'000	2007 Percentage in the total amount of similar transactions %	2006 Transaction amount Rmb'000	2006 Percentage in the total amount of similar transactions %
Chongqing Si Gang Steel Company Limited	Steel products	**373,970**	**3.26%**	281,408	3.12%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**220,586**	**1.92%**	129,208	1.43%
Chongqing San Gang Steel Company Limited	Steel products	**174,552**	**1.52%**	106,683	1.18%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Utilities and ancillary materials	**160,971**	**28.71%**	148,945	24.50%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Utilities and ancillary materials	**32,233**	**5.75%**	35,034	5.76%
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	**10,692**	**1.91%**	10,490	1.73%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Utilities and ancillary materials	**4,928**	**0.88%**	16,714	2.75%
Chongqing Iron & Steel Group Transportation Company Limited	Utilities and ancillary materials	**5,957**	**1.06%**	6,309	1.04%
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Steel products	**2,792**	**0.02%**	1,664	0.02%
Chongqing Iron & Steel Group Export and Import Company Limited	Steel products	**—**	**—**	2,764	0.03%
Others		**69,912**		14,978	
Total		**1,056,593**		754,197	

48 Related party relationships and transactions *(Continued)*

(4) Related party transactions *(Continued)*

(b) Sale of products to related parties by the Company is summarised as follows: *(Continued)*

Save for the sales above-mentioned, the Company had no sales to shareholders holding 5% or more of its shares with voting rights.

The price of products sold to related parties was determined with reference to price the Company offered to other third party customers or price provided by relevant authorities of Chongqing government.

(c) Guarantee for the Company's loans provided by the Holding Company and other related parties:

As at 31st December 2007, the short-term and long-term (including long-term bank loans due within one year) bank borrowings of the Company amounting to Rmb136,600,000 (2006: Rmb643,000,000) (Note 21) and Rmb155,000,000 (2006: Rmb205,000,000) (Note 27 and 28) respectively were jointly secured by fixed assets of the Company and land use right of the Parent Group.

In addition, as at 31st December 2007, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to Rmb1,267,000,000 (2006: Rmb954,000,000) (Note 21) and Rmb874,747,000 (2006: Rmb461,000,000) (Note 27 and 28) respectively were guaranteed by the Parent Group.

As at 31st December 2006, the short-term bank borrowings of the Company amounting to Rmb99,000,000 were secured by the plants of Chongqing Iron & Steel Group Chaoyang Gas Company Limited, Chongqing Iron & Steel Group Construction and Engineering Company Limited and Chongqing Iron & Steel Group Machinery Manufacturing Company Limited. As at 31 December, such borrowings had been fully paid off.

The Parent Group and other related parties did not charge to the Company in respect of the above pledges and guarantees.

(d) Transactions between the Company and the Holding Company and its subsidiaries:

	2007		2006	
	Transaction amount *Rmb'000*	**Percentage in the total amount of similar transactions** *%*	Transaction amount *Rmb'000*	Percentage in the total amount of similar transactions *%*
Prepayments paid by the Parent Group *(i)*	**87,544**	**48.16%**	81,349	48.60%
Fees paid for supporting services *(ii)*	**220,691**	**57.81%**	263,894	78.66%
Rental expenses for land use right *(iii)*	**17,957**	**100.00%**	16,286	100.00%
Fees received for supporting services *(iv)*	**3,376**	**31.73%**	2,746	29.21%

Save for the transactions aforesaid, the Company had no other transactions with shareholders holding 5% or more of its shares with voting rights.

48 Related party relationships and transactions *(Continued)*

(4) Related party transactions *(Continued)*

(d) Other transactions between the Company and the Holding Company and its subsidiaries : *(Continued)*

(i) *Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions and were paid through the Parent Group. No handling fee was charged by the Parent Group.*

(ii) *Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agencies services provided by the Parent Group and its subsidiaries. The services were charged at prices determined by reference to market price of such services or a profit mark-up above the cost of providing such services as agreed, or prices prescribed by the relevant Chongqing government departments.*

(iii) *Rental expenses payable to the Parent Group are in accordance with the lease agreements entered into between the Company and the Holding Company.*

(iv) *Fees received for supporting services mainly represent fees charged to the Parent Group and its 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 Parent Group.*

(5) Balance of accounts due from and due to related parties

(a) Receivables

	2007	2006
	Rmb'000	*Rmb'000*
Chongqing Si Gang Steel Company Limited	**31,515**	24,553
Chongqing San Gang Steel Company Limited	**30,250**	22,912
Chongqing Iron & Steel Group Steel Pipe Company Limited	**15,150**	9,779
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,385**	7,369
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**5,205**	5,528
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	**2,984**	3,384
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,757**	2,710
Chongqing Iron & Steel Group Refractory Materials Company Limited	**2,556**	3,179
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	**2,421**	—
Chongqing Xinteng Metallurgical Burden Materials Company Limited	**1,705**	1,705
Others	**1,110**	621
Total accounts receivable	**103,038**	81,740
Including: provision for bad debts	**(10,079)**	(10,079)
Total net accounts receivable	**92,959**	71,661

48 Related party relationships and transactions *(Continued)*

(5) Balance of accounts due from and due to related parties *(Continued)*

(b) Bills receivable

	2007	2006
	Rmb'000	*Rmb'000*
Chongqing San Gang Steel Company Limited	**37,564**	13,148
Chongqing Si Gang Steel Company Limited	**62,752**	11,880
Chongqing Iron & Steel Group Steel Pipe Company Limited	**43,793**	10,000
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**50**	50
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	**7,615**	—
Total bills receivable	**151,774**	35,078

(c) Other Payables

	2007	2006
	Rmb'000	*Rmb'000*
Parent Group	**3,059**	38,458
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**19,716**	14,004
Chongqing Sanfeng Environment Industrial Company Limited	**550**	1,240
Chongqing Iron & Steel Group Electronic Company Limited	**—**	1,220
Chongqing Sanhuan Construction Supervision Consultant Company Limited	**265**	1,368
Chongqing Iron & Steel Group Design and Research Institute	**6,320**	381
Others	**681**	1,007
Total other payables	**30,591**	57,678

The amounts due from/to the related parties are unsecured, un-guaranteed and have no fixed terms of repayment.

49 Comparative figures

The Company adopted CAS (2006) on 1 January 2007, please refer to Note 4 for adjustment of comparatives. Meanwhile, the Company reclassified certain items in the comparative figures of 2006 in the financial statements so as to make corresponding comparison.

50 Non-recurring profit and loss

In accordance with Q&A No. 1 on the Preparation of Information Disclosure of Companies Issuing Public Shares – Non-recurring Profit and Loss (2007 revised), the non-recurring profit and loss of the Company is listed as follows:

	2007 ***Rmb'000***	2006 *Rmb'000*
Non-recurring profit and loss for the year		
Losses on disposal of fixed assets and construction in progress	**(22,235)**	(3,992)
Governmental grants *(Note 40(1))*	**3,219**	—
Others	**(4,734)**	768
	(23,750)	(3,224)
Less: Impact of the above items on tax	**(2,875)**	(856)
Total	**(20,875)**	(2,368)

51 Earnings per share and return on net assets

(1) Earnings per share

	2007 **Basic / Diluted** **earnings per share**	2006 Basic / Diluted earnings per share
(a) Earnings per share before deduction of non-recurring profit and loss *(Rmb)*	**0.27**	0.22
- Net profit attributable to holders of ordinary shares of the Company *(Rmb'000)*	**449,244**	306,762
- Weighted average of current outstanding ordinary shares of the Company *('000 shares)*	**1,674,794**	1,383,127
(b) Earnings per share after deduction of non-recurring profit and loss *(Rmb)*	**0.28**	0.22
- Net profit attributable to holders of ordinary shares of the Company after deducting non-recurring items *(Rmb'000)*	**470,119**	309,130
- Weighted average of current outstanding ordinary shares of the Company *('000 shares)*	**1,674,794**	1,383,127

Weighted average number of ordinary shares *('000 shares)*

	2007	2006
Number of issued ordinary shares at the beginning of the year	**1,383,127**	1,383,127
Impact of A shares issued in 2007 *(Note 30 (2))*	**291,667**	—
Weighted average number of ordinary shares at the end of the year	**1,674,794**	1,383,127

51 Earnings per share and return on net assets *(Continued)*

(1) Earnings per share *(Continued)*

The number of issued shares as at 1st January 2006 was 1,063,944,000. Upon the Company's distribution of share dividend of 319,183,000 shares, the number of its outstanding ordinary shares amounted to 1,383,127,000.As the distribution of share dividend have no impact on the total shareholders' equity, the Company will adjust the number of issued ordinary shares at the beginning of the period according to the number of shares upon the distribution of share dividend and recalculate earnings per share in financial statements based on such adjusted number of shares.

As at 31st December 2007, there was no issuance of dilutive potential ordinary shares, the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

(2) Return on net assets

In accordance with "Rules Governing Preparation of Information Disclosures of Companies Issuing Public Shares No. 9 –Calculation and Disclosure of Return on Net Assets" (2007 revised, issued by CSRC), the return on net assets of the Company is as follows:

(Unit: Rmb'000)

	2007		2006	
	Fully diluted	**Weighted average**	Fully diluted	Weighted average
(a) Return on net assets before deduction of extraordinary profit and loss	**8.61%**	**9.13%**	7.72%	7.78%
- Net profit attributable to holders of ordinary shares of the Company	**449,244**	**449,244**	306,762	306,762
- Net asset attributable to holders of ordinary shares of the Company at the end of the year	**5,219,961**	**5,219,961**	3,975,979	3,975,979
- Weighted average net asset attributable to holders of ordinary shares of the Company for the year	**4,920,654**	**4,920,654**	3,940,522	3,940,522
(b) Return on net assets after deduction of extraordinary profit and loss	**9.01%**	**9.55%**	7.77%	7.84%
- Net profit attributable to holders of ordinary shares of the Company after deducting extraordinary items	**470,119**	**470,119**	309,130	309,130
- Net asset attributable to holders of ordinary shares of the Company at the end of the year	**5,219,961**	**5,219,961**	3,975,979	3,975,979
- Weighted average net asset attributable to holders of ordinary shares of the Company for the year	**4,920,654**	**4,920,654**	3,940,522	3,940,522

1 Reconciliation of income statement for 2006 (pro forma)

In accordance with the requirements of "Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No.7 - the Preparation and Disclosure of Comparative Figures in the Transitional Period of the Adoption of CAS" (Q&A No. 7) issued by CSRC on 15 February 2007, the Company is assumed to have fully adopted CAS (2006) as of 1 January 2006, and on the basis of the assumption prepared pro forma income statement for 2006, There was no difference between net profit in the pro forma income statement and net profit in the income statement for the comparative period.

2 Reconciliation of Shareholders' Equity between the Original CAS and the New CAS

According to the requirement of "Notice on Disclosure of Financial Information related to Adoption of New CAS", the Company prepared Reconciliation Statement of Differences in Shareholders' Equity between the new and old CAS as at 31st December 2006 and 1st January 2007 ("the Reconciliation Statement") on 20 April 2007. The Reconciliation Statement has been reviewed by Pricewaterhouse Coopers Zhong Tian Accountants Limited Company.

After the publication of 2006 annual report, further interpretations on CAS (2006), (including CAS Bulletin 1 and opinions on the Implementation of CAS (2006) from the Professional Working Group of the China Accounting Standards Committee) were issued in succession. The Company complied with these further interpretations during the preparation of the 2007 annual financial statements and reviewed the shareholders' equity as at 1 January 2007.The differences and the reasons for the differences between the shareholders' equity after review and those disclosed in the previous reconciliation statement are analysed as follows:

	2007 Annual Report Amount disclosed ***Rmb'000***	2006 Annual Report Amount disclosed originally *Rmb'000*
Shareholders' equity as at 31 December 2006 (under old accounting standards)	**3,975,979**	3,991,517
a. Measured at amortised cost using the effective interest rate method Financial liabilities subsequently measured	**—**	—
Shareholders' equity as at 1 January 2007(under new accounting standards)	**3,975,979**	3,991,517

3 Reconciliation of differences in financial statements prepared under different GAAPs

(1) Impact of Material differences between PRC GAAP and HKFRS on net profit attributable to parent company is analysed as follows:

	2007 Rmb'000	2006 Rmb'000
Amount adjustment under PRC GAAP:	**449,244**	306,762
a. Governmental grants for year 2006	**538**	—
Others	**(1,102)**	(4,277)
Total	**(564)**	(4,277)
Amount under HKFRS	**448,680**	302,485

Under the Hong Kong Financial Reporting Statement, the government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. Before 1 January 2007, grants were recognised in capital reserve once they complied with the conditions associated. At present, such governmental grants are recognised initially as deferred income and equally distributed in profit or loss over the useful life of the asset. No retrospective adjustment (Note 4(1)(c)) has been made by the Company for the change of accounting policy on government grants.

(2) Impact of Material differences between PRC GAAP and HKFRS on shareholders' equity attributable to parent company is analysed as follows:

	2007 Rmb'000	2006 Rmb'000
Amount adjustment under PRC GAAP:	**5,219,961**	3,975,979
a. Governmental grants for year 2006	**(18,222)**	(18,760)
Others	**—**	1,102
Total	**(18,222)**	(17,658)
Amount under HKFRS	**5,201,739**	3,958,321

Foreign auditors of financial statements prepared under Hong Kong Financial Reporting Standards: KPMG.

DOCUMENTS AVAILABLE FOR INSPECTION

1. The financial statements signed and under seal by the Legal Representative, the Chief Accountant and the Head of Accounts.

2. Original copy of the auditor's report prepared under PRC GAAP which has been signed by certified public accountant, Gong Wei Li and Lin Jian Kun, and stamped by KPMG Huazhen, and the original copy of the auditor's report prepared under Hong Kong Financial Reporting Standards which has been signed by KPMG .

3. The original copies of all documents and announcements of the Company which have been publicly disclosed during the period in China Securities Journal, Shanghai Securities News, Securities Times.

4. Annual report and its summary which was published in Wen Wei Po and China Daily.