Chongqing Iron & Steel Company Limited

重慶鋼鐵股份有限公司

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

# 2008 Annual Report

# 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 report 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 14th Meeting of the fourth session Board convened on 31 March 2009.

3. Mr. Luo Fu Qin, Chairman of the Company, and Ms. Song Ying, the Chief Financial Officer and Chief Accountant, 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 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:** | 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 Guo Ju |
| **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 |

## (I) Basic Information *(Continued)*

| | |
|---|---|
| **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 and 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) |
| **Stock code:** | 601005(A shares)/1053(H shares) |
| **Date of first business registration of the Company:** | 11 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 |

## (I) Basic Information *(Continued)*

**Legal Advisers:**

| | |
|---|---|
| **Domestic:** | Chongqing Branch of Beijing Kai Wen Law Firm |
| **Office address:** | Room 2903, Hilton Hotel Business Building, No.131, Zhong Shan San Lu, Yuzhong District, Chongqing |
| **Postal Code:** | 400015 |
| **Domestic:** | Chongqing Zhong Shi Law Firm |
| **Office address:** | Room11-7, Tower B, WanKai Xin Du Hui, No.64 Nanxing Road, Nan'an District, Chongqing |
| **Postal Code:** | 400060 |
| **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 |
| | Room1712-1716, 17/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 2008 and their applications are set out below

| | |
|---|---|
| **Plates for shipbuilding:** | Mainly used in the construction of the skeleton and super structure 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 income tax | 605,764 |
| Profit attributable to the Company's ordinary equity shareholders | 598,298 |
| Profit deducted extraordinary gains and loss attributable to the Company's ordinary equity shareholders | 601,228 |
| Profit from principal operations | 2,645,965 |
| Profit from other operations | 5,782 |
| Operating profit | 609,106 |
| Net non-operating income and expenses | (3,342) |
| Net cash flow from operating activities | 483,509 |
| Net increase in cash and cash equivalents | 175,971 |

**Extraordinary gain and loss items and amounts (RMB'000)**

| Extraordinary gain and loss item | Amount |
|---|---|
| Disposal of non-current assets | (4,115) |
| Government grants | 650 |
| Gains on disposal of held-to-maturity financial assets | 32 |
| Others | 123 |
| Less: effect on taxation | (380) |
| Total | (2,930) |

## (II) Differences between Domestic and Overseas Accounting Standards (RMB'000)

| | Under PRC GAAP | Under HKFRS |
|---|---|---|
| Net profit | 598,298 | 598,836 |
| Net assets | 5,644,946 | 5,627,262 |

| | |
|---|---|
| Explanations to the difference | Under HKFRS, the government grants related to assets shall be recognised as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. The Company began adopting the China Accounting Standards for Business Enterprises (CAS(2006)) from 1 January 2007 ("first adoption date"). In accordance with CAS (2006), before the first adoption date, government grants were recognised in capital reserve once they complied with the conditions associated. After the first adoption date, such government grants are recognised initially as deferred income and equally recognised in profit or loss over the useful life of the asset. |

## (III) Major Financial Data and Financial Indicators of the Company over the Recent Years (RMB'000)

### 1. Prepared under PRC GAAP

#### *(1) Major Financial data*

*Unit: RMB'000*

| Item | 2008 | 2007 | Increase or decrease from last year (%) | 2006 After adjustment | 2006 Before adjustment |
|---|---|---|---|---|---|
| Operating income | **16,517,443** | 12,058,453 | 36.98 | 9,671,561 | 9,662,561 |
| Profit before income tax | **605,764** | 470,234 | 28.82 | 307,855 | 315,930 |
| Income tax expenses | **7,466** | 20,990 | (64.43) | 1,093 | 1,093 |
| Profit attributable to the Company's ordinary equity shareholders | **598,298** | 449,244 | 33.18 | 306,762 | 314,837 |
| Profit deducted extraordinary gains and loss attributable to the Company's ordinary equity shareholders | **601,228** | 470,119 | 27.89 | 309,130 | 316,122 |
| Net cash flow from operating activities | **483,509** | 479,983 | 0.73 | 854,231 | 854,231 |

| Item | At the end of 2008 | At the end of 2007 | Increase or decrease from last year (%) | At the end of 2006 After adjustment | At the end of 2006 Before adjustment |
|---|---|---|---|---|---|
| Total assets | **12,424,968** | 10,974,111 | 13.22 | 8,841,433 | 8,841,433 |
| Total liabilities | **6,780,022** | 5,754,150 | 17.83 | 4,865,454 | 4,849,916 |
| Shareholders' equity | **5,644,946** | 5,219,961 | 8.14 | 3,975,979 | 3,991,517 |

## (III) Major Financial Data and Financial Indicators of the Company over the Recent Years (RMB'000) *(Continued)*

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

#### *(2) Major financial indicators*

*Unit: RMB*

| Item | 2008 | 2007 | Increase or decrease from last year (%) | 2006 After adjustment | 2006 Before adjustment |
|---|---|---|---|---|---|
| Basic earnings per share | **0.35** | 0.27 | 29.63 | 0.22 | 0.23 |
| Diluted earnings per share | **0.35** | 0.27 | 29.63 | 0.22 | 0.23 |
| Basic earnings per share net of extraordinary gain and loss | **0.35** | 0.28 | 25.00 | 0.22 | 0.23 |
| Return on net assets (fully diluted) (%) | **10.60** | 8.61 | increased by 1.99 percentage points | 7.72 | 7.89 |
| Return on net assets (weighted average) (%) | **11.01** | 9.13 | increased by 1.88 percentage points | 7.78 | 7.91 |
| Return on net assets net of extraordinary gain and loss (fully diluted) (%) | **10.65** | 9.01 | increased by 1.64 percentage points | 7.77 | 7.92 |
| Return on net assets net of extraordinary gain and loss (weighted average) (%) | **11.07** | 9.55 | increased by 1.52 percentage points | 7.84 | 7.94 |
| Net cash flow per share from operating activities | **0.28** | 0.29 | (3.45) | 0.62 | 0.62 |

| Item | At the end of 2008 | At the end of 2007 | Increase or decrease from last year (%) | At the end of 2006 After adjustment | At the end of 2006 Before adjustment |
|---|---|---|---|---|---|
| Net asset per share attributable to shareholders of the Company | **3.26** | 3.12 | 4.49 | 2.87 | 2.89 |

## (III) Major Financial Data and Financial Indicators of the Company over the Recent Years (RMB'000) *(Continued)*

### 2. Prepared under HKFRS

| Item | 2008 | 2007 | 2006 (After adjustment) | 2005 (After adjustment) | 2004 |
|---|---|---|---|---|---|
| Sales | **16,482,183** | 12,021,195 | 9,621,897 | 8,856,126 | 8,551,923 |
| Profit before income tax | **606,302** | 469,670 | 303,578 | 273,620 | 872,156 |
| Income tax expenses | **7,466** | 20,990 | 1,093 | 32,663 | 28,433 |
| Profit for the year | **598,836** | 448,680 | 302,485 | 240,957 | 843,723 |
| Fully diluted earnings per share (RMB) | **0.35** | 0.26 | 0.22 | 0.17 | 0.61 |
| Weighted average earnings per share (RMB) | **0.35** | 0.27 | 0.22 | 0.17 | 0.61 |
| Net cash flow per share from operating activities (RMB) | **0.11** | 0.16 | 0.49 | 0.07 | 0.37 |
| Return on net assets (fully diluted) (%) | **10.64** | 8.63 | 7.64 | 6.14 | 21.95 |
| Return on net assets (weighted average) (%) | **11.06** | 9.15 | 7.67 | 6.20 | 24.03 |

| Item | At the end of 2008 | At the end of 2007 | At the end of 2006 (After adjustment) | At the end of 2005 (After adjustment) | At the end of 2004 |
|---|---|---|---|---|---|
| Total assets | **12,424,968** | 10,974,111 | 8,864,407 | 8,132,279 | 7,200,834 |
| Total liabilities | **6,797,706** | 5,772,372 | 4,906,086 | 4,206,201 | 3,356,121 |
| Shareholders' equity | **5,627,262** | 5,201,739 | 3,958,321 | 3,926,078 | 3,844,713 |
| Net assets per share (RMB) | **3.25** | 3.11 | 2.86 | 2.84 | 2.78 |

## (IV) Movements in Shareholder's Equity during the Reporting Period (RMB'000)

### 1. Prepared under PRC GAAP

| Item | Share capital | Capital reserve | Surplus reserve | Retained earnings | Including: Proposed dividend in cash by the Board | Shareholders' equity |
|---|---|---|---|---|---|---|
| Opening balance | 1,733,127 | 1,164,384 | 506,849 | 1,815,601 | — | 5,219,961 |
| Increase during the year | 0 | 0 | 59,830 | 538,468 | — | 598,298 |
| Decrease during the year | 0 | 0 | 0 | 173,313 | — | 173,313 |
| Closing balance | 1,733,127 | 1,164,384 | 566,679 | 2,180,756 | 173,313 | 5,644,946 |

### 2. Prepared under HKFRS

| Item | Share capital | Share premium | Capital surplus | Statutory provident fund | Retained earnings | Shareholders' equity |
|---|---|---|---|---|---|---|
| Opening balance | 1,733,127 | 894,259 | 216,071 | 506,849 | 1,851,433 | 5,201,739 |
| Increase during the year | 0 | 0 | 0 | 59,830 | 539,006 | 598,836 |
| Decrease during the year | 0 | 0 | 0 | 0 | 173,313 | 173,313 |
| Closing balance | 1,733,127 | 894,259 | 216,071 | 566,679 | 2,217,126 | 5,627,262 |

Reasons for the changes:

Pursuant to the Company Law, the Articles of Association and approval of the Board, the Company appropriated 10% of its net profit for the year 2008 calculated under PRC GAAP to statutory surplus reserve, totaling RMB59,830,000.

# MOVEMENT OF SHARE CAPITAL AND THE PARTICULARS OF SHAREHOLDERS

## (I) Changes in Share Capital

**Changes in Share Capital as at 31 December 2008**

*Unit: share*

| | Before the change | | Increase/decrease(+,−) | | | | | After the 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 | 48.76 | — | — | — | — | — | 845,000,000 | 48.76 |
| 1. State owned shares | — | — | — | — | — | — | — | — | — |
| 2. State owned legal person shares | 845,000,000 | 48.76 | — | — | — | — | — | 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** | 888,127,200 | 51.24 | — | — | — | — | — | 888,127,200 | 51.24 |
| 1. Renminbi ordinary shares | 350,000,000 | 20.19 | — | — | — | — | — | 350,000,000 | 20.19 |
| 2. Foreign shares listed domestically | — | — | — | | | | — | | |
| 3. Foreign shares listed overseas | 538,127,200 | 31.05 | — | — | — | — | — | 538,127,200 | 31.05 |
| 4. Others | — | — | — | — | — | — | — | — | — |
| **III. Total shares** | 1,733,127,200 | 100 | — | — | — | — | — | 1,733,127,200 | 100 |

## (I) Changes in Share Capital *(Continued)*

### Changes in 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 | 0 | 0 | 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. | 29 February 2010 |
| Total | 845,000,000 | 0 | 0 | 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 | Listing date | Number of shares approved for listing |
|---|---|---|---|---|---|
| Renminbi dominated ordinary shares, A shares | 6 February 2007 | 2.88 | 350,000,000 | 28 February 2007 | 350,000,000 |

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

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

The Company was established on 11 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. 413,944,000 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 17 October 1997. Upon the issuance of H shares, the Company's total share capital amounted to 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 H shares.

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.

319,183,200 bonus shares were distributed to all shareholders by the Company with three bonus shares for every ten shares through distributable profits in 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 28 February 2007, the Company issued 350,000,000 ordinary shares denominated in Renminbi (A Share) on Shanghai Stock Exchange (Shanghai Exchange).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 at 31 December 2008, 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 and Beneficial Controller

1. **At the end of reporting period, the total number of shareholders was 120,955, of which 120,672 shareholders were the holders of A shares and 283 shareholders were holders of H Shares.**

2. **According to the Register of Members provided by the Hong Kong and domestic share registrar of the Company, the shareholdings of the top ten shareholders and the top ten holders of shares not subject to trading moratorium as at the end of the reporting period are as follows:**

***Shareholdings of the top ten shareholders at the end of reporting period***

*Unit: share*

| Name of shareholder | Type of shareholders | Shareholding Percentage (%) | 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 | 20,000,000 shares frozen |
| HKSCC NOMINEES LIMITED | Foreign shareholder | 30.51% | 528,795,743 | 0 | Unknown |
| Haitong-Bank of Communications-Nikko Asset Management Co., Ltd. -Nikko AM Renminbi A Share Parent Fund | Holders of domestic non-state owned legal person shares | 0.52% | 9,000,872 | 0 | Unknown |
| Bank of Communications - Zhonghai Excellent Growth Securities Investment Fund | Holders of domestic non-state owned legal person shares | 0.18% | 3,073,446 | 0 | Unknown |
| BOC-Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund | Holders of domestic non-state owned legal person shares | 0.13% | 2,286,146 | 0 | Unknown |
| Shenzhen Lisha Co., Ltd. | Holders of domestic non-state owned legal person shares | 0.13% | 2,199,214 | 0 | Unknown |
| Li Jiaxiang | Domestic natural person shareholder | 0.12% | 1,998,243 | 0 | Unknown |
| Zhang Xiaoping | Domestic natural person shareholder | 0.08% | 1,363,611 | 0 | Unknown |
| Zhou Yong | Domestic natural person shareholder | 0.08% | 1,316,200 | 0 | Unknown |
| China Construction Bank - Bosera Yufu Securities Investment Fund | Holders of domestic non-state owned legal person shares | 0.07% | 1,173,024 | 0 | Unknown |

## (III) Particulars of Shareholders and Beneficial Controller *(Continued)*

2. **According to the Register of Members provided by the Hong Kong and domestic share registrar of the Company, the shareholdings of the top ten shareholders and the top ten holders of shares not subject to trading moratorium as at the end of the reporting period are as follows:** *(Continued)*

***Shareholdings of the top ten shareholders at the end of reporting period*** *(Continued)*

*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 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, 20,000,000 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 528,795,743 shares held by HKSCC Nominees Limited are shares held on behalf of its customers.*

***Shareholdings of the top ten holders of circulating shares not subject to trading moratorium at the end of the reporting period***

*Unit: share*

| Name of shareholder | Number of shares not subject to trading moratorium | Shares class |
|---|---|---|
| HKSCC NOMINEES LIMITED | 528,795,743 | Overseas listed foreign shares |
| Haitong-Bank of Communications -Nikko Asset Management Co., Ltd. -Nikko AM Renminbi A Share Parent Fund | 9,000,872 | Renminbi denominated ordinary shares |
| Bank of Communications - Zhonghai Excellent Growth Securities Investment Fund | 3,073,446 | Renminbi denominated ordinary shares |
| BOC-Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund | 2,286,146 | Renminbi denominated ordinary shares |
| Shenzhen Lisha Co., Ltd. | 2,199,214 | Renminbi denominated ordinary shares |
| Li Jiaxiang | 1,998,243 | Renminbi denominated ordinary shares |

## (III) Particulars of Shareholders and Beneficial Controller *(Continued)*

2. **According to the Register of Members provided by the Hong Kong and domestic share registrar of the Company, the shareholdings of the top ten shareholders and the top ten holders of shares not subject to trading moratorium as at the end of the reporting period are as follows:** *(Continued)*

***Shareholdings of the top ten holders of circulating shares not subject to trading moratorium at the end of the reporting period*** *(Continued)*

*Unit: share*

| Name of shareholder | Number of shares not subject to trading moratorium | Shares class |
|---|---|---|
| Zhang Xiaoping | 1,363,611 | Renminbi denominated ordinary shares |
| Zhou Yong | 1,316,200 | Renminbi denominated ordinary shares |
| China Construction Bank - Bosera Yufu Securities Investment Fund | 1,173,024 | Renminbi denominated ordinary shares |
| China Construction Bank — Norde Value Advantage Stock Investment Fund | 710,600 | Renminbi denominated 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.*

3. **Particulars of Controlling Shareholder**

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 22 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).

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

## (III) Particulars of Shareholders and Beneficial Controller *(Continued)*

### 4. Others

***(1) As at 31 December 2008, 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 share capital of the Company |
|---|---|---|---|
| BNP Paribas Asset Management | 52,819,008 | 9.82% | 3.05% |

*Note: Save as disclosed above, as at 31 December 2008, 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.*

***(2) Pre-emptive Rights***

According to the Articles of Association of the Company and the laws of the PRC, there are no pre-emptive rights which would require the Company to issue new shares to its existing shareholders on a pro-rata basis.

***(3) Public float of H shares***

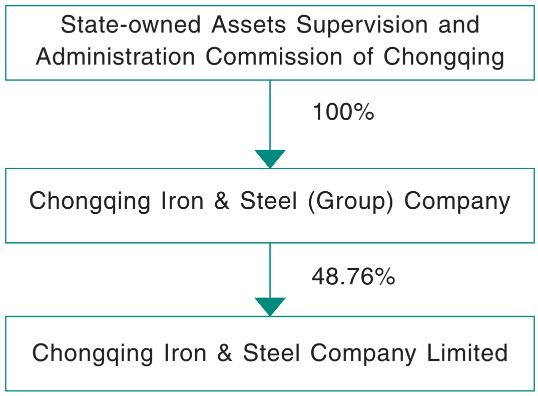
As at the date hereof, to the best knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules of the Stock Exchange.

***(4) Purchase, Sale or Redemption of Listed Shares***

During the year ended 31 December 2008, the Company did not redeem any of its issued shares, nor purchase or sell any of its listed shares.

## (III) Particulars of Shareholders and Beneficial Controller *(Continued)*

**5. The ownership relationship between the Company and its beneficial controller**



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

*Unit: RMB*

| 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 *(RMB)* | Whether receive remuneration from shareholder or other connected parties |
|---|---|---|---|---|---|---|---|---|
| Luo Fu Qin | Chairman | M | 60 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 275,000 | Yes |
| Yuan Jin Fu | Director | M | 46 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 275,000 | Yes |
| Chen Shan | Director and General Manager | M | 55 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 272,000 | No |
| Sun Yi Jie | Director, Deputy General Manager and Chief Engineer | M | 53 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 261,700 | No |
| Chen Hong | Director and Deputy General Manager | M | 52 | From 20 September 2006 to 21 September 2009 | 0 | 0 | 262,280 | No |
| Li Ren Sheng | Director and Deputy General Manager | M | 44 | From 25 March 2008 to 24 March 2011 | 0 | 0 | 258,080 | No |
| Wang Xiang Fei | Independent Director | M | 57 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 60,000 | No |
| Sun Yu | Independent Director | M | 46 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 60,000 | No |
| Liu Xing | Independent Director | M | 52 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 60,000 | No |
| Zhu Jian Pai | Chairman of the Supervisory Committee | M | 51 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 275,000 | Yes |
| Huang You He | Supervisor | M | 56 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 190,160 | Yes |
| Gong Jun | Supervisor | F | 36 | From 23 August 2007 to 22 August 2010 | 0 | 0 | 160,232 | Yes |
| Chen Hong | Supervisor | F | 44 | From 9 June 2006 to 8 June 2009 | 0 | 0 | 170,960 | No |
| Gao Shou Lun | Supervisor | M | 55 | From 25 March 2008 to 24 March 2011 | 0 | 0 | 193,520 | No |
| Xu Gang | Deputy General Manager | M | 48 | From 8 January 2004 to the present | 0 | 0 | 261,220 | No |
| Wu Zi Sheng | Deputy General Manager | M | 44 | From 8 January 2004 to the present | 0 | 0 | 260,020 | No |
| Song Ying | Financial Controller | F | 41 | From 29 June 2007 to the present | 0 | 0 | 202,840 | No |
| You Xiao An | Secretary to the Board | M | 44 | From 23 January 2001 to the present | 0 | 0 | 197,610 | No |

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

The total remuneration received by the above Directors, Supervisors, Senior Management from the Company during the reporting period included basic salary, bonus, public housing reserve, social pension and other insurance premiums.

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

**Directors:**

**Mr. Luo Fu Qin,** aged 60, 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 specializing in water drainage, and he is a senior engineer. Mr. Luo has served as the deputy general manager of the Holding Company in September 2000, a Director of the Holding Company since 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 46, is the Director and member of the Salary and Remuneration Review Committee of the Company. He is also Deputy General Manager 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 Chief Accountant of the Holding Company since August 2002 and Deputy General Manager of the Holding Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Holding Company, and the Chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.

**Mr. Chen Shan,** aged 55, is the Director, member of the Strategic Committee of the Company and general manager. 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 had 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 53, is the member of the Strategic Committee, the deputy general manager and chief engineer 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, a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". 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.

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

**Directors:** *(Continued)*

**Mr. Chen Hong,** aged 52, 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 deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant 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.

**Mr. Li Ren Sheng,** aged 44, is a Director, the deputy general manager and head of Raw Material Department of the Company. 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, the assistant to plant director and deputy plant director of Smelting Plant 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.

**Independent Directors:**

**Mr. Wang Xiang Fei,** aged 57, 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 SEEC Media Group Limited, Shenzhen Rural Commercial Bank Corporation Limited, and China Citic Bank Corporation Limited.

**Mr. Sun Yu,** aged 46, 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, an part-time professor of Southwest Politics and Law University, 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 after graduation and was granted with the title of vice profession of jurisprudence in 1995.. 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.

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

**Independent Directors:** *(Continued)*

**Mr. Liu Xing,** aged 52, 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. He is also a council member of China Accounting Society, a standing council member of the Education Branch of China Accounting Society, vice president of the Chongqing Accounting Society and a standing council member of Chongqing CPA Association. 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. He had acted as Independent Non-executive Director of Chongqing Three Gorges Water Conservancy And Electric Power Co. Ltd. , Dongfeng Electronic Technology Co., Ltd., Sichuan Meifeng Chemicals Co. Ltd. and Chongqing Titanium Industry Co. Ltd of Pangang Group since 2002. He is currently the Independent Non-executive Director of Chongqing Gang Jiu Co., Ltd. and Chongqing Hecheng Co., Ltd..

**Supervisors:**

**Mr. Zhu Jian Pai,** aged 51, 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 56, 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 36, is a Supervisor of the Company and the 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 had 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 and deputy head of the Audit Department of the Holding Company. Since March 2008, she has been the head of the Audit Department of the Holding Company.

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

**Supervisors:** *(Continued)*

**Ms. Chen Hong,** aged 44, 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.

**Mr. Gao Shou Lun:** aged 55, is a Supervisor of the Company, the secretary to the communist party committee of the medium plate plant of the Company as well as the Chairman of the Labor Union. Mr. Gao graduated from the History Department of Southwest China Normal University and was awarded a bachelor degree of History. He was also awarded a master degree of History of the Sichuan University. As a senior political engineer, Mr. Gao joined the Holding Company in 1971. During his term of office, he has served as the deputy section chief of the educational section of Qijiang Iron Mine (綦江鐵礦) and the section chief of the education theory section of promotion department of the Parent Company. He was also the deputy secretary to the communist party committee (managed tasks), Chairman of the Labor Union, secretary to the communist party committee and Chairman of the Labor Union of the power plant of the Company. He also undertook the role of manager of party committee office (secretary) of the Holding Company.

**Senior Management:**

**Mr. Xu Gang,** aged 48, is the deputy general manager 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 44, 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.

**Ms. Song Ying,** aged 41, 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)).

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

**Senior Management:** *(Continued)*

**Mr. You Xiao An,** aged 44, 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, financial controller and secretary to the Board.

## (II) Changes in Directors, Supervisors and Senior Management

1. On 12 March 2008, Mr. Gao Shou Lun was elected as the Supervisor from the Staff's Representatives of the Fourth Supervisory Committee of the Company upon 32nd meeting of the second staff representative meeting for its group leaders.

2. On 25 March 2008, Mr. Li Ren Sheng was elected as a Director of the Company at the 2008 First EGM.

## (III) 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 2008.

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 accordance with its "pension guarantee scheme".

In 2008, the independent directors of the Company, Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing, each received the independent director allowances of RMB60,000.

In 2008, the total remunerations for directors, supervisors and other senior management receiving remunerations from the Company amounted to RMB3,695,600. All remunerations were amount before tax.

## (V) 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 2008, 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 |
| 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.*

Save as disclosed above, as at 31 December 2008, 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 31 December 2008, 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.

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

### 2. Service Contracts of Directors and Supervisors

The Board of Directors and the Supervisory Committee of the Company were elected at the Annual General Meeting ("AGM") convened on 9 June 2006 for a term of three years from 9 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 Extraordinary General Meeting ("EGM") convened on 20 September 2006 with a term of three years from 20 September 2006; Ms. Gong Jun was appointed as a supervisor of the Company at the EGM convened on 23 August 2007 with a term of three years from 23 August 2007.Mr. Li Ren Sheng and Mr. Gao Shou Lun were respectively appointed as a director and a supervisor of the Company with a term of three years from 25 March 2008. The Company respectively entered into service contracts with the above directors and supervisors for a term same as the above mentioned.

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

The Company did not enter into any contract of significance (except service contracts) to which the Company, its subsidiaries or its jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest or is substantially interested, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the reporting period.

### 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 31 December 2008.

## (VI) Staff

As at the end of 2008, the Company had 11,544 staff, including 9,686 production staff, 188 sales staff, 808 technical and engineering staff, 100 finance staff, and 762 administrative staff. The staff with bachelor or above degrees accounted for 8.45% of the total staff. The Company has been emphasizing on the training to its staff in update of knowledge. In 2008, 10,529 persons received training, and the training plan was fulfilled at a rate of 103.31%.

| Education Background | Stuff number |
|---|---|
| Master's degree | 88 |
| Undergraduate | 887 |
| Associate degree | 1,962 |
| Secondary technical graduates and others | 8,607 |

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.

# CORPORATE GOVERNANCE STRUCTURE AND CORPORATE GOVERNANCE REPORT

As the Company was listed on Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited, it shall comply with the requirements of the Code of Corporate Governance for Listed Companies of China Securities Regulatory Commission ("CSRC") and the Code on Corporate Governance Practices of Stock Exchange in respect of corporate governance practices besides applicable laws and regulations.

The Company strongly believe that compliance with good corporate governance principles, improvement of corporate operation transparency and independence and establishment of effective accountability systems will help the Company maintain steady growth and create more value for shareholders. During the reporting period, the corporate governance of the Company was in line with the requirements of the Code of Corporate Governance for Listed Companies, and all provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange were adopted.

## (I) Corporate Governance

### 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 9 June 2006, the fourth session Board of Directors of the Company was elected at the AGM. The Board 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 judgment. 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.

## (I) Corporate Governance *(Continued)*

### 1. The Board of Directors *(Continued)*

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 20 to 24 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.

Duties performance of Independent Directors: 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.On 22 January 2008, Independent Directors Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing expressed independent opinions in respect of the Service and Supply Agreement from 2008 to 2010 (the "Service and Supply Agreement") entered into between the Company and the Holding Company, and were of the view that terms and conditions of the Service and Supply Agreement were on normal commercial terms, and such transactions were carried out in the ordinary and usual course of business of the Company; the terms of such agreement were fair and reasonable and were in the interests of the Company and the Shareholders as a whole. On 22 April 2008, Independent Directors Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing expressed independent opinions in respect of the nomination of Mr. Li Ren Sheng as the candidate for directors by the Holding Company and were of the view that Mr. Li Ren Sheng had the qualification and met the requirements of relevant laws, regulations and Articles of Association of the Company for directorship, and the procedures for nominating Mr. Li Ren Sheng as the candidate for directors were compliant with the provisions of relevant laws, regulations and Articles of Association. 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.

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
Non-executive director: Mr. Yuan Jin Fu
Executive directors: Mr. Chen Shan, Mr. Sun Yi Jie, Mr. Chen Hong, Mr. Li Ren Sheng
Independent Non-executive directors: Mr. Wang Xiang Fei, Mr. Sun Yu, Mr. Liu Xing

## (I) Corporate Governance *(Continued)*

### 1. The Board of Directors *(Continued)*

During the reporting period, the Board of the Company convened six meetings; the details of attendance are set out on page 32 of this Annual Report. Please refer to page 51-52 of this annual report for particulars of the meeting.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 "Directors, Supervisors and Senior Management" on page 19 of this Annual Report.

### 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 established on 9 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, interim and quarterly 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 32 of this annual report respectively. Please refer to page 53 of this annual report for particulars of the meeting.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.

## (I) Corporate Governance *(Continued)*

### 2. Special Committees of the Board *(Continued)*

#### *(2) Strategic Committee*

The second Strategic Committee of the Company was set up on 9 June 2006, comprising 5 members in full compliance with relevant domestic and foreign laws, regulations and the Company's 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 32 of this Annual Report respectively. Please refer to page 54 of this annual report for particulars of the meeting.

#### *(3) Salary and Remuneration Review Committee*

The second Salary and Remuneration Review Committee was set up on 9 June 2006, comprising 4 members (including 3 independent directors) in full compliance with relevant domestic and foreign laws, regulations and the Company's 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 32 of this Annual Report respectively. Please refer to page 54 of this annual report for particulars of the meeting.

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 fulfillment 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. On 9 June 2006 the fourth session Supervisory Committee of the Company was established. 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
Supervisors: Mr. Huang You He, Ms. Gong Jun, Ms. Chen Hong, Mr. Gao Shou Lun

During the reporting period, Supervisory Committee convened 4 meetings and attended all Board meetings as an observer, duly performing its duties. Details of the Supervisory Committee's work are set out on pages 58 to 59 "Report of the Supervisory Committee" in this Annual Report. Please refer to page 32 of this annual report for particulars of the meetings.

**Attendance of the Board meetings, Supervisory Committee meetings and meetings of each special committee in 2008**

(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%) | — | — | — | — |
| Li Ren Sheng | 5/5 (100%) | — | — | — | — |
| **Independent directors:** | | | | | |
| Wang Xiang Fei | 6/6 (100%) | 2/2 (100%) | — | 1/1 (100%) | — |
| Sun Yu | 6/6 (100%) | 2/2 (100%) | — | 1/1 (100%) | — |
| Liu Xing | 6/6 (100%) | 2/2 (100%) | 1/1 (100%) | 1/1 (100%) | — |
| **Supervisors:** | | | | | |
| Zhu Jian Pai | — | — | — | — | 4/4 (100%) |
| Huang You He | — | — | — | — | 4/4 (100%) |
| Gong Jun | — | — | — | — | 4/4 (100%) |
| Chen Hong | — | — | — | — | 4/4 (100%) |
| Gao Shou Lun | — | — | — | — | 4/4 (100%) |

## (I) Corporate Governance *(Continued)*

4. According to the requirements of Notice on Carrying Out Special Activity for Strengthening Corporate Governance of Listed Company by CSRC(Zheng Jian Gong Si Zi [2007] No.29)and the spirit of the Notice of the Special Activity on Strengthening Corporate Governance (CSRC Announcement [2008] No.27 ), the Company continued to strictly inspect the implementation of the Rectification Report on the Special Activity of Corporate Governance as approved by the Directors on 2 November 2007 and the rectification effects, further carrying out corporate governance activities. On 18 July 2008, the Company's directors approved the Report on the Special Activity for Corporate Governance of Chongqing Iron & Steel Company Limited, reported the rectification problems to be rectified within a given time and implementation of continuous rectification problems, and put forward improvement and enhancement plan for establishing sound internal systems, reinforcing information disclosure and normalising capital transactions of the Company. During the reporting period, the special activity for corporate governance was effectively conducted; rectification problems to be rectified within a given time was resolved; continuous rectification problems were solved in a continuous manner; and the corporate governance plan was implemented.

5. Chongqing Office of CSRC ("CSRC Chongqing") made special inspection to the Company from 11 June 2008 to 17 June 2008, and issued a "Notification of Requirement of Rectification to be Carried Out by Chongqing Iron & Steel Company Limited Within a Given Time" (Yu Zheng Jian Shi [2008] No.317) ("Rectification Notification") to the Company on 28 July 2008.The Board of the Company actively coordinated with the controlling shareholder and jointly formulated rectification measures, and approved the "Rectification Report of Related Matters Within a Given Time by Chongqing Iron & Steel Company Limited Under the Request of Chongqing Bureau of CSRC" (Details were published in China Securities Journal, Shanghai Securities News, Securities Time, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 27 August 2008). As at 31 December 2008, the Company rectified all matters according to requirements of the Rectification Notification and the arrangement of the Rectification Report, and made corresponding implementation.

6. During the reporting period, the Company established and improved the following systems: (1) on 15 April 2008, the Directors approved the Rules of Procedure on Annual Report for Independent Directors and the Work Regulations on the Annual Financial Report Review by Audit Committee; (2) On 19 September 2008, the Board approved the revised Management System on Raised Proceeds; (3) on 17 November 2008, the Company's Second EGM approved the Rules of Procedures for the Shareholders' General Meeting and Rules of Procedures for the Board of Directors as revised by the Board and the Rules of Procedure for the Supervisory Committee as revised by Supervisors.

## (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, 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 fulfillment of the Company's 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 Company's finance management is in compliance with relevant regulations, with internal control links including authorisation and signature effectively executed.

Internal control systems of the Company have covered all aspects of the Company including production and operation control, financial management control and information disclosure control, assuring the favourable operation and management and effective control over operation risks.

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

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 and checking the execution of internal control systems, 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 full version of the Board's opinion on Self-Evaluation Report on Internal Control of the Company was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 1 April 2009.

The Company did not engage auditors to verify and appraise the internal control of the Company for the year.

## (V) Report on Social Responsibility Performance by the Company

The full version of the Board's Report on Social Responsibility Performance was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 1 April 2009.

## (I) Annual General Meeting

The Company convened the 2007 Annual General Meeting on 23 June 2008. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 24 June 2008.

## (II) Extraordinary General Meeting

1. On 25 March 2008, the Company held the 2008 first extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 26 March 2008.

2. On 17 November 2008, the Company held the 2008 second extraordinary general meeting, the 2008 first A shares class meeting and the 2008 first H shares class meeting. Details of the announcement of the resolutions passed at aforesaid meetings were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 18 November 2008.

(Unless otherwise specified, all financial data in this report are extracted from the financial statements of the Company prepared under PRC GAAP.)

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

### 1. Overall operation status of the Company during the Reporting period

During the first half of 2008, booming national economy and fixed asset investment supported domestic steel demand. Steel export was stimulated by overseas demand and international price gap. Domestically, steel price had seen steep surge as pushed by raw materials and fuel prices. Price and volume were both on rise in steel market, with rapidly growing demand and supply. During the second half of 2008, global financial crisis triggered by the U.S. sub-prime crisis plagued world economy recession. Leading to dramatically slowed China's economy in a downside cycle. Domestic downstream steel sectors mired in recession, demand shrank significantly, especially in ship building, construction machinery, construction, automobile and boiler for industrial purpose. Under decreasing domestic demand for steel coupled with shrinking export, steel price suffered a steep plunge. The industry started to record loss.

Overcoming transportation disruptions caused by natural disaster, we seized favourable market condition in the first half of the year to address the adversity in second half with calmness. By virtue of active sales promotion, optimized raw material procurement policy, strict quality control and continuous new products, we recorded sound results for the year. During the reporting period, the Company produced 1,367,100 tonnes of coke, 2,924,900 tonnes of pig iron, 3,357,600 tonnes of steel, 3,212,300 tonnes of steel products (billets). Coke decreased by 0.22%, pig iron decrease by 0.87%, while steel increased by 0.21% and steel products (billets) increased by 3.04% year-on-year. The Company recorded operating income of RMB16,517,443,000, and operating profit of RMB609,106,000, increasing by 36.98% and 23.30% respectively over last year.

During the reporting period, the Company timely adjusted marketing strategy in line with the changing market. In the first three quarters, the Company seized market opportunity to raise and preserve price. In the downturn of fourth quarter, the Company adopted production preservation and secured profit. By enhancing communication and coordination with strategic customers and optimizing resource allocation, we strengthened and protected our partnership and facilitated sales. In 2008, the Company sold 3,212,000 tonnes of steel products (billets) with a collection rate of accounts receivable amounting to 100.44%.

During the reporting period, we kept close watch on steel and raw material markets. With macro analysis and collection of demand and supply information in local markets, we were able to form and adjust raw material procurement strategy in time. The Company also expanded scope of procurement, with strict contracting and execution management to keep price in reasonable range. While ensuring stable production, the Company optimized ore resources by increasing proportion of domestic ore purchases and lowered raw material procurement cost.

During the reporting period, the Company tightened inspection on raw material input. By adopting mechanized sampling, improving examination speed and accuracy and inspection against abnormal materials, we successfully upheld quality of raw material input. Meanwhile, the Company intensified quality control in raw materials, iron, steel and rolling processes, bringing steel plate damage-free rate to 94.96%. During the reporting period, 24 of our quality control indicators were accomplished as planned, among which 23 reached target value. Passing rate of finished steel products of the year reached 99.62%, up 0.16 percentage point over last year.

## (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 developed 65x180 electrode flat steel, CG210 hot-rolled pipe blank and 11# I-section steel for mines to cater for market demand. At the same time, pilot production for specialised products was carried out according to market demand with a focus on high value-added products and advanced technology products. Pilot production of bulb flat steel, hard cable plate unit, Z plates and superior carbon steel poles had seen remarkable increase. During the reporting period, the Company completed pilot production of 657,900 tonnes for new products and specialised products with a value of RMB3.261 billion.

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

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

In a volatile steel market in 2008, steel product price surged in string from January to June on soaring raw material prices. Both cost and price were on the high side. From July, steel product price started to slide. In mid October, price plummeted and our profit was skimmed dramatically. Under such market volatility, the Company adjusted production structure based on accurate forecast and analysis and strived to stabilize selling price. The Company attained increase in production and sale volumes as well as operating results. As at 31 December 2008, the revenue from principal operations of the Company under PRC GAAP were RMB16,482,183,000, up 37.11% over 2007. Net profit was RMB598,298,000, representing a year-on-year rise of 33.18%.

For the year 2008, the Company's revenue from principal operations amounted to RMB16,482,183,000, of which south-western region and other regions accounted for RMB8,212,311,000 and RMB8,269,872,000, representing a rise of 22.16% and 56.08% respectively over last year.

| Region | Revenue from principal operations *(RMB'000)* | Increase/decrease in revenue from principal operations from last year *(%)* |
|---|---|---|
| South-western region | 8,212,311 | 22.16 |
| Other regions | 8,269,872 | 56.08 |
| Total | 16,482,183 | 37.11 |

## (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)

For the year 2008, the Company's revenue from principal operations amounted to RMB16,482,183,000, of which RMB15,939,311,000 was derived from sales of steel products (billets), representing 96.71% of the total revenue, up 39.08% over last year, and RMB542,872,000 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 3.29% of the total revenue, down 3.17% from last year.

| Product | 2008 Amount *(RMB'000)* | 2008 Percentage *(%)* | 2007 Amount *(RMB'000)* | 2007 Percentage *(%)* | Year-on-year increase (%) |
|---|---|---|---|---|---|
| Steel plates | **7,415,739** | **44.99** | 5,069,516 | 42.17 | 46.28 |
| Steel billets | **1,782,887** | **10.82** | 1,411,190 | 11.74 | 26.34 |
| Steel sections | **4,183,558** | **25.38** | 3,039,558 | 25.28 | 37.64 |
| Wire rods | **2,164,677** | **13.13** | 1,594,629 | 13.27 | 35.75 |
| Cool-rolled plates | **392,450** | **2.39** | 345,664 | 2.88 | 13.54 |
| Subtotal | **15,939,311** | **96.71** | 11,460,557 | 95.34 | 39.08 |
| Others | **542,872** | **3.29** | 560,638 | 4.66 | (3.17) |
| Total | **16,482,183** | **100.00** | 12,021,195 | 100 | 37.11 |

In 2008, the sales revenue of the Company's steel products (billets) increased by RMB4,478,754,000 as compared with last year. The increase was attributable to (1) higher product price: during the year, the average selling price of steel products (including cold rolled plates) was RMB4,962 per tonne, representing a rise of 29.66% from last year, which increased sales revenue by RMB4,107,174,000; (2) more production and sales volume: the Company sold 3,212,000 tonnes of steel products (billets), representing an increase of 70,700 tonnes over last year, which increased sales revenue by RMB371,580,000.

## (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***

| Item | 2008 RMB/tonne | 2007 RMB/tonne | Year-on-year increase (%) | Contribution to revenue increase (RMB'000) |
|---|---|---|---|---|
| Steel plates | **5,799** | 4,391 | 32.07 | 1,801,386 |
| Steel sections | **4,485** | 3,234 | 38.68 | 1,166,808 |
| Wire rods | **4,236** | 3,157 | 34.18 | 551,369 |
| Steel billets | **4,298** | 3,073 | 39.86 | 508,130 |
| Subtotal | **4,955** | 3,634 | 36.35 | 4,027,693 |
| Cool-rolled thin plates | **5,254** | 4,190 | 25.39 | 79,481 |
| Total | **4,962** | 3,827 | 29.66 | 4,107,174 |

***Sales volume by products***

| Item | 2008 (0'000 tonnes) | 2007 (0'000 tonnes) | Year-on-year increase (%) | Contribution to revenue increase (RMB'000) |
|---|---|---|---|---|
| Steel plates | **127.88** | 115.46 | 10.76 | 545,362 |
| Steel sections | **93.27** | 93.99 | (0.77) | (23,285) |
| Wire rods | **51.10** | 50.51 | 1.17 | 18,626 |
| Steel billets | **41.48** | 45.92 | (9.67) | (136,441) |
| Subtotal | **313.73** | 305.88 | 2.57 | 404,262 |
| Cold-rolled plates | **7.47** | 8.25 | (9.45) | (32,682) |
| Total | **321.20** | 314.13 | 2.25 | 371,580 |

## (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 operation*

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

The net profit of the Company amounted to RMB598,298,000 for the year 2008, increased by 33.18% from RMB449,244,000 in 2007.

| Item | Amount for 2008 *(RMB'000)* | Amount for 2007 *(RMB'000)* | Year-on-year increase/ decrease *(%)* |
|---|---|---|---|
| **Operating income** | **16,517,443** | 12,058,453 | 36.98 |
| Operating costs | **(13,865,367)** | (10,418,035) | 33.09 |
| Business taxes and surcharges | **(329)** | (372) | (11.56) |
| Total expenses | **(1,170,235)** | (1,115,500) | 4.91 |
| Impairment loss | **(872,438)** | (30,562) | 2754.65 |
| Investment income | **32** | — | — |
| **Operating profit** | **609,106** | 493,984 | 23.30 |
| **Profit before income tax** | **605,764** | 470,234 | 28.82 |
| Income tax expenses | **(7,466)** | (20,990) | (64.43) |
| **Net profit** | **598,298** | 449,244 | 33.18 |

## (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 operation (Continued)*

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

1) Gross profit from principal activities amounted to RMB2,645,965,000, up RMB1,013,208,000 over 2007, mainly attributable to rising prices of steel products.

| By industry | Revenue from principal operations *(RMB'000)* | Cost of principal operations *(RMB'000)* | Gross profit margin *(%)* | Increase/ decrease in revenue from principal operations from last year *(%)* | Increase/ decrease in cost of principal operations from last year *(%)* | Increase/ decrease in gross profit margin from last year *(%)* |
|---|---|---|---|---|---|---|
| **Iron & Steel industry** | 15,939,311 | 13,361,085 | 16.18 | 39.08 | 34.57 | 2.81 |
| Steel plates | 7,415,739 | 5,418,500 | 26.93 | 46.28 | 46.65 | (0.19) |
| Steel sections | 4,183,558 | 3,842,707 | 8.15 | 37.64 | 31.00 | 4.65 |
| Wire rods | 2,164,677 | 2,049,082 | 5.34 | 35.75 | 33.30 | 1.74 |
| Steel billets | 1,782,887 | 1,645,644 | 7.70 | 26.34 | 19.69 | 5.13 |
| Cool-rolled sheets | 392,450 | 405,152 | (3.24) | 13.54 | 4.25 | 9.19 |
| Others | 542,872 | 475,133 | 12.48 | (3.17) | 3.37 | (5.53) |
| Total | 16,482,183 | 13,836,218 | 16.05 | 37.11 | 33.19 | 2.47 |

During the year 2008, the average selling prices of the Company's steel products (billets) was RMB4,962 per tonne, representing a rise of 29.66% from last year, which increased profit by approximately RMB4,107,174,000. The rising prices of raw materials including ore, coal and scrap steel lessened the growth in the profit of the Company.

2) According to relevant requirements of accounting standards, the decrease in the Company's current profit due to provision for assets impairment loss amounted to RMB872,438,000 in 2008, representing an increase of RMB841,876,000 over last year. In the wake of international financial crisis in the second half of 2008, market demand declined. Accordingly, the raw materials and products inventories devaluated as domestic raw materials and steel price plumped at the end of the year. Therefore, the decrease in the Company's current profit due to provision for diminution in value of inventories amounted to RMB785,520,000, representing an increase of RMB770,017,000 over same period 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)*

***(2) Analysis on operation*** *(Continued)*

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

3) The general and administrative expenses of the Company in 2008 was RMB656,453,000, decreased by RMB8,679,000 from last year, mainly attributable to 1) repair expenses booked in general and administrative expenses decreased by RMB47,482,000 year-on-year; and 2) salaries and surcharges booked in general and administrative expenses in 2008 increased by RMB30,232,000 year-on-year.

4) Selling and distribution expenses of the Company for the year 2008 amounted to RMB258,939,000, representing an increase of RMB15,328,000 as compared with last year, which was mainly attributable to the increase in sales volume and in shipbuilding inspection expenses by RMB9,979,000 and transportation charges by RMB3,922,000 over 2007.

5) The financial expenses of the Company in 2008 amounted to RMB254,843,000, increased by RMB48,086,000 over last year, mainly attributable to 1) high interest rate for the loan of the Company as a result of surging bank interest rate in 2007; and 2) more interest expense as long and short term borrowings of the Company increased by RMB1,366,729,000 as at 31 December 2008.

6) The income tax rate of the Company was 15% for the year 2008. The taxable income was RMB1,438,251,000. After deducting the income tax exemption for domestic manufactured equipment, the income tax payable of the Company was RMB129,523,000, up RMB104,142,000 from last year.

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

During the year 2008, with the increase in sales, net cash flow from operating activities of the Company amounted to RMB483,509,000, together with the net cash flow of RMB909,380,000 from financing activities arising from bank borrowings, net cash equivalents of the Company for the current period increased by RMB175,971,000 after deducting net cash expenditure of RMB1,216,918,000 on the investment project such as hot-rolled plates project and wide-thick plates project.

## (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 operation*** *(Continued)*

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

As at 31 December 2008, cash at bank and on hand balances of the Company were RMB1,203,661,000; balance of short-term loans amounted to RMB1,798,000,000 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 RMB2,324,076,000, which were mainly used for wide-thick plates 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 conducts negotiations for finance with financial institutions to maintain certain credit facilities so as to lower the liquidity risk.

As at 31 December 2008, the share capital structure of the Company was as follows:

*Unit: RMB'000*

| Item | Amount | Item | Amount |
|---|---|---|---|
| Current assets | 5,292,653 | Current liabilities | 3,999,173 |
| Non-current assets | 7,132,315 | Non-current liabilities | 2,780,849 |
| Total assets | 12,424,968 | Shareholders' equity | 5,644,946 |

As at 31 December 2008, the total assets of the Company amounted to RMB12,424,968,000, representing a year-on-year increase of 13.22%. The total liabilities amounted to RMB6,780,022,000 while the gearing ratio was 54.57%. Current assets amounted to RMB5,292,653,000;current liabilities amounted to RMB3,999,173,000; current ratio was 1.32.

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

- **Pledge of Assets**

No asset was pledged by the Company for bank loans as at 31 December 2008.

- **Capital Commitments and Contingent Liability**

As at 31 December 2008, capital commitments of the Company amounted to RMB2,758,657,000, which was mainly attributable to the construction and equipment contracts entered into for the hot-rolled plates project and wide-thick plates project which had not been settled or fully-settled.

## (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 operation*** *(Continued)*

- **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.

***(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: | 11.11% |
| Percentage in total procurement for the top five suppliers of the Company: | 41.90% |

Percentage in total sales for major customers of the Company:

| | |
|---|---|
| Percentage in total sales for the largest customer of the Company: | 4.80% |
| Percentage in total sales for the top five customers of the Company: | 17.55% |

Save for two fellow subsidiaries in the top five suppliers 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 and the top five customers of the Company.

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

### 3. Analysis on financial position

#### *(1) Items of balance sheet*

*Unit: RMB'000*

| Item | **At the end of 2008** | At the end of 2007 | Year-on-year increase/ decrease *(%)* | Percentage in total assets for the year *(%)* |
|---|---|---|---|---|
| Accounts receivable | **210,035** | 146,886 | 42.99 | 1.69 |
| Prepayments | **266,343** | 1,053,169 | (74.71) | 2.14 |
| Other receivables | **24,420** | 18,627 | 31.10 | 0.20 |
| Construction in progress | **532,703** | 124,830 | 326.74 | 4.29 |
| Construction materials | **1,185,619** | 22,777 | 5105.33 | 9.54 |
| Intangible assets | **251,050** | 25,820 | 872.31 | 2.02 |
| Deferred tax assets | **129,386** | 7,329 | 1665.40 | 1.04 |
| Accounts payable | **602,113** | 1,411,961 | (57.36) | 4.85 |
| Employee benefits payable | **39,963** | 21,747 | 83.76 | 0.32 |
| Taxes payable | **189,227** | 78,461 | 141.17 | 1.52 |
| Interest payable | **4,510** | 2,342 | 92.57 | 0.04 |
| Other payables | **261,353** | 71,261 | 266.75 | 2.10 |
| Non-current liabilities due within one year | **440,000** | 286,000 | 53.85 | 3.54 |
| Long-term loans | **2,324,076** | 1,188,747 | 95.51 | 18.70 |
| Other non-current liabilities | **456,773** | 112,284 | 306.80 | 3.68 |

Explanations:

1) The increase in accounts receivable was mainly attributable to the increase in receivables for sales of products as a result of more sales revenue in 2008.

2) The decrease in prepayment was mainly attributable to the following reasons: a) project advance payment of RMB487,336,000 for hot-rolled plates project and wide-thick plates project was transferred to construction materials from prepayment according to their construction progress in 2008; and b) RMB230,000,000 of prepaid land grant fee of hot-rolled plates project was transferred to intangible assets from prepayment as land certificate was obtained in 2008, leading to an increase in intangible assets at the same time.

## (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: *(Continued)*

3) The increase in construction in progress and construction materials was mainly attributable to increased construction, installation and design expenses as the hot-rolled plates project and wide-thick plates project entered into full construction stage in 2008.

4) The increase in deferred tax assets was mainly attributable to provision of impairment loss on asset of RMB872,438,000 made by the Company in 2008, up RMB841,876,000 from last year.

5) The decrease in accounts payable was mainly attributable to 1) timely payment for goods by the Company amid favourable market environment from January to September 2008; and 2) shrinking production scale and procurement in the wake of weakening steel market from October to December 2008.

6) The increase in employee benefits payable was mainly attributable to improved operating performance in 2008 since Performance-linked salary system was implemented by the Company.

7) The increase in taxes payable was mainly attributable to: 1) more income taxes payable due to increased profit in 2008; and 2) more value added tax as a result of increased sales revenue in 2008.

8) The increase in interest payable was mainly attributable to increased borrowing facilities with different interest period for the Company's borrowings.

9) The increase in other payables was mainly attributable to increased payables due to affiliate companies as at the end of 2008.

10) The increase in non-current liabilities due within one year and long-term loans was mainly attributable to increased long-term loans from financial institutions.

11) The increase in other non-current liabilities was mainly attributable to receipt of long term advance from customers in 2008.

#### *(2) Items of income statement (please see the section headed "Operating results of the Company during the Reporting period" under "Analysis on principle operations and operating status during the Reporting period")*

## (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*

| Item | 2008 | 2007 | Main Reasons for the changes |
|---|---|---|---|
| Net cash inflow from operating activities | **483,509** | 479,983 | No significant change in this item in 2008 compared to 2007. |
| Net cash outflow from investing activities | **(1,216,918)** | (975,217) | Mainly attributable to more capital expenditure as hot rolling plate-strip project and wide-thick steel plate project entered into full construction stage. |
| Net cash inflow from financing activities | **909,380** | 1,152,544 | Mainly attributable to large cash flow from additional issue of A share in 2008 and new borrowings in 2008. |
| Net increase of cash and cash equivalents | **175,971** | 657,310 | The decrease in net increase of cash and cash equivalents was mainly attributable to increased net cash outflow from investing activities and decreased net cash inflow from financing activities. |

## (II) Prospects

In 2009, in order to offset impact from the global financial crisis, China executed active fiscal policy and ease monetary policy to "preserve growth, expand domestic demand and amend structure". The government also rolled out RMB4 trillion stimulus package and pump-primping plans covering ten major industries including steel, all of which will help economic growth. As macro economic policies kick in, national economy is likely to bottom out in second half of 2009. Though market demand, surplus capacity, upstream raw material prices are still uncertainties that cast shadow on profitability of steel industry, the industry is about to welcome restructuring opportunities.

In 2009, the Company is to rake active measures against external adversities, with realigned product mix and stricter internal control to promote a healthy growth. In this regard, we will: (1) enhance market analysis, formulate adaptive sales strategy and promote marketing of products; (2) optimize raw material supply, stabilize production and cut down raw material procurement cost; (3) coordinate production and sales, optimize production scheduling and overweight profitable products; (4) continue technology research, improve technical and economic indicators and product quality; (5) strive for better resource utilization, continue to save energy and reduce consumption and achieve higher cost-effectiveness.

## (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.

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 2008, the Company has utilized a total of RMB1,012,307,459.42 of raised proceeds (including fees in relation to the issue and underwriting). RMB114,227,676.42 of raised proceeds was used in 2008 as follows:

*Unit: RMB*

| Item: | Amount paid |
|---|---|
| Expenses for project construction and installation | 114,227,394.42 |
| Procedure fees | 282 |
| Total | 114,227,676.42 |

***Use of proceeds by the Company as at 31 December 2008***

*Unit: RMB*

| | | | |
|---|---|---|---|
| Total proceeds raised | 1,008,000,000 | Total utilised proceeds in the year (including fees in relation to underwriting, issuance and other fees) | 114,227,676.42 |
| | | Accumulated use of raised proceeds (including fees in relation to underwriting, issuance and other fees) | 1,012,307,459.42 |

## (III) Investment during the Reporting Period *(Continued)*

### 1. Use of raised proceeds *(Continued)*

| Projects undertook | Change of project | Amount to be invested | Actual investment (excluding fees in relation to under writing, issuance and other fees) | In line with schedule? | Estimated earnings | Return incurred |
|---|---|---|---|---|---|---|
| Technological renovation project of plate-strip project | No | 2,038,110,000 | 1,248,125,819.34 | Yes | Upon full commencement of. production, RMB138,920,000 will be recorded for the first two years and RMB205,490,000 after three to five years | N/A |
| Total | | 2,038,110,000 | 1,248,125,819.34 | — | — | — |

| | |
|---|---|
| Reason for the failure in keeping in line with the schedule and estimated return | N/A |
| Reason and procedure for the change | N/A |
| Use of outstanding proceeds | Deposited in designated bank account for further usage according to plan of usage of proceeds set out in the Prospectus |

### 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.

Cold rolling plate-strip Project was operated smoothly at present. Since hot rolling (main raw materials for cold rolling production) production line has not yet completed construction and commenced production, cost of purchased raw material surged leading to un-full load production. Therefore, losses occurred during reporting period.

During the reporting period, the Company proactively push forward construction of hot-rolled plates project which has entered into concrete depositing and steel structure installation stage. Accumulated RMB811,964,424.22 has been paid by the Company.

## (III) Investment during the Reporting Period *(Continued)*

### 3. Projects financed by non-raised proceeds (as at 31 December 2008)

*Unit: RMB'000*

| Project name | Budget | Progress | Earnings |
|---|---|---|---|
| 4,100mm wide-thick plates project | 1,918,000,000 | 13% | Under construction |
| Total | 1,918,000,000 | 13% | — |

During the reporting period, the Company paid accumulated RMB1,065,655,279.65 for 4100mm wide-thick plates project. The construction of heating furnace and main rolling line is making smooth progress. The whole project has achieved significant periodic results.

## (IV) Reasons and Impact of Changes in Accounting Policies or Estimation Basis and Correction to Material Accounting Errors

During the reporting period, there is no significant change of accounting policies and accounting estimates and corrections of errors in the Company.

## (V) Ongoing Work of the Board

### 1. During the reporting period, the Board held 6 meetings and passed relevant resolutions.

(1) The ninth meeting of the fourth Board of the Company was held on 22 January 2008, 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 23 January 2007.

(2) The tenth meeting of the fourth Board of the Company was held on 23 April 2008, 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 April 2008.

(3) The eleventh meeting of the fourth Board of the Company was held on 23 June 2008, 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 June 2008.

(4) The twelfth meeting of the fourth Board of the Company was held on 26 August 2008, 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 27 August 2008.

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

1. **During the reporting period, the Board held 6 meetings and passed relevant resolutions.** *(Continued)*

(5) The extraordinary meeting of the fourth Board of the Company was held on 25 September 2008, 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 26 September 2008.

(6) The thirteenth meeting of fourth Board was held on 22 October 2008, at which the following resolutions were passed: (i) To consider and approve the unaudited results of the Company for the nine months ended 30 September 2008 prepared in accordance with PRC GAAP (i.e. 2008 third quarterly report); (ii) To consider and approve the unaudited results of the Company for the nine months ended 30 September 2008 prepared in accordance with PRC GAAP to be published in accordance with the applicable rules and regulations.

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 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 2007 AGM on 23 June 2008, at which the final profit distribution proposal for 2007 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 16 July 2007.

(2) The Company convened 2008 second extraordinary general meeting, 2008 first A shares class meeting and 2008 first H shares class meeting on 17 November 2008, at which considered and approved the proposed issuance of Bonds with Warrants by the Company in PRC in an amount of not more than RMB2,000,000,000. The proceeds would be used to compensate the capital shortage of a technological renovation project relating to the renovation and upgrading of the production line for steel strips and repay bank loans. Due to changes in market conditions, the Company decided to terminate the issuance of Bonds with Warrants on 19 February 2009. (Please refer to the relevant announcements 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 20 February 2009).

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

### 3. Report on Performance of Duties of Audit Committee

The fourth meeting of the third session Audit Committee was held on 23 April 2008, at which the 2007 Annual Report of the Company and its summary , 2007 financial statements and auditors' report for year 2007 prepared under PRC GAAP and Hong Kong Financial Reporting Standards were considered and approved; the Company's connected transactions for 2007 were confirmed; the Board was proposed to appoint KPMG and KPMG Huazhen as the Company's international and domestic auditor respectively for 2008; 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 fifth meeting of the third session Audit Committee was held on 25 August 2008, at which the 2008 unaudited interim financial statements of the Company, 2008 Interim Report and Interim Results Report were 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, Operational Guidance on Audit Committee under the Board, 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) On 15 January 2009, according to announcement (2008) No.48 issued by CSRC, the Company communicated with KPMG in respect of the composition of audit team, audit plan, risks judgment, test and appraisal method for risks and fraud and issued written opinions, before the commencement of audit by CPA for annual audit.

(2) After listening to the report on annual financial condition and operation results by Financial Controller of the Company, the Committee 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 on 23 January 2009;

(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 and before the Company convened board meeting to consider and audit the annual report, the Audit Committee met with the CPA for annual audit and communicated in respect of its preliminary opinion, and reviewed the Company's 2008 Financial Statements again and issued its review opinion in writing.

(5) Upon the issue of auditors' report for 2008 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's 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 third meeting of the second Salary and remuneration Review Committee was held on 26 December 2008, at which the following resolutions were passed:

(1) Design principal for 2008 remuneration proposal for directors, managers and senior management is reasonable. In actual situation, as average salary of employees was raised noticeably and the senior management of the Company constrained the amount of remuneration for themselves, remuneration for senior management is lower than the designed level. The move is worthy of high compliment as it demonstrated the responsibility and confident of the management, in line with long term development of the Company.

(2) The remuneration proposal for Directors, Supervisors and senior management for year 2009 was approved.

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

### 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 third meeting of the second Strategic Committee was held on 20 September 2008, at which proposal for issuance of bonds with warrants was considered and approved.

### 6. 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's decision-making procedures for guarantee and status of guarantees. They are of the view that the Company's decision-making procedures for guarantee is in line with relevant laws, regulations and the Articles of Association; as at 31 December 2008, 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.

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

### 7. Net profit distribution in last three years and proposal for profit distribution in 2008

***(1) Profit distribution in last three years***

*Unit: RMB'000*

| Year | Cash dividend amount (tax inclusive) | Net profit in the year | Net profit margin *(%)* |
|---|---|---|---|
| 2005 | 159,592 | 252,113 | 63.30 |
| 2006 | 283,963 | 306,762 | 92.57 |
| 2007 | 173,313 | 449,224 | 38.58 |

***(2) Proposal for profit distribution in 2008***

As audited by domestic and overseas auditors, in 2008, the Company achieved net profit of RMB598,298,000 under PRC GAAP, or RMB598,836,000 under HKFRS. After 10% statutory capital reserve was transferred from the net profit under PRC GAAP, together with the retained profit at the end of 2007, the total profit attributable to shareholders of the Company for 2008 was RMB2,180,756,000 under PRC GAAP and RMB2,217,126,000 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 2008 is RMB2,180,756,000.

Based on the total share capital of 1,733,127,200 shares as at 31 December 2008, the Board proposed to distribute to all shareholders a cash dividend of RMB0.10 (tax inclusive) per share with an estimated amount of RMB173,313,000. The remaining undistributed profit will be carried forward to 2009. The dividend plan will be put forward to 2008 AGM for approval and come into effect in two months after the AGM if it is approved.

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China and the Implementing Regulations of the Enterprise Income Tax Law of the People's Republic of China (collectively, the "Enterprise Income Tax Law") that come into effect in 2008, starting from 1 January 2008, any PRC domestic enterprise shall withhold the enterprise income tax upon the distribution of dividends payable to the shareholders being non-resident enterprises and the payer shall serve as the withholding agent.

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 2008 Annual General Meeting of the Company. In accordance with the Enterprise Income Tax Law, the Company is required to withhold enterprise income tax at the rate of 10% when distributing 2008 final dividends to the non-resident enterprise shareholders holding H shares (including HKSCC Nominees Limited).

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

### 8. Other Issues

***(1) Fixed assets***

For the year ended 31 December 2008, movements in the fixed assets of the Company are set out in Note 13 to the financial statements prepared under PRC GAAP and Note 6 to the financial statements prepared under the HKFRS.

***(2) Reserves***

For the year ended 31 December 2008, movements in the reserves of the Company are set out in Note 30 and Note 31 to the financial statements prepared under PRC GAAP, Note 15 to the financial statements prepared under HKFRS and the statement of changes in equity.

***(3) Entrusted Deposits and Overdue Time Deposits***

As at 31 December 2008, 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.

***(4) Management Contract***

During the reporting period, the Company did not have, nor did it enter into any significant management contract in respect of management or administrative work relating to entire business or important business.

***(5) In order to cater for the need of production and operation, as approved by the 58th written resolution of the fourth Board of the Company on 19 September 2008, an amount of RMB63,230,000 and RMB35,760,000 were to be invested to conduct the Phase II construction project of dolomite in Jingxing and the Phase II construction project of expanding the southern mines of Dabaopo.***

***(6) As approved by the 61st written resolution of the fourth Board of the Company on 15 October 2008, the Company established a training department on 1 January 2009 to undertake training tasks for employees of the Company.***

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

### 8. Other Issues *(Continued)*

#### *(7) Auditors and their Remuneration*

As approved by the 2006 annual general meeting of the Company on 18 June 2007, the Company ceased the appointment of PricewaterhouseCoopers Zhong Tian and PricewaterhouseCoopers 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") of the Company respectively for 2007. As approved at 2007 Annual General Meeting, the Board reappointed KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively. The Auditors of the Company has audited the enclosed financial statements prepared under PRC GAAP and the financial report prepared under HKFRS. The Company paid RMB3,680,000 for audit of such financial statements (including special statement pursuant to relevant laws and regulations), and RMB2,800,000 for service fee related to proposed issuance of convertible corporate bonds with detachable warrants. As at the end of the reporting period, the current auditors had provided auditing service for the Company for 2 year.

## Acknowledgements

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

For and on behalf of the Board
*Chairman*: **Luo Fu Qin**

Chongqing, PRC
31 March 2009

# REPORT OF THE SUPERVISORY COMMITTEE

In 2008, the Supervisory Committee of the Company diligently performed their supervision duties in compliance with the provisions of the Company Law of the PRC and relevant laws and regulations, the Articles of Associations and the Rules of Procedures for Supervisory Committee Meetings, so as to safeguard the lawful interests of the shareholders and improve the standard operation of the Company. The Supervisory Committee completed the following works in 2008:

## (I) Meetings Held by the Supervisory Committee during the Reporting Period

1. The sixth meeting of the fourth session Supervisory Committee was convened on 22 April 2008, at which the Company's 2007 audited financial statements, 2007 Annual Report and its summary, Report of Supervisory Committee for year 2007, and 2008 First Quarterly Report were considered and approved.

2. The seventh meeting of the fourth session Supervisory Committee was convened on 25 August 2008, at which the Company's 2008 unaudited interim financial statements and 2008 Interim Report and its summary were considered and approved.

3. The second extraordinary meeting of the fourth session Supervisory Committee was convened on 25 September 2008, at which the proposal for amendment to the Rules of Procedures for Supervisory Committee Meetings was considered and approved.

4. The eighth meeting of the fourth session Supervisory Committee was convened on 22 October 2008, at which the 2008 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 diligently performed their supervision duties by attending general meeting and Boarding meetings as non-voting participants, as well as focusing on the Company's special activity on corporate governance. The Supervisory Committee was of the view that the Board had earnestly implemented the resolutions passed at general meetings; each special committee of the Board had fully played its role; all major operation decisions of the Company were rational and the decision-making process was lawful; through further implementation of special activity on corporate governance, the Company enhanced its corporate governance; the Company established internal control system and implemented it effectively, and up to now, no material weakness in internal control design and implementation was found; the Directors and other senior management were honest and integrity when performing their duties. None of them acted in violation of laws, regulations, Articles of Association of the Company, the Company's interests or the shareholders' interests.

### 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 analysis reports submitted monthly by the management of the Company. The Supervisory Committee reviewed documents to be presented at the general meeting by the Board, including Annual Report and financial 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 relevant rules and regulations, 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 2008 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. As at 31 December 2008, all raised proceeds has been utilized in according to use of proceeds in the Prospectus.

### 4. Connected transaction of the Company

During the reporting period, all connected transactions of the Company based on market prices were fair and reasonable without detriment of the interest of the Company and the shareholders.

## Acknowledgements

The Supervisory Committee hereby expressed heartfelt gratitude to all shareholders for their trust and support to the Company, and all management and staff of the Company for their efforts to the healthy and sustainable development of the Company.

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

Chongqing, PRC
30 March 2009

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

## (II) During the reporting period, the Company did not hold equity interests in other listed companies or have equity investment in financial institutions such as commercial banks.

## (III) During the reporting period, the Company did not have events concerning assets acquisition, assets disposal or business combination.

## (IV) Contracts with Holding Company

### 1. Service and Supply Agreement

The Service and Supply Agreement entered into by the Company and the Holding Company on 20 October 2005 expired on 31 December 2007. To ensure the continuous supply of service, raw materials, factory premises and welfare service between the Company and the Holding Company, the Company entered into the Service and Supply Agreement (the "New Service and Supply Agreement") from 2008 to 2010 with the Holding Company on 22 January 2008. The term of the Service and Supply Agreement was three years from 1 January 2008 to 31 December 2010.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 fees payable in respect of such services are determined by reference to market prices or profit markup above the cost/depreciation or prices prescribed by the relevant Chongqing governmental departments (as applicable).

### 2. Lease Agreements

Under the Lease Agreements dated 14 August 1997 and 13 August 1997, as amended by a supplementary agreement dated 29 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 14 August 1997 and 13 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 12 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.

## (IV) Contracts with Holding Company *(Continued)*

### 2. Lease Agreements *(Continued)*

On 8 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 1 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 20 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 14 August 1997 and 8 December 2002 from 50 years to 20 years and from 45 years to 15 years respectively.

Pursuant to the Lease Agreement entered into between the Company and the Holding Company on 10 February 2006, the Company would lease another parcel of land with an area of 337,473 square meters for a term of three years from 1 January 2006 to 31 December 2008 from the Holding Company. The rental for each of the three years from 2006 to 2008 will be RMB1,764,986, RMB1,941,484 and RMB1,941,484 respectively.

On 12 January 2007, the Company entered into Supplementary Agreement on the Adjustment to the Rent for Land Use Right with the Holding Company, pursuant to which the rent for the lease of land from the Holding Company was adjusted and the area rented from the Holding Company was increased by 9,151 square meters (the "Increased Area"). The increase in rent for the land use right was calculated at 10% of the latest applicable rent, i.e. the rent per square meter from 2007 to 2009 was adjusted from RMB5.23 to RMB5.75, with the total annual rent of approximately RMB17,957,407. The lease term for the Increased Area was two years from 1 January 2007 to 31 December 2008.

## (V) Material Related Party Transactions

### 1. Continuing related party transactions constituted by the Service and Supply Agreement

On 22 January 2008, the Company and the Holding Company entered into the Service and Supply Agreement with a term of three years from 1 January 2008 to 31 December 2010.

Pursuant to the Service and Supply Agreement, the Company agreed to provide products and services to the Holding Company and its subsidiaries (excluding the Company) (the "Parent Group") in summary as follows:

(1) production materials (such as coking by-products, steel billets, steel section, steel plates and wire rod);

(2) utilities services such as water, electricity and natural gas and internal railway transportation services.

## (V) Material Related Party Transactions *(Continued)*

### 1. Continuing related party transactions constituted by the Service and Supply Agreement *(Continued)*

Pursuant to the Service and Supply Agreement, the Parent Group agreed to provide products and services to the Company in summary as follows:

(1) raw materials (such as iron ore, dolomite, limestone, ferroalloy, scrap steel, pig iron), production materials (such as refractory materials), machinery and equipment and parts;

(2) technical services and installation design and technology consultation services;

(3) oxygen and other gases used in the Company's production process;

(4) transportation, construction and maintenance, telecommunications, environmental and training and social welfare services (including mainly medical, unemployment and pension funds management services etc); fees for managing such social welfare services for the Company's employees were at the expense of the Parent Group.

Pursuant to the Service and Supply Agreement, the Company and the Parent Group will allow each other to use and occupy their respective factory premises.

The aggregate consideration to be received by the Company from the Parent Group under the Service and Supply Agreement will not exceed the respective cap amount as shown in the table below for each of the three financial years ending 31 December 2008, 2009 and 2010:

| | **Year ending 31 December 2008** ***RMB*** | Year ending 31 December 2009 *RMB* | Year ending 31 December 2010 *RMB* |
|---|---|---|---|
| Company Products Caps (includes water, electricity and natural gas used in the Parent Group's production process, steel products (such as rolled steel, steel billets etc.) and ancillary products (such as cement, hardware, and timber etc.)) | **1,773,400,000** | 1,883,900,000 | 1,995,400,000 |
| Company Service Caps (railway transportation services and other services (including technical services such as quality control and technical consultancy services etc.)) | **2,600,000** | 3,000,000 | 3,400,000 |
| Company Lease Caps (lease of the Company's factory premises) | **1,200,000** | 1,200,000 | 1,300,000 |

## (V) Material Related Party Transactions *(Continued)*

### 1. Continuing related party transactions constituted by the Service and Supply Agreement *(Continued)*

The aggregate consideration to be paid by the Company to the Parent Group under the Service and Supply Agreement will not exceed the respective cap amount as shown in the table below for each of the three financial years ending 31 December 2008, 2009 and 2010:

| | **Year ending 31 December 2008** ***RMB*** | Year ending 31 December 2009 *RMB* | Year ending 31 December 2010 *RMB* |
|---|---|---|---|
| Parent Group product cap (including 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.)) | **2,635,000,000** | 2,970,500,000 | 3,328,400,000 |
| Parent Group service cap (including transportation services, environmental services, technical services (such as construction service, property, plant and equipment project monitoring service, software development service and labour service etc.) | **413,400,000** | 532,200,000 | 545,000,000 |
| Parent Group Lease Caps (lease of the Company's factory premises) | **1,000,000** | 1,200,000 | 1,500,000 |
| Welfare Caps | **120,000,000** | 130,000,000 | 140,000,000 |

Basis of price determination for the Service and Supply Agreement: (i) steel products (steel plates, billets, etc.), pig iron, iron ore, ferroalloy, scrap steel, refractory materials, oxygen and transportation services are determined by reference to the market price; (ii)ancillary products, railway transportation, environment services are determined by reference to profit mark- up above the cost of providing such products as agreed between the Company and the Parent Group;(iii) equipment and spare parts are determined by reference to the price offered by suppliers of such equipment and spare parts; (iv) water, electricity and natural gas supply and social welfare services are determined by reference to the prices as prescribed by the relevant Chongqing governmental departments; (v) technical services are determined primarily by reference to market prices or prices prescribed by state government documents or a profit mark-up above the cost of providing such services as agreed between the Company and the Parent Group; (vi) the lease of factory premises are determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.

## (V) Material Related Party Transactions *(Continued)*

### 2. Related Party transactions constituted by the Land 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"), the land lease agreement dated 10 February 2006 ("Third Land Lease") and supplementary agreements on land lease dated 12 January 2007 and 17 January 2007(the "Supplementary Agreements on 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,337,473 square meters and 9,151 square meters respectively, with respective term of 20 years, 15 years, 3 years and 2 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.

Pursuant to the supplemental lease agreement, the yearly rent for lease of the Holding Company's land use right by the Company was adjusted from RMB5.23 to RMB5.75 per square meter during the period from 2007 to 2009.

## (V) Material Related Party Transactions *(Continued)*

### 3. Related Party transactions of the Company during the year ended 31 December 2008

Details of the major related party transactions entered into by the Company during the year ended 31 December 2008 are set out in Note 48 to the financial statements prepared under PRC GAAP and Note 30 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 | 7,337 | 1.35 | 1,107,844 | 14.47 |
| Chongqing Iron & Steel Group Iron Company Limited | 8,184 | 0.05 | 739,881 | 57.73 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | 16,531 | 0.10 | 203,285 | 5.98 |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | 173,397 | 31.94 | 249,441 | 91.99 |
| Chongqing Iron & Steel Group Machinery Manufacturing Company Limited | 27,258 | 5.02 | 57,154 | 3.20 |
| Chongqing Iron & Steel Group Electronic Company Limited | — | — | 20,649 | 1.16 |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | — | — | 24,017 | 19.38 |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | — | — | 10,386 | 8.38 |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | 6,901 | 0.04 | 10,652 | 0.60 |
| Chongqing Si Gang Steel Company Limited | 451,331 | 2.83 | 7,188 | 0.62 |
| Chongqing Iron & Steel Group San Feng Industrial Company | — | — | 17,418 | 0.95 |
| Chongqing Iron & Steel Group Design and Research Institute | — | — | 2,842 | 0.08 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | 214,809 | 1.35 | — | — |
| Chongqing San Gang Steel Company Limited | 226,073 | 1.42 | — | — |
| Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. | 4,521 | 0.03 | — | — |

## (V) Material Related Party Transactions *(Continued)*

**3. Related Party transactions of the Company during the year ended 31 December 2008** *(Continued)*

| 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 Transportation Company Limited | 4,239 | 0.78 | — | — |
| Chongqing Iron & Steel Group Industrial Company Limited | 201,502 | 1.26 | 21,588 | 0.28 |
| Chongqing Iron & Steel Group San Feng Science Technology Company Limited | — | — | 4,940 | 0.62 |
| Others | 3,787 | — | 7,722 | — |
| Total | 1,345,870 | — | 2,485,007 | — |

In addition, during the reporting period, the amount of related party transactions in respect to the Company's provision of labour service and receipt of labour services to the Holding Company and its subsidiaries amounted to RMB3,232,000 and RMB230,310,000, respectively, and the land rental and advance paid on behalf of the Company was RMB17,957,000 and RMB119,882,000, respectively.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing related party transactions (1) have been approved by the Board of Directors of the Company; (2) have not exceeded the relevant caps as described in the continuing related party transactions Agreements; and (3) have been entered into in accordance with the terms of the continuing related party transactions agreements governing the transactions.

The independent directors of the Company have reviewed the above continuing related party transactions and confirmed that they were carried out: (1) in the usual and ordinary course of business of the Company; (2) on normal business terms or terms no less favorable than those available to or from independent third parties; and (3) 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.

## (V) Material Related Party Transactions *(Continued)*

### 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 Note 48 to the financial statements prepared under PRC GAAP and Note 30 to the financial statements prepared under HKFRS.

*Unit: Rmb'000*

| Related party | Capital provided to related party (sales) | | Capital provided by related party to the Company(purchase) | |
|---|---|---|---|---|
| | Amount | Balance | Amount | Balance |
| Chongqing Iron & Steel Group Mining Company Limited | 7,337 | — | 1,107,844 | — |
| Chongqing Iron & Steel Group Iron Company Limited | 8,184 | — | 739,881 | — |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | 16,531 | — | 203,285 | 20,276 |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | 173,397 | 107 | 249,441 | — |
| Chongqing Xinteng Metallurgical Burden Materials Company Limited | — | 2,281 | — | — |
| Chongqing Iron & Steel Group Machinery Manufacturing Company Limited | 27,258 | 2,878 | 57,154 | — |
| Chongqing Iron & Steel Group Electronic Company Limited | — | — | 20,649 | 534 |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | — | — | 24,017 | — |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | — | 7,369 | 10,386 | — |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | 6,901 | 184 | 10,652 | — |
| Chongqing Si Gang Steel Company Limited | 451,331 | 82,888 | 7,188 | — |
| Chongqing Iron & Steel Group Design and Research Institute | — | — | 2,842 | 1,965 |
| Chongqing Iron & Steel Group San Feng Industrial Company | — | 4,342 | 17,418 | — |

## (V) Material Related Party 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 (sales) Amount | Balance | Capital provided by related party to the Company(purchase) Amount | Balance |
|---|---|---|---|---|
| Chongqing Iron & Steel Group Steel Pipe Company Limited | 214,809 | 56,865 | — | — |
| Chongqing San Gang Steel Company Limited | 226,073 | 55,748 | — | — |
| Chongqing Sanfeng Covanta Environment Industrial Company Limited (重慶三峰卡萬塔環境產業有限公司) | — | — | — | 343 |
| Chongqing Iron & Steel Group Transportation Company Limited | 4,239 | — | — | — |
| Chongqing Iron & Steel Group Yingsite Mould Company Limited | — | 3,054 | — | — |
| Chongqing San Huan Construction Supervision and Consultant Company Limited | — | — | — | 15 |
| Chongqing Iron & Steel (Group) Company Limited | — | — | — | 176,863 |
| Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. | 4,521 | — | — | 269 |
| Chongqing Iron & Steel Group Industrial Company Limited(重慶鋼鐵集團產業公司) | 201,502 | — | 21,588 | 6,469 |
| Chongqing Iron & Steel Group San Feng Science & Technology Company Limited (重慶鋼鐵集團三峰科技有限公司) | — | — | 4,940 | — |
| Others | 3,787 | 318 | 7,722 | 846 |
| Total | 1,345,870 | 216,034 | 2,485,007 | 207,580 |

## (VI) 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 Holding Company 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 labour and social security bodies, and makes welfare contribution to other non-social retirement benefit plans through the Holding Company which charges no fees therefore.

Save for the above retirement benefits, housing fund and other social insurances as required, the Company has no additional commitments to other retirement benefits and social insurances benefits. The Parent Group is liable for payment of any other payable employee retirement benefits and social Insurance other than the above-mentioned retirement benefits, housing fund and other social insurances mentioned above.

## (VII) Income Tax

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 17 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 21 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 its income tax rate is reduced to 15% for the period from 2001 to 2010.

Enterprise Income Tax Law of the PRC (“new PRC EIT law”) has been approved by the 5th Session of the 10th National People’s Congress on 16 March 2007, and came into effect on 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 (Guo Fa No. [2007] 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the 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 laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010.

In accordance with Circular Guo Shui Fa [2008] No. 52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the Company did not apply for tax credit or exemption for purchase of domestic manufactured equipment, neither did it recognise related income tax after 1 January 2008.

The applicable income tax rate for the Company was 15% (2007: 15%) during the year.

## (VIII) Special statement of auditor on the capital appropriation by Company's 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 31 December 2008, 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.

## (IX) 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.

## (X) Environmental Relocation by the Holding Company

The Company was advised by the Holding Company, that under the requirements on energy saving and emission reduction, industrial layout and planning of Chongqing Municipal Government, the Holding Company would start its environmental relocation strategy to relocate its principal operations from Dadukou District of Chongqing City to Jiangnan Town, Changshou District of Chongqing City ("Changshou New Zone"). Therefore, the Board of the Company made announcements in relation to the Environmental Relocation by the Holding Company on 26 August 2008 and 22 December 2008 (For details, please refer to the Company's announcements published on China Securities Journal, Shanghai Securities News, Securities Times, Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 27 August 2008 and 23 December 2008).

## (XI) 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.

## (XII) 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.

## (XIII) The Company's Extraordinary Announcements Indexes for 2008

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Announcement of resolutions passed at the 9th meeting of the fourth Board | Lin 2008-001 | 23 January 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the Continuing connected Transaction | Lin 2008-002 | 23 January 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Notice of 2008 first extraordinary general Meeting | Lin 2008-003 | 5 February 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of 34th written resolution of the fourth Board | Lin 2008-004 | 5 February 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: circular for H shareholders | | 5 February 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 2008 first extraordinary general Meeting | Lin 2008-005 | 26 March 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement in relation to supervisor from staff representative | Lin 2008-006 | 26 March 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Appointment of directors | | 28 March 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Notice of board meeting | | 11 April 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of 46th written resolution of the fourth Board | Lin 2008-007 | 16 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at the 10th meeting of the fourth Board | Lin 2008-008 | 24 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

## (XIII) The Company's Extraordinary Announcements Indexes for 2008 *(Continued)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Announcement of resolutions passed at the 6th meeting of the fourth Supervisory committee | Lin 2008-009 | 24 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| 2007 Annual Report | | 24 April 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Summary of 2007 Annual Report | | 24 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| 2008 First Quarterly Report | | 24 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Notice on convening 2007 annual general meeting | Lin 2008-010 | 30 April 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the Board of Directors | Lin 2008-011 | 14 May 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement in relation to volatile trading of stocks | Lin 2008-012 | 19 May 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Appointment of qualified accountants | | 17 May 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Notice of board meeting | | 12 June 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 2007 annual general meeting | Lin 2008-013 | 24 June 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

## (XIII) The Company's Extraordinary Announcements Indexes for 2008 *(Continued)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Announcement of resolutions passed at the 11th meeting of the fourth Board | Lin 2008-014 | 24 June 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Clarification announcement | | 25 June 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of implementation of 2007 dividend distribution | Lin 2008-015 | 3 July 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement on estimated profit increase for the first half of 2008 | Lin 2008-016 | 15 July 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the special activity on corporate governance of the Company | Lin 2008-017 | 21 July 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Report on the Special Activity of Corporate Governance of Chongqing Iron & Steel Company Limited | | 21 July 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 12th meeting of the fourth Board | Lin 2008-018 | 27 August 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| 2008 Interim Report | | 27 August 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Summary of 2008 Interim Report | | 27 August 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

## (XIII) The Company's Extraordinary Announcements Indexes for 2008 *(Continued)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Special Report on Deposit and Actual Utilisation of Raised Proceeds | Lin 2008-019 | 27 August 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the Board of Directors | Lin 2008-020 | 27 August 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Rectification Report on Related Matters to be Rectified within a Given Time by Chongqing Iron & Steel Company Limited Under the Request of Chongqing Bureau of CSRC | Lin 2008-021 | 27 August 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at the extraordinary meeting of the fourth Board | Lin 2008-022 | 26 September 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at the extraordinary meeting of the fourth Supervisory Committee | Lin 2008-023 | 26 September 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Notice of 2008 second extraordinary general meeting, 2008 first A shares class meeting and 2008 first H shares class meeting | Lin 2008-024 | 26 September 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: circular for H shareholders | | 7 October 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Notice of board meeting | | 14 October 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Clarification announcement | | 14 October 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Indicative Announcement of 2008 second extraordinary general meeting, 2008 first A shares class meeting and 2008 first H shares class meeting | Lin 2008-025 | 22 October 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

## (XIII) The Company's Extraordinary Announcements Indexes for 2008 *(Continued)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| 2008 Third Quarterly Report | | 23 October 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: unusual movement in share prices and trading volume | | 8 November 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: unusual movement in share prices and trading volume | | 11 November 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 2008 second extraordinary general meeting, 2008 first A shares class meeting and 2008 first H shares class meeting | Lin 2008-026 | 18 November 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of 64th written resolution of the fourth Board | Lin 2008-026 | 28 November 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: unusual movement in share prices and trading volume | | 19 December 2008 | Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the Board of Directors | Lin 2008-027 | 23 December 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of the Board of Directors | Lin 2008-028 | 25 December 2008 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

**Independent auditor's report**
**to the shareholders of Chongqing Iron and Steel Company Limited**

KPMG-BH(2009)AR No. 0002

*(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 78 to 126, which comprise the balance sheet as at 31 December 2008, 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 2008 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

31 March 2009

# BALANCE SHEET

*At 31 December 2008*

*(Expressed in RMB)*

| | Note | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **6,704,129** | 5,397,278 |
| Land use right | 7 | **251,050** | 25,820 |
| Available-for-sale financial asset | 8 | **5,000** | 5,000 |
| Deferred income tax assets | 9 | **129,386** | 7,329 |
| Trade and other receivables | 11 | **42,750** | 53,600 |
| | | **7,132,315** | 5,489,027 |
| **Current assets** | | | |
| Inventories | 10 | **3,057,732** | 2,660,245 |
| Trade and other receivables | 11 | **1,031,260** | 1,730,960 |
| Restricted cash | 12 | **56,608** | 122,797 |
| Cash and cash equivalents | 13 | **1,147,053** | 971,082 |
| | | **5,292,653** | 5,485,084 |
| **Total assets** | | **12,424,968** | 10,974,111 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's shareholders** | | | |
| Share capital | 14 | **1,733,127** | 1,733,127 |
| Other reserves | 15 | **1,677,009** | 1,617,179 |
| Retained earnings | | | |
| — Proposed final dividend | 25 | **173,313** | 173,313 |
| — Others | | **2,043,813** | 1,678,120 |
| **Total equity** | | **5,627,262** | 5,201,739 |

The notes on pages 83 to 126 form part of these financial statements.

*At 31 December 2008*
*(Expressed in RMB)*

| | Note | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 16 | **440,000** | 95,361 |
| Borrowings | 17 | **2,324,076** | 1,188,747 |
| Deferred income | 18 | **34,457** | 35,145 |
| | | **2,798,533** | 1,319,253 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **1,682,089** | 2,443,009 |
| Borrowings | 17 | **2,238,000** | 2,006,600 |
| Current taxation | | **79,084** | 3,510 |
| | | **3,999,173** | 4,453,119 |
| **Total liabilities** | | **6,797,706** | 5,772,372 |
| **Total equity and liabilities** | | **12,424,968** | 10,974,111 |
| **Net current assets** | | **1,293,480** | 1,031,965 |
| **Total assets less current liabilities** | | **8,425,795** | 6,520,992 |

Approved and authorised for issue by the board of directors on 31 March 2009.

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

The notes on pages 83 to 126 form part of these financial statements.

# Income statement

*For the year ended 31 December 2008*

*(Expressed in RMB)*

| | Note | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| **Sales** | 19 | **16,482,183** | 12,021,195 |
| Cost of goods sold | 21 | **(13,836,547)** | (10,390,292) |
| **Gross profit** | | **2,645,636** | 1,630,903 |
| Selling and marketing costs | 21 | **(258,939)** | (243,611) |
| Administrative expenses | 21 | **(1,528,891)** | (695,314) |
| Other gains/(losses)-net | 20 | **7,824** | (10,102) |
| **Operation profit** | | **865,630** | 681,876 |
| Finance costs | 23 | **(259,328)** | (212,206) |
| **Profit before income tax** | | **606,302** | 469,670 |
| Income tax expense | 24 | **(7,466)** | (20,990) |
| **Profit for the year** | | **598,836** | 448,680 |
| **Dividends** | 25 | **173,313** | 173,313 |
| **Earnings per share for profit attributable to the Company's shareholders during the year** | 26 | | |
| — Basic and diluted | | **Rmb0.35** | Rmb0.27 |

Approved and authorised for issue by the board of directors on 31 March 2009.

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

The notes on pages 83 to 126 form part of these financial statements.

# Statement of Changes in Equity

*For the year ended 31 December 2008*

*(Expressed in RMB)*

| | | Attributable to the shareholders of the Company | | | |
|---|---|---|---|---|---|
| | | Share capital | Other reserves | Retained earnings | Total |
| | *Note* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Balance at 1 January 2007 | | 1,383,127 | 954,204 | 1,620,990 | 3,958,321 |
| Issuance of A shares | 14 | 350,000 | 618,051 | — | 968,051 |
| Cash dividends relating to 2006 | 25 | — | — | (173,313) | (173,313) |
| Profit for the year | | — | — | 448,680 | 448,680 |
| Appropriation | 15 | — | 44,924 | (44,924) | — |
| Balance at 31 December 2007 | | 1,733,127 | 1,617,179 | 1,851,433 | 5,201,739 |
| Balance at 1 January 2008 | | 1,733,127 | 1,617,179 | 1,851,433 | 5,201,739 |
| Cash dividends relating to 2007 | 25 | — | — | (173,313) | (173,313) |
| Profit for the year | | — | — | 598,836 | 598,836 |
| Appropriation | 15 | — | 59,830 | (59,830) | — |
| Balance at 31 December 2008 | | 1,733,127 | 1,677,009 | 2,217,126 | 5,627,262 |

Approved and authorised for issue by the board of directors on 31 March 2009.

**Luo Fu Qin** *Chairman*

**Chen Shan** *Director*

The notes on pages 83 to 126 form part of these financial statements.

# CASH FLOW STATEMENT

*For the year ended 31 December 2008*

*(Expressed in RMB)*

| | Note | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 27 | **537,459** | 479,983 |
| Income tax paid | | **(53,950)** | — |
| Net cash generated from operating activities | | **483,509** | 479,983 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment and land use right | | **(1,234,501)** | (986,162) |
| Payment for purchase of held-to-maturity investment | | **(50,000)** | — |
| Proceeds from disposals of property, plant and equipment | 27(a) | **7,429** | 2,027 |
| Proceeds from sale of held-to-maturity investment | | **50,000** | — |
| Interest received | | **10,122** | 8,918 |
| Cash received from return on investments | | **32** | — |
| Net cash used in investing activities | | **(1,216,918)** | (975,217) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Proceeds from shares issued | | **—** | 977,260 |
| Proceeds from borrowings | | **3,820,428** | 3,337,265 |
| Repayments of borrowings | | **(2,436,600)** | (2,782,226) |
| Interest paid | | **(301,135)** | (204,856) |
| Dividends paid | | **(173,313)** | (173,313) |
| Other cash paid relating to financing activities | | **—** | (1,586) |
| Net cash generated from financing activities | | **909,380** | 1,152,544 |
| **Net increase in cash and cash equivalents** | | **175,971** | 657,310 |
| Cash and cash equivalents at beginning of the year | | **971,082** | 313,772 |
| **Cash and cash equivalents at end of the year** | 13 | **1,147,053** | 971,082 |

Approved and authorised for issue by the board of directors on 31 March 2009.

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

The notes on pages 83 to 126 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 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. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 33).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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 gains/(losses) - 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).

### (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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Financial assets *(Continued)*

#### *(ii) Available-for-sale financial assets* (Continued)

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.

### (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 raw materials, direct labour, 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 the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes.

### (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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

#### *(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. Government grants received in relation to assets are recorded as deferred income, and recognised evenly in the income statement over the assets' useful lives.

## 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

For the purposes of these financial statements, a party is considered to be related to the Company if:

(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.

## 3 FINANCIAL RISK MANAGEMENT

The Company's financial risk management covers establishing a financial risk objectives and system, analysing the causes and evaluating risk. The objective of risk management is to identify and analyse the risks mainly the Company exposed to, and to set up control measures to monitor whether the risks are acceptable. The risk management system is a tool for managing risks.

The Company's financial instrument risks mainly include: credit risk, liquidity risk, interest rate risk and foreign currency risk. These are analysed below.

### (a) Credit risk

The failure to perform contract duty by customers of other parties involved in financial instruments is identified as credit risk. The Company's credit risk is primarily attributable to trade and other receivables.

The Company requires prepayment by cash or bills from most of its customers prior to delivery. As for trade 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 obtain collateral from its customers, and has made adequate bad debt provision for trade and other receivables with limited possibility of retrieval. The ageing analysis and provision for impairment of trade and other receivables are set out in Note 11.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Company did not provide any other guarantees which would expose the Company to credit risk.

### (b) 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 2008, it had an undrawn standby credit of Rmb 1,497,000,000 (Note 17). Drawn borrowing facilities were recorded in non-current borrowings, and current borrowings respectively. The maturity analysis of borrowings is disclosed in Note17.

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 information disclosed in the table are based on the amounts of contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Company can be required to pay.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Liquidity risk *(Continued)*

| | Carrying amount | Total contractual undiscounted cash flow | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|---|
| **At 31 December 2008** | | | | | |
| Trade and other payables | 2,122,089 | 2,145,617 | 1,682,088 | 258,414 | 205,115 |
| Bank borrowings | 4,562,076 | 4,887,269 | 2,460,499 | 1,951,160 | 475,610 |
| | 6,684,165 | 7,032,886 | 4,142,587 | 2,209,574 | 680,725 |
| **At 31 December 2007** | | | | | |
| Trade and other payables | 2,522,859 | 2,529,868 | 2,427,498 | 102,370 | — |
| Bank borrowings | 3,195,347 | 3,432,015 | 2,141,403 | 783,026 | 507,586 |
| | 5,718,206 | 5,961,883 | 4,568,901 | 885,396 | 507,586 |

### (c) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest risk respectively. The Company adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Company has achieved an appropriate mix of fixed and floating rate exposure consistent with the Company's policy. Interest rates for borrowings are set out in Note 17.

As at 31 December 2008, it is estimated that a general increase of 100 basic points with all other variables held constant, would decrease the Company's net profit by Rmb 30,550,000 (2007: Rmb 27,190,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied 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. The analysis is performed on the same basis for 2007.

### (d) Foreign currency risk

As the Company's sales of products and purchases of raw material for production are mainly carried out in Renminbi, the foreign currency risk is primarily attributable to the foreign currency deposits and borrowings.

The Company's exposure as at 31 December to foreign currency risk arising from recognised assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in renminbi, translated using the spot rate at the balance sheet date. The description of other exposure items is excluded.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Foreign currency risk *(Continued)*

*(Expressed in Rmb'000)*

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***USD*** | ***HKD*** | *USD* | *HKD* |
| Cash at bank | **1,209** | **42** | 180,919 | 39 |
| Bank borrowings | **(410,076)** | **—** | (233,747) | — |
| | **(408,867)** | **42** | (52,828) | 39 |

Major foreign exchange rates applied by the Company:

| | **Average rate** | | **Reporting date mid-spot rate** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| USD | **7.0696** | 7.5567 | **6.8346** | 7.3046 |
| HKD | **0.9092** | 0.9706 | **0.8819** | 0.9364 |

A 5% strengthening of the Renminbi against the US dollar and HK dollar at 31 December 2008 would increase the Company's profit after tax by approximately Rmb17,375,000 (2007: Rmb360,000).

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 excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2007.

### (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 its judgement to select 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.

*(Expressed in RMB)*

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### (f) Fair value estimation *(Continued)*

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 2008.

## 4 CRITICAL ACCOUNTING ESTIMATES

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. 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 and in any future periods affected.

Note 3(f) contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

### (i) Impairment of trade and other receivables

As described in Note 2(j), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company 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 provision for impairment, the impairment loss recognised in prior years is reversed.

### (ii) 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.

### (iii) Depreciation

The Company's management determines the estimated residual values, useful lives and related depreciation 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 charges where estimated residual values or 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.

## 4 CRITICAL ACCOUNTING ESTIMATES *(Continued)*

### (iv) Provision for impairment of inventories

As described in Note 2(i), if the cost of inventories is higher than the net realisable value, a provision for a diminution in the value of inventories shall be recognised. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The Company determines the net realisable value of inventories based on objective evidence that has a direct impact, such as the market selling prices of completed products or products of a similar nature, information on production cost and related information provided by sales department.

## 5 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 2008. 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.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Buildings<br>*Rmb'000* | Plant and machinery<br>*Rmb'000* | Transportation vehicles and equipment<br>*Rmb'000* | Construction in progress<br>*Rmb'000* | Total<br>*Rmb'000* |
|---|---|---|---|---|---|
| **At 1 January 2007** | | | | | |
| 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 27)* | (3,923) | (6,502) | (112) | (13,725) | (24,262) |
| Depreciation charge *(Note 21)* | (57,613) | (251,462) | (3,538) | — | (312,613) |
| Impairment loss *(Note 21)* | (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 |

*(Expressed in RMB)*

## 6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings<br>*Rmb'000* | Plant and machinery<br>*Rmb'000* | Transportation vehicles and equipment<br>*Rmb'000* | Construction in progress<br>*Rmb'000* | Total<br>*Rmb'000* |
|---|---|---|---|---|---|
| **Year ended 31 December 2008** | | | | | |
| Opening net book amount | 1,493,094 | 3,747,190 | 9,386 | 147,608 | 5,397,278 |
| Additions | 8,915 | 1,949 | 1,989 | 1,711,638 | 1,724,491 |
| Transfers | 40,866 | 95,045 | 5,013 | (140,924) | — |
| Disposals *(Note 27)* | (2,070) | (8,912) | (562) | — | (11,544) |
| Depreciation charge *(Note 21)* | (54,590) | (257,293) | (2,317) | — | (314,200) |
| Impairment loss *(Note 21)* | (5,569) | (86,327) | — | — | (91,896) |
| Closing net book amount | 1,480,646 | 3,491,652 | 13,509 | 1,718,322 | 6,704,129 |
| **At 31 December 2008** | | | | | |
| Cost | 2,331,032 | 5,848,067 | 26,657 | 1,718,322 | 9,924,078 |
| Accumulated depreciation and impairment | (850,386) | (2,356,415) | (13,148) | — | (3,219,949) |
| Net book amount | 1,480,646 | 3,491,652 | 13,509 | 1,718,322 | 6,704,129 |

## 6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) As at 31 December 2008, no property, plant and equipment were pledged as security for the Company's borrowings.

As at 31 December 2007, property, plant and equipment with an aggregate carrying amount of Rmb923,287,000 was pledged as security for the Company's borrowings (Note 17).

(b) As at 31 December 2008, the Company was in the process of obtaining ownership certificates of certain buildings with carrying amount of Rmb296,380,000 (2007: Rmb258,643,000).

(c) As at 31 December 2008, property, plant and equipment with gross carrying amount of Rmb25,580,000 (2007: Rmb21,730,000) was fully depreciated but still in use.

(d) Depreciation expense of Rmb306,113,000 (2007: Rmb300,823,000) has been charged in cost of goods sold, Rmb1,336,000 (2007: Rmb1,277,000) in selling and marketing costs, Rmb6,205,000 (2007: Rmb9,845,000) in administrative expenses (Note 21) and Rmb546,000 (2007: 668,000) in other net gains/(losses) (Note 20).

(e) The Company has provided impairment loss of Rmb91,896,000 (Note 21) in 2008 (2007: Rmb19,700,000) for those damaged property, plant and equipment which are ready to be disposed. The estimates of recoverable amount were based on the fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

## 7 LAND USE RIGHT

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

| | **2008** **_Rmb'000_** | 2007 *Rmb'000* |
|---|---|---|
| Opening net book amount | **25,820** | 26,914 |
| Additions | **230,053** | — |
| Amortisation *(Note 21)* | **(4,823)** | (1,094) |
| Closing net book value | **251,050** | 25,820 |

As at 31 December 2008, no land use right was pledged as security for the Company's borrowings.

As at 31 December 2007, land use right with carrying amount of Rmb25,820,000 was pledged as security for the Company's borrowings (Note 17).

*(Expressed in RMB)*

## 8 AVAILABLE-FOR-SALE FINANCIAL ASSET

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *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 2008.

## 9 DEFERRED INCOME TAX ASSETS

Deferred income tax assets were calculated in full on temporary differences under the liability method using tax rate of 15% (2007: 15%) (Note 24 (a)).

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

| | **2008** | **2007** |
|---|---|---|
| | ***Rmb'000*** | ***Rmb'000*** |
| Beginning of the year | **7,329** | 2,938 |
| Charged to the income statement *(Note 24)* | **122,057** | 4,391 |
| End of the year | **129,386** | 7,329 |

## 9 DEFERRED INCOME TAX ASSETS *(Continued)*

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

| | Beginning of the year *Rmb'000* | Credited to the income statement *Rmb'000* | End of the year *Rmb'000* |
|---|---|---|---|
| **Deferred income tax assets:** | | | |
| **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 |
| **Year ended 31 December 2008** | | | |
| — Provisions for impairments of receivables and inventories | 3,051 | 118,162 | 121,213 |
| — Provision for impairment of property, plant and equipment | 4,278 | 3,895 | 8,173 |
| | 7,329 | 122,057 | 129,386 |

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 2008, the Company has not recognised deferred income tax assets of approximately Rmb27,931,000 (2007: Rmb29,273,000) in respect of provisions for impairments for receivables, inventories and property, plant and equipment that are not tax deductible.

## 10 INVENTORIES

| | **2008** ***Rmb'000*** | 2007 *Rmb'000* |
|---|---|---|
| Raw materials | **2,015,941** | 1,590,298 |
| Work in progress | **536,078** | 648,535 |
| Finished goods | **186,949** | 150,367 |
| Reusable materials | **318,764** | 271,045 |
| | **3,057,732** | 2,660,245 |

## 10 INVENTORIES *(Continued)*

During the year ended 31 December 2008, the Company recognised a write-down of inventories of Rmb785,520,000 (2007: recognised a write-down of Rmb15,503,000). The amount recognised has been included in administrative expenses in the income statement (Note 21).

The cost of inventory recognised as expenses and included in cost of goods sold amounted to Rmb12,803,456,000 (2007: Rmb8,817,062,000).

## 11 TRADE AND OTHER RECEIVABLES

| | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|
| Notes receivable | **411,614** | 341,177 |
| Accounts receivable *(Note (a))* | **246,485** | 198,807 |
| Trade receivables | **658,099** | 539,984 |
| Less: provision for impairment of trade receivables *(Note (b))* | **(144,562)** | (144,880) |
| Trade receivables — net | **513,537** | 395,104 |
| Receivables from fellow subsidiaries of the Holding Company *(Note (c) and Note 30(d))* | **216,034** | 258,630 |
| 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 | **205,955** | 248,551 |
| Prepayments and deposits | **309,093** | 1,106,767 |
| Other receivables | **52,143** | 45,856 |
| Less: provision for impairment of other receivables (Note (d)) | **(6,718)** | (11,718) |
| Other receivables — net | **45,425** | 34,138 |
| | **1,074,010** | 1,784,560 |
| Less non-current portion: prepayment to a supplier | **(42,750)** | (53,600) |
| Current portion | **1,031,260** | 1,730,960 |

## 11 TRADE AND OTHER RECEIVABLES *(Continued)*

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

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Trade receivables | **513,537** | 395,104 |
| Receivables from fellow subsidiaries of the Holding Company | **205,955** | 248,551 |
| Prepayments and deposits | **309,093** | 1,106,767 |
| Other receivables | **45,425** | 34,138 |
| | **1,074,010** | 1,784,560 |

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

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Between 1 and 2 years | **10,800** | 10,800 |
| Between 2 and 5 years | **31,950** | 42,800 |
| | **42,750** | 53,600 |

(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 2008 is as follows:

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Within 3 months | **99,529** | 48,068 |
| Between 3 months and 1 year | **767** | 4,679 |
| Between 1 and 2 years | **1,800** | 1,557 |
| Between 2 and 3 years | **629** | 491 |
| Over 3 years | **143,760** | 144,012 |
| | **246,485** | 198,807 |

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

## 11 TRADE AND OTHER RECEIVABLES *(Continued)*

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

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| At 1 January | **144,880** | 150,948 |
| Impairment loss recognised | **256** | — |
| Reversal of impairment of trade receivables | **(234)** | (4,641) |
| Receivables written off during the year as uncollectible | **(340)** | (1,427) |
| At 31 December | **144,562** | 144,880 |

The amount recognised and reversed has been included in administrative expenses in the income statement (Note 21).

(c) The ageing analysis of receivables from fellow subsidiaries of the Holding Company as at 31 December 2008 is as follows:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Within 3 months | **160,756** | 182,272 |
| Between 3 months and 1 year | **37,938** | 54,889 |
| Between 1 and 2 years | **47** | 3,819 |
| Between 2 and 3 years | **1,514** | 5,028 |
| Over 3 years | **15,779** | 12,622 |
| | **216,034** | 258,630 |

(d) Movements on the provision for impairment of other receivables are as follows:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| At 1 January | **11,718** | 11,718 |
| Reversal of impairment of other receivables | **(5,000)** | — |
| At 31 December | **6,718** | 11,718 |

The amount reversed has been included in administrative expenses in the income statement (Note 21).

## 11 TRADE AND OTHER RECEIVABLES *(Continued)*

(d) Movements on the provision for impairment of other receivables are as follows: *(Continued)*

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 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) and the Holding Company 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 dividends attributable to the Holding Company. 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 on 25 May 2007. 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.

## 12 RESTRICTED CASH

| | **2008** **_Rmb'000_** | 2007 *Rmb'000* |
|---|---|---|
| Restricted cash deposits for letters of credit | **56,608** | 859 |
| Restricted cash deposits for issuance of bills for settling trade payables | **—** | 121,938 |
| | **56,608** | 122,797 |

Restricted cash of Rmb10,100,000 (2007: Rmb122,768,000) are deposited in state-owned banks (Note 30(d)).

## 13 CASH AND CASH EQUIVALENTS

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Cash in hand | **373** | 681 |
| Cash and short-term bank deposits | **1,146,680** | 970,401 |
| | **1,147,053** | 971,082 |

The effective interest rate on short-term bank deposits was 0.72% (2007: 1.23%).

Short-term bank deposits of Rmb338,229,000 (2007: Rmb413,966,000) are deposited in state-owned banks (Note 30(d)).

## 14 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 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 |
| At 1 January 2008/ 31 December 2008 (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 were 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.

## 15 OTHER RESERVES

| | Share premium *Rmb'000* | Capital surplus *Rmb'000* | Statutory common reserve *Rmb'000* | Total *Rmb'000* |
|---|---|---|---|---|
| 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 |
| At 1 January 2008 | 894,259 | 216,071 | 506,849 | 1,617,179 |
| Transfer from retained earnings *(Note (b))* | — | — | 59,830 | 59,830 |
| At 31 December 2008 | 894,259 | 216,071 | 566,679 | 1,677,009 |

(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 2008, the Company appropriated 10% (2007: 10%) of the net profit as reported in the PRC statutory accounts to the statutory common reserve, totalling Rmb59,830,000 (2007: Rmb44,924,000).

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.

*(Expressed in RMB)*

## 16 TRADE AND OTHER PAYABLES

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Trade payables *(Note (a))* | **602,113** | 1,411,962 |
| Advances from customers | **1,104,007** | 956,108 |
| Amounts due to the Holding Company and its subsidiaries *(Note 30(d))* | **207,580** | 30,592 |
| Value added tax and other tax payables | **110,143** | 74,952 |
| Salaries payable | **39,963** | 21,747 |
| Deposits from customers | **6,411** | 5,540 |
| Other payables | **51,872** | 37,469 |
| | **2,122,089** | 2,538,370 |
| Less non-current portion: | | |
| — Advances from a customer *(Note (b))* | **(440,000)** | (95,361) |
| Current portion | **1,682,089** | 2,443,009 |

(a) The ageing analysis of trade payables as at 31 December 2008 is as follows:

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Within 6 months | **494,650** | 1,256,784 |
| Between 6 months and 1 year | **32,340** | 92,328 |
| Between 1 and 2 years | **26,945** | 32,112 |
| Between 2 and 3 years | **21,179** | 11,908 |
| Over 3 years | **26,999** | 18,830 |
| | **602,113** | 1,411,962 |

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

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Between 1 and 2 years | **240,000** | 95,361 |
| Between 2 and 5 years | **200,000** | — |
| | **440,000** | 95,361 |

The original effective interest rates on non-current advance from a customer received in 2008 are 5.72% to 7.19% (2007: 5.48% to 7.19%).

## 17 BORROWINGS

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| **Non-current** | | |
| Secured bank borrowings *(Note (a))* | — | 230,000 |
| Unsecured bank borrowings *(Note (b))* | **2,324,076** | 958,747 |
| | **2,324,076** | 1,188,747 |
| **Current** | | |
| Secured bank borrowings *(Note (a))* | — | 356,600 |
| Unsecured bank borrowings *(Note (b))* | **2,238,000** | 1,650,000 |
| | **2,238,000** | 2,006,600 |
| **Total borrowings** | **4,562,076** | 3,195,347 |

(a) Bank borrowings of Rmb291,600,000 are secured by the Company's property, plant and equipment with net book amount of Rmb231,701,000 as at 31 December 2007 (Note 6(a)) together with certain parcels of land use right owned by the Holding Company(Note 30(a)).

Bank borrowings of Rmb295,000,000 are secured by the Company's property, plant and equipment with net book amount of Rmb691,586,000 as at 31 December 2007 (Note 6(a)) together with a parcel of land use right with net book amount of Rmb25,820,000 (Note 7) as at 31 December 2007 owned by the Company.

(b) Unsecured bank borrowings of Rmb3,423,076,000 (2007: Rmb2,141,747,000) are guaranteed by the Holding Company (Note 30(a)).

## 17 BORROWINGS *(Continued)*

(c) Bank borrowings of Rmb1,839,000,000 (2007: Rmb1,463,600,000) are borrowed from state-owned banks (Note 30(d)).

The maturity of borrowings is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Within 1 year | **2,238,000** | 2,006,600 |
| Between 1 and 2 years | **1,864,076** | 708,747 |
| Between 2 and 5 years | **460,000** | 480,000 |
| | **4,562,076** | 3,195,347 |

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

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***Rmb*** | ***USD*** | *Rmb* | *USD* |
| Bank borrowings | **5.31% to 7.92%** | **2.50% to 5.29%** | 6.12% to 8.02% | 5.78% to 6.08% |

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

| | **Carrying amounts** | | **Fair values** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Bank borrowings | **2,324,076** | 1,188,747 | **2,347,631** | 1,192,153 |

The fair values are based on cash flows discounted using rates based on the borrowings rates of 2.00% to 5.31% (2007: 4.22% to 7.47%). The carrying amounts of current borrowings approximate their fair value. The carrying amounts of the borrowings are denominated in the following currencies:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Rmb | **4,152,000** | 2,961,600 |
| USD | **410,076** | 233,747 |
| | **4,562,076** | 3,195,347 |

## 17 BORROWINGS *(Continued)*

As at 31 December 2008, the Company has the following undrawn borrowing facilities:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Fixed rate | | |
| — expiring within one year | **—** | 440,000 |
| Variable rate | | |
| — expiring within one year | **1,497,000** | 204,529 |
| | **1,497,000** | 644,529 |

The facilities expiring within one year are annual facilities subject to review at various dates during 2009.

## 18 DEFERRED INCOME

The movement of deferred income is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| At 1 January | **35,145** | 34,440 |
| Additions | **200** | 1,260 |
| Credited to the income statement | **(888)** | (555) |
| At 31 December | **34,457** | 35,145 |

The Company was exempted from repayment of loans of Rmb18,760,000 in 2006 and received government grants in cash of Rmb17,140,000 from 2005 to 2008 relating to the construction of environmental protection equipment and facilities. These waivers of loans and 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.

## 19 SALES

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

*(Expressed in RMB)*

## 20 OTHER NET GAINS/(LOSSES)

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Profit on sale of by-products, net | **3,642** | 5,390 |
| Operating lease rental income | **2,591** | 1,967 |
| Utility installation service income | **224** | 2,222 |
| Interest income *(Note (27) and Note (a))* | **10,122** | 8,918 |
| Depreciation *(Note 6(d))* | **(546)** | (668) |
| Loss on disposals of property, plant and equipment *(Note 27(a))* | **(4,115)** | (22,235) |
| Bank charges | **(1,391)** | (9,020) |
| Others | **(2,703)** | 3,324 |
| | **7,824** | (10,102) |

(a) Interest income of Rmb4,614,000 (2007: Rmb4,826,000) is generated from cash and short-term bank deposits in state-owned banks (Note 30(b)).

## 21 EXPENSE BY NATURE

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

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Depreciation *(Note 6(d))* | **313,654** | 311,945 |
| Amortisation *(Note 7)* | **4,823** | 1,094 |
| Written-back of impairment of receivables *(Note 11)* | **(4,978)** | (4,641) |
| Provision for impairment of property, plant and equipment *(Note 6(e))* | **91,896** | 19,700 |
| Staff costs *(Note 22)* | **883,914** | 696,961 |
| Changes in inventories of finished goods and work in progress | **(94,041)** | (265,095) |
| Raw materials and consumables used | **12,111,977** | 9,066,654 |
| Write-down of inventories *(Note 10)* | **785,520** | 15,503 |
| Auditors' remuneration | | |
| — audit services | **3,680** | 2,600 |
| — other services | **2,800** | — |
| Maintenance expenses | **361,111** | 404,139 |
| Rental for land use rights *(Note 30(b))* | **17,957** | 17,957 |
| Transportation expenses | **124,240** | 120,318 |
| Plate inspection fees | **75,786** | 65,807 |
| Other expenses | **946,038** | 876,275 |
| | **15,624,377** | 11,329,217 |

## 22 EMPLOYEE BENEFIT EXPENSE

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Salaries | **585,745** | 443,220 |
| Retirement benefit costs — defined contribution plans | **106,131** | 92,554 |
| Other social welfare costs | **192,038** | 161,187 |
| | **883,914** | 696,961 |

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.

## 22 EMPLOYEE BENEFIT EXPENSE *(Continued)*

### (a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2008 is set out below:

| Name of director and supervisor | Fees | Basic salaries, housing allowances and other allowances | Bonuses | Pension | 2008 Total |
|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Director:** | | | | | |
| Mr. Luo Fu Qin | — | 96 | 163 | 16 | 275 |
| Mr. Yuan Jin Fu | — | 96 | 163 | 16 | 275 |
| Mr. Chen Shan | — | 28 | 228 | 16 | 272 |
| Mr. Sun Yi Jie | — | 28 | 218 | 16 | 262 |
| Mr. Chen Hong | — | 28 | 218 | 16 | 262 |
| Mr. Wang Xiang Fei | 60 | — | — | — | 60 |
| Mr. Liu Xing | 60 | — | — | — | 60 |
| Mr. Sun Yu | 60 | — | — | — | 60 |
| Mr. Li Ren Sheng *(i)* | — | 26 | 216 | 16 | 258 |
| **Supervisor:** | | | | | |
| Mr. Zhu Jian Pai | — | 96 | 163 | 16 | 275 |
| Mr. Huang You He | — | 23 | 151 | 16 | 190 |
| Ms. Gong Jun | — | 19 | 125 | 16 | 160 |
| Ms. Chen Hong | — | 24 | 131 | 16 | 171 |
| Mr. Gao Shou Lun *(i)* | — | 25 | 153 | 16 | 194 |
| | 180 | 489 | 1,929 | 176 | 2,774 |

## 22 EMPLOYEE BENEFIT EXPENSE *(Continued)*

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

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 *(ii)* | — | 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 *(ii)* | — | 9 | 41 | 6 | 56 |
| Ms. Gong Jun *(iii)* | — | 6 | 30 | 4 | 40 |
| Ms. Chen Hong | — | 14 | 108 | 12 | 134 |
| Ms. Lu Kang Mei *(ii)* | — | 9 | 63 | 12 | 84 |
| | 140 | 419 | 1,445 | 130 | 2,134 |

*(i)* *Appointed on 25 March 2008.*

*(ii)* *Resigned on 26 June 2007.*

*(iii)* *Appointed on 23 August 2007.*

## 22 EMPLOYEE BENEFIT EXPENSE *(Continued)*

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

The emoluments fell within the following band:

| | Number of directors and supervisors | |
|---|---|---|
| | **2008** | 2007 |
| Emoluments band | | |
| Nil-HK$1,000,000 | **14** | 15 |

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 2008 (2007: Nil).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the years ended 31 December 2008 and 2007 were directors or supervisors and their emoluments are reflected in the analysis presented above.

## 23 FINANCE COSTS

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Interest expense on bank borrowings | | |
| wholly repayable within 5 years | **303,303** | 207,198 |
| Interest expense on trade and other payables | **24,730** | 18,993 |
| Net foreign exchange gains | **(17,100)** | (2,915) |
| Less: capitalised interest expense | **(51,605)** | (13,415) |
| capitalised foreign exchange gains | **—** | 2,345 |
| | **259,328** | 212,206 |

The borrowing costs have been capitalised at a rate of 7.16% per annum (2007: 5.78% ~7.32%).

Interest expense of Rmb127,000,000 (2007: Rmb101,729,000) is paid/payable for borrowings from state-owned banks (Note 30(b)).

## 24 INCOME TAX EXPENSE

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Interest expense on bank borrowings | | |
| Current PRC income tax | **129,523** | 25,381 |
| Deferred income tax assets *(Note 9)* | **(122,057)** | (4,391) |
| | **7,466** | 20,990 |

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:

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Profit before taxation | **606,302** | 469,670 |
| Calculated at income tax rate of 15% *(Note (a))* | **90,945** | 70,451 |
| Realisation of previously unrecognised temporary differences | **1,274** | (1,693) |
| Expenses not deductible for/income not subject to taxation | **1,461** | 5,519 |
| Reduction in EIT for purchase of domestical manufactured equipment *(Note (b))* | **(86,214)** | (53,287) |
| | **7,466** | 20,990 |

(a) 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 17 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 21 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 its income tax rate is reduced to 15% for the period from 2001 to 2010.

Enterprise Income Tax Law of the PRC ("new PRC EIT law") has been approved by the 5th Session of the 10th National People's Congress on 16 March 2007, and came into effect on 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 (Guo Fa No. [2007] 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the 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 laws, 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 2008.

## 24 INCOME TAX EXPENSE *(Continued)*

(b) The Company purchased certain domestic manufactured equipment between 2004 and 2007. In accordance with Cai Shui Zi [2000] No. 49 the Notice concerning the Reduction in Enterprise 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 Reply to Application for Income Tax Reduction lodged by the Company on the 2004 Purchased Domestic Manufactured Equipment (Da Dukou Guo Shui Han [2006] No.3), the Application Form for the Income Tax Reduction lodged by the Company ("the Application Form") on the 2005 Purchased Domestic Manufactured Equipment, the Application Form on the 2006 Purchased Domestic Manufactured Equipment, and Filing Form of Tax Credit and Exemption for Tax Payers in Chongqing (Da Guo Shui Jian (Di) Bei Mian [2008] No.041801) issued and approved by the Chongqing Administration of State Taxation of Da Dukou District from 2006 to 2008. The Company was entitled to a total tax reduction of Rmb 238,692,000 on the domestic manufactured equipment purchased from 2004 to 2007. Of them, Rmb 12,178,000, Rmb 52,394,000, Rmb 53,287,000 and Rmb 86,214,000 were utilised to offset the Company's income tax liability for 2005, 2006, 2007 and 2008 respectively. The remaining Rmb 34,619,000 approved in 2007 and 2008 was not utilised.

In accordance with Circular Guo Shui Fa [2008] No. 52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the Company did not apply for tax credit or exemption for purchase of domestic manufactured equipment, neither did it recognise related income tax after 1 January 2008.

(c) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the year (2007: Nil).

## 25 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 18 June 2007, it was resolved to declare dividends in respect of 2006 of Rmb0.10 per share, totalling Rmb173,313,000. 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 Annual General Meeting of shareholders on 23 June 2008, it was resolved to declare dividends in respect of 2007 of Rmb0.10 per share, totalling Rmb173,313,000. The allocation basis of the dividends being distributed to the shareholder was based on the number of shares in issue of 1,733,127,000 as at 31 December 2007.

## 25 DIVIDENDS *(Continued)*

During the Board of Directors' meeting on 31 March 2009, the directors of the Company resolved to declare dividends in respect of 2008 of Rmb0.10 per share, totalling 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 2008.

| | **2008**<br>***Rmb'000*** | 2007<br>*Rmb'000* |
|---|---|---|
| Interest expense on bank borrowings | | |
| Final, proposed, of Rmb0.10 (2007: Rmb0.10) per share | **173,313** | 173,313 |

## 26 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company of Rmb598,836,000 (2007: Rmb448,680,000) by the weighted average number of ordinary shares in issue during the year of 1,733,127,000 shares (2007: 1,674,794,000 shares). 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 2008 (2007: Nil).

## 27 CASH GENERATED FROM OPERATIONS

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| **Operating activities** | | |
| Profit for the year | **598,836** | 448,680 |
| Adjustments for: | | |
| Income tax expense *(Note 24)* | **7,466** | 20,990 |
| Depreciation and amortisation *(Note 6(d) and 7)* | **319,023** | 313,707 |
| Provision for impairment of property, plant and equipment *(Note 6(e))* | **91,896** | 19,700 |
| Provision for impairment of receivables *(Note 11)* | **(4,978)** | (4,641) |
| Written-down of inventories *(Note 10)* | **785,520** | 15,503 |
| Loss on disposals of property, plant and equipment *(Note (a))* | **4,115** | 22,235 |
| Finance costs *(Note 23)* | **259,328** | 212,206 |
| Interest income *(Note 20)* | **(10,122)** | (8,918) |
| Investment income | **(32)** | — |
| **Operating changes in working capital:** | | |
| Inventories | **(1,183,007)** | (528,780) |
| Trade and other receivables | **27,533** | (292,275) |
| Restricted cash | **66,189** | (58,927) |
| Trade and other payables | **(424,308)** | 320,503 |
| **Cash generated from operations** | **537,459** | 479,983 |

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

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Net book amount *(Note 6)* | **11,544** | 24,262 |
| Loss on disposals of property, plant and equipment *(Note 20)* | **(4,115)** | (22,235) |
| Proceeds from disposals of property, plant and equipment | **7,429** | 2,027 |

## 28 CONTINGENT LIABILITIES

As at 31 December 2008, other than the pending litigation as disclosed in Note 11 (d), the Company had no material contingent liabilities.

## 29 COMMITMENTS

### (a) Capital commitments for property, plant and equipment

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Contracted but not provided for | **2,758,627** | 2,662,417 |
| Authorised but not contracted for | **30** | 307,993 |
| | **2,758,657** | 2,970,410 |

### (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:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Not later than 1 year | **17,904** | 17,904 |
| Later than 1 year and not later than 5 years | **68,130** | 63,857 |
| Later than 5 years | **63,857** | 79,821 |
| | **149,891** | 161,582 |

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 renewed rental agreement between the Company and the Holding Company signed in February 2009 with effect from 1 January 2009 to 31 December 2011, the annual rental of the last above mentioned leases has remained Rmb1,941,000 in 2009 and will increase to Rmb2,136,000 in the following two years.

As at 31 December 2008, the future aggregate minimum lease payments under such operating leases amounted to Rmb132,478,000 (2007: Rmb147,197,000), Rmb11,201,000 (2007: Rmb12,445,000) and Rmb6,213,000 (2007: Rmb1,940,000) respectively.

## 30 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.

The following transactions were carried out with related parties:

(a) No bank borrowings as at 31 December 2008 are secured by the Holding Company or the Company.

The Company's bank borrowings of Rmb291,600,000 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 17(a)).

Included in above mentioned bank borrowings as at 31 December 2008, no bank borrowings are secured by certain Property, Plant and equipment of certain fellow subsidiaries of the Holding Company (2007: Nil).

In addition, as at 31 December 2008 the Company's bank borrowings of Rmb3,423,076,000 (2007: Rmb2,141,747,000) are guaranteed by the Holding Company (Note 17(b)).

## 30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company, fellow subsidiaries and other state-owned enterprises/banks during the year:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| **Income** | | |
| Sales to fellow subsidiaries of the Holding Company *(Note (i))* | **1,345,870** | 1,056,593 |
| Sales to other state-owned enterprises *(Note (x))* | **3,148,569** | 3,253,156 |
| Fees received for supporting services *(Note (ii))* | **2,110** | 1,926 |
| Fees received for lease rental *(Note (iii))* | **1,122** | 1,450 |
| Interest income from state-owned banks *(Note 20(a) and Note (x))* | **4,614** | 4,826 |
| **Expenditure** | | |
| Fees paid for supporting services *(Note (iv))* | **229,535** | 220,178 |
| Fees paid for lease rental *(Note (v))* | **775** | 513 |
| Purchase of raw materials and spare parts *(Note (vi))* | **2,278,775** | 1,664,520 |
| Purchase of Property, Plant and equipment *(Note (vii))* | **206,232** | 31,858 |
| Rental for land use rights *(Note 21 and Note (viii))* | **17,957** | 17,957 |
| Social welfare services *(Note (ix))* | **119,882** | 87,544 |
| Purchase from other state-owned enterprises *(Note (x))* | **4,218,931** | 1,130,081 |
| Interest paid/payable to state-owned banks *(Note 23 and Note (x))* | **127,000** | 101,729 |
| Borrowings from state-owned banks *(Note (x))* | **1,099,000** | 1,278,922 |
| Advance payment for land use right cost *(Note (xi))* | **31,000** | — |

(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.

## 30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company, fellow subsidiaries and other state-owned enterprises/banks during the year: *(Continued)*

(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.

(xi) The advance payment for land use right cost refers to advances paid on the Company's behalf to the Wansheng District Land and Resources Bureau by Chongqing Iron & Steel Group Ming Company Limited ("Mining Company"). No handling fee was charged by the Mining Company.

**(c) Key management compensation**

| | **2008**<br>***Rmb'000*** | 2007<br>*Rmb'000* |
|---|---|---|
| Salaries and other short-term employee benefits *(Note 22)* | **2,774** | 2,134 |

## 30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

| | *Note* | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|---|
| Short-term bank deposits in state-owned banks *(Note 13)* | | **338,229** | 413,966 |
| Restricted cash in state-owned banks *(Note 12)* | | **10,100** | 122,768 |
| Receivables due from related parties | | | |
| — Fellow subsidiaries of the Holding Company *(Note 11)* | | **216,034** | 258,630 |
| — Trade and other receivables from other state-owned enterprises | | **576,158** | 90,531 |
| | | **792,192** | 349,161 |
| Trade and other payables due to related parties | | | |
| — The Holding Company *(Note 16)* | (1) | **176,863** | 3,059 |
| — Fellow subsidiaries of the Holding Company *(Note 16)* | | **30,717** | 27,533 |
| — Trade and other payables to other state-owned enterprises | | **34,340** | 47,615 |
| | | **241,920** | 78,207 |
| Bank borrowings from state-owned banks (Note 17) | | **1,839,000** | 1,463,600 |

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

(1) The Company deals with Holding Company to settle payments to Holding Company's subsidiaries. No handling fee was charged by the Holding Company. As at 31 December 2008, the Company didn't settle the procurement payments.

*(Expressed in RMB)*

## 31 EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 25.

## 32 COMPARATIVE FIGURES

The comparative figures of 2007 represent figures for the year from 1 January 2007 to 31 December 2007. Certain items in these comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

## 33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 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.

KPMG-A (2009) AR No.0021

**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 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements.

## 1. 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.

## 2. Auditors' 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 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 auditors' 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 auditors consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG-A (2009) AR No.0021

## 3. Opinion

In our opinion, the financial statements comply with the requirements 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 31 December 2008, and the results of operations and the cash flows for the year then ended.

**KPMG Huazhen**

Beijing, the People's Republic of China

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

**Gong Wei Li**

**Lin Jian Kun**

31 March 2009

# Balance Sheet

*as at 31 December 2008*
*(Expressed in thousands of renminbi yuan)*

| | *Notes* | **2008** | 2007 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash at bank and on hand | 5 | **1,203,661** | 1,093,879 |
| Bills receivable | 6 | **509,457** | 496,769 |
| Accounts receivable | 7 | **210,035** | 146,886 |
| Prepayments | 8 | **266,343** | 1,053,169 |
| Other receivables | 9 | **24,420** | 18,627 |
| Inventories | 10 | **3,057,732** | 2,660,245 |
| Other current assets | 11 | **21,005** | 15,510 |
| Total current assets | | **5,292,653** | 5,485,085 |
| **Non-current assets** | | | |
| Long-term equity Investments | 12 | **5,000** | 5,000 |
| Fixed assets | 13 | **4,985,807** | 5,249,670 |
| Construction in progress | 14 | **532,703** | 124,830 |
| Construction materials | 15 | **1,185,619** | 22,777 |
| Intangible assets | 16 | **251,050** | 25,820 |
| Deferred tax assets | 17 | **129,386** | 7,329 |
| Other non-current assets | 18 | **42,750** | 53,600 |
| Total non-current assets | | **7,132,315** | 5,489,026 |
| **Total assets** | | **12,424,968** | 10,974,111 |

The notes on pages 136 to 208 form part of these financial statements.

*as at 31 December 2008*
*(Expressed in thousands of renminbi yuan)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Short-term loans | 21 | **1,798,000** | 1,720,600 |
| Accounts payable | 22 | **602,113** | 1,411,961 |
| Advance from customers | 23 | **664,007** | 860,747 |
| Employee benefits payable | 24 | **39,963** | 21,747 |
| Taxes payable | 4(3) | **189,227** | 78,461 |
| Interest payable | | **4,510** | 2,342 |
| Other payables | 25 | **261,353** | 71,261 |
| Non-current liabilities due within one year | 26 | **440,000** | 286,000 |
| Total current liabilities | | **3,999,173** | 4,453,119 |
| **Non-current liabilities** | | | |
| Long-term loans | 27 | **2,324,076** | 1,188,747 |
| Other non-current liabilities | 28 | **456,773** | 112,284 |
| Total non-current liabilities | | **2,780,849** | 1,301,031 |
| Total liabilities | | **6,780,022** | 5,754,150 |
| **Shareholders' equity** | | | |
| Share capital | 29 | **1,733,127** | 1,733,127 |
| Capital reserve | 30 | **1,164,384** | 1,164,384 |
| Surplus reserve | 31 | **566,679** | 506,849 |
| Retained earnings | 32 | **2,180,756** | 1,815,601 |
| Total equity | | **5,644,946** | 5,219,961 |
| Total liabilities and shareholders' equity | | **12,424,968** | 10,974,111 |

These financial statements have been approved by the Board of Directors of the Company on 31 March 2009.

| **Luo Fu Qin** | **Song Ying** | **Song Ying** | |
|---|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* | (Company stamp) |
| (Signature and Stamp) | (Signature and Stamp) | (Signature and Stamp) | |

The notes on pages 136 to 208 form part of these financial statements.

# Income statement

*for the year ended 31 December 2008*
*(Expressed in thousands of renminbi yuan)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| Operating income | 33 | **16,517,443** | 12,058,453 |
| Less:Operating costs | 34 | **13,865,367** | 10,418,035 |
| Business taxes and surcharges | 35 | **329** | 372 |
| Selling and distribution expenses | | **258,939** | 243,611 |
| General and administrative expenses | | **656,453** | 665,132 |
| Financial expenses | 36 | **254,843** | 206,757 |
| Impairment loss | 37 | **872,438** | 30,562 |
| Add: Investment income | 38 | **32** | — |
| Operating profit | | **609,106** | 493,984 |
| Add: Non-operating income | 39 | **5,614** | 11,403 |
| Less: Non-operating expenses | 40 | **8,956** | 35,153 |
| (Including: Losses from disposal of non-current assets) | | **4,115** | 22,235 |
| Profit before income tax | | **605,764** | 470,234 |
| Less: Income tax expenses | 41 | **7,466** | 20,990 |
| Net profit for the year | | **598,298** | 449,244 |
| Earnings per share | | | |
| Basic earnings per share *(RMB)* | 51(1) | **0.35** | 0.27 |
| Diluted earnings per share *(RMB)* | | **0.35** | 0.27 |

These financial statements have been approved by the Board of Directors of the Company on 31 March 2009.

| **Luo Fu Qin** | **Song Ying** | **Song Ying** | |
|---|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* | (Company stamp) |
| (Signature and Stamp) | (Signature and Stamp) | (Signature and Stamp) | |

The notes on pages 136 to 208 form part of these financial statements.

# Cash flow statement

*for the year ended 31 December 2008*
*(Expressed in thousands of renminbi yuan)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash received from sale of goods and rendering of services | | **19,814,449** | 14,433,123 |
| Other cash received relating to operating activities | | **69,479** | 23,669 |
| Subtotal of cash inflows | | **19,883,928** | 14,456,792 |
| Cash paid for goods and services | | **(17,630,433)** | (12,515,357) |
| Cash paid to and for employees | | **(865,698)** | (691,510) |
| Cash paid for all types of taxes | | **(827,925)** | (651,210) |
| Other cash paid relating to operating activities | | **(76,363)** | (118,732) |
| Subtotal of cash outflows | | **(19,400,419)** | (13,976,809) |
| Net cash inflow from operating activities | 43(1)(a) | **483,509** | 479,983 |
| **Cash flows from investing activities:** | | | |
| Cash received from disposal of investments | | **50,000** | — |
| Cash received from return on investments | | **32** | — |
| Net cash received from disposal of fixed assets | | **7,429** | 2,027 |
| Other cash received relating to investing activities | | **10,122** | 8,918 |
| Subtotal of cash inflows | | **67,583** | 10,945 |
| Cash paid for acquisition of fixed assets and intangible assets | | **(1,234,501)** | (986,162) |
| Cash paid for acquisition of investments | | **(50,000)** | — |
| Subtotal of cash outflows | | **(1,284,501)** | (986,162) |
| Net cash outflow from investing activities | | **(1,216,918)** | (975,217) |

The notes on pages 136 to 208 form part of these financial statements.

*(Expressed in thousands of renminbi yuan)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Cash received from investors | | — | 977,260 |
| Cash received from borrowings | | **3,820,428** | 3,337,265 |
| Subtotal of cash inflows | | **3,820,428** | 4,314,525 |
| Cash repayments of borrowings | | **(2,436,600)** | (2,782,226) |
| Cash paid for dividends or interest | | **(474,448)** | (378,169) |
| Other cash paid relating to financing activities | | — | (1,586) |
| Subtotal of cash outflows | | **(2,911,048)** | (3,161,981) |
| Net cash inflow from financing activities | | **909,380** | 1,152,544 |
| Net increase in cash and cash equivalents | 43(1)(b) | **175,971** | 657,310 |
| Add: cash and cash equivalents at the beginning of the year | | **971,082** | 313,772 |
| Cash and cash equivalents at the end of the year | 43(2)(d) | **1,147,053** | 971,082 |

These financial statements have been approved by the Board of Directors of the Company on 31 March 2009.

| **Luo Fu Qin** | **Song Ying** | **Song Ying** | |
|---|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* | (Company stamp) |
| (Signature and Stamp) | (Signature and Stamp) | (Signature and Stamp) | |

The notes on pages 136 to 208 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2008*
*(Expressed in thousands of renminbi yuan)*

| | *Notes* | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2008 | | 1,733,127 | 1,164,384 | 506,849 | 1,815,601 | 5,219,961 |
| Changes in equity for the year | | | | | | |
| 1. Net profit for the year | | — | — | — | 598,298 | 598,298 |
| 2. Appropriation of profits | 32 | | | | | |
| — Appropriation for surplus reserve | | — | — | 59,830 | (59,830) | — |
| — Distributions to shareholders | | — | — | — | (173,313) | (173,313) |
| Balance at 31 December 2008 | | 1,733,127 | 1,164,384 | 566,679 | 2,180,756 | 5,644,946 |

These financial statements have been approved by the Board of Directors of the Company on 31 March 2009.

| **Luo Fu Qin** | **Song Ying** | **Song Ying** | |
|---|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* | (Company stamp) |
| (Signature and Stamp) | (Signature and Stamp) | (Signature and Stamp) | |

The notes on pages 136 to 208 form part of these financial statements.

*(Expressed in thousands of renminbi yuan)*

| | Notes | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 31 December 2006 | | 1,383,127 | 546,333 | 461,925 | 1,600,132 | 3,991,517 |
| Changes in accounting policies | | — | — | — | (15,538) | (15,538) |
| Balance 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 | | | | | | |
| — Contribution by shareholders | 29 | 350,000 | 618,051 | — | — | 968,051 |
| 3. Appropriation of profits | 32 | | | | | |
| — Appropriation for surplus reserve | | — | — | 44,924 | (44,924) | — |
| — Distributions to shareholders | | — | — | — | (173,313) | (173,313) |
| Balance at 31 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 31 March 2009.

| | | | |
|---|---|---|---|
| **Luo Fu Qin** | **Song Ying** | **Song Ying** | |
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* | (Company stamp) |
| (Signature and Stamp) | (Signature and Stamp) | (Signature and Stamp) | |

The notes on pages 136 to 208 form part of these 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 have been assessed by Zhongzi Assets Appraisal Office, and the net assets were valued at RMB 999,538,500. 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 RMB 1, 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 shares capital were 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 on 9 June 2006. Upon the distribution of bonus shares, the Company's total shares 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.

## 1 Company Status *(Continued)*

As approved by the China Securities Regulatory Commission, the Company issued 350,000,000 A shares (Rimini-denominated domestic shares) and raised total proceeds of RMB 1,008,000,000 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 conversed into A shares automatically upon the issuance of the above mentioned A shares. The Parent Group undertook that it would neither transfer or entrust any other parties to manage the shares held by it, nor agree to 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 shares 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) Statement of compliance with the Accounting Standards for Business Enterprises ("ASBE")

The financial statements of the Company have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (CAS (2006)) issued by the Ministry of Finance (MOF). These financial statements present truly and completely the financial position, results of operation, and cash flows of the Company.

The financial statements of the Company also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission (CSRC) in 2007.

### (2) Accounting year

The accounting year of the Company is from 1 January to 31 December.

### (3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Financial asset and financial liability at fair value through profit or loss (including financial assets or financial liabilities held for trading) (see note 3(8))
- Available-for-sale financial assets (see note 3(8))

### (4) Functional currency and presentation currency

The Company's functional currency is Riminibi. These financial statements of the Company are presented in Renminbi.

## 3 Significant Accounting Policies and Accounting Estimates

### (1) Translation of foreign currencies

Foreign currency transactions are, on initial recognition, translated to renminbi at the spot exchange rates at the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 3(15)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in capital reserve.

### (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 and net realisable value.

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads when in normal production.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and the related taxes to make the sale.

Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets. Reusable materials are amortised in full when received for use. The amounts of the amortization are included in the cost of the related assets or profit or loss.

The Company maintains a perpetual inventory system.

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

### (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 third 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 in subsidiaries, joint ventures or associates.

Other long-term equity investment refers to long-term equity investment where the Company does not have control, joint control or significant influence over the investee, and the investments are not quoted in the active market and their fair value cannot be reliably measured.

For a long-term equity investment acquired by cash, the initial investment cost is recorded at the purchase price actually paid at initial recognition, and subsequently measured using cost method. At the end of the period, provision for impairment of other long-term equity investments is made in accordance with Note 3(9) (b).

### (5) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Company for use in the production of goods or for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(9) (c)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(9) (c)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(15)), and any other costs directly attributable to bringing the asset to working condition for its intended 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.

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

### (5) Fixed assets and construction in progress *(Continued)*

Where parts of an item of fixed asset have different useful lives or provide benefits to the Company in different patterns thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

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.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

| | Estimated useful life | Estimated residual value | Depreciation rate |
|---|---|---|---|
| Buildings | 40 years | 3% | 2.43% |
| Plant and machinery | 8~20 years | 3% | 4.85%~12.13% |
| Transportation vehicles and equipment | 8 years | 3% | 12.13% |

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

### (6) Lease

#### *(a) Operating lease charges*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term.

#### *(b) Assets leased out under operating leases*

Fixed assets leased out under operating leases are depreciated in accordance with the Company's depreciation policies described in Note 3(5). Impairment losses are provided for in accordance with the accounting policy described in Note 3(9) (c). Income derived from operating leases is recognised in the income statement using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

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

### (7) Intangible Assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Notes 3(9) (c)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the straight-line method over its estimated useful life. The respective amortization periods for such intangible assets are as follows:

| | Estimated useful life |
|---|---|
| Land use right | 50 years |
| Trademark | 10 years |

An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company. At the balance sheet date, the Company doesn't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Company intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(9) (c)). Other development expenditures are recognised as expenses in the period in which they are incurred.

### (8) Financial Instruments

Financial instruments comprise cash at bank and on hand, receivables, payables, loans and borrowings and share capital, etc.

#### (a) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Company becomes a party to the contractual provisions of a financial instrument.

The Company classifies financial assets and liabilities into the different categories at initial recognition, based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

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

### (8) Financial Instruments *(Continued)*

#### (a) Recognition and measurement of financial assets and financial liabilities *(Continued)*

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

— Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

— Receivables

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

Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method.

— Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

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

### (8) Financial Instruments *(Continued)*

#### (a) Recognition and measurement of financial assets and financial liabilities *(Continued)*

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note 3(13) (b)).

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Company issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 3(12)).

Except for the liabilities arising from financial guarantee contracts described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

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

### (8) Financial Instruments *(Continued)*

#### *(b) Determination of fair values*

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. The Company calibrates the valuation technique and tests it for validity periodically.

#### *(c) 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 to another party.

Where a transfer of a financial asset in its entirety meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

— carrying amount of the financial asset transferred

— the sum of the consideration received from the transfer and any cumulative gains or loss has been recognised directly in equity.

The Company derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

#### *(d) Equity instruments*

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from shareholders' equity.

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

### (9) Impairment of financial assets and non-financial long-term assets

#### *(a) Impairment of financial assets*

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

— Receivables and held-to-maturity investments

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

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where 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.

If, after an impairment loss has been recognised on receivables or held-to-maturity investments, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

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

### (9) Impairment of financial assets and non-financial long-term assets *(Continued)*

#### *(b) Impairment of other long-term equity investments*

Other long-term equity investments (see Note 3(4)), are assessed for impairment on an individual basis.

For other long-term equity investments, 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. Such impairment loss is not reversed.

#### *(c) Impairment of other non-financial long-term assets*

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

— fixed assets

— construction in progress

— intangible assets

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the company's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

### (9) Impairment of financial assets and non-financial long-term assets *(Continued)*

#### *(c) Impairment of other non-financial long-term assets* *(Continued)*

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

### (10) Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

#### *(a) Pension benefits*

Pursuant to the relevant laws and regulations of the PRC, the Company has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The company makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organization. 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 pension benefits to the retired employees. In addition, the Company also participates in the non-social retirement benefit plans organized for employees by its Parent Group.

#### *(b) Housing fund and other social insurance*

Besides the pension 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.

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

### (10) Employee benefits *(Continued)*

The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance and maternity insurance organised by local labour and social security bodies, and makes welfare contributions 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 commitments to other retirement benefits and social insurances benefits. The Parent Group is liable for payment of any other payable employee retirement benefits and social Insurance other than the above-mentioned retirement benefits, housing fund and other social insurances mentioned above.

### (11) Income taxes

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

At the balance sheet date, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carry forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

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

### (11) Income taxes *(Continued)*

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

— the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and

— they relate to income taxes levied by the same tax authority on either the same taxable entity; or different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### (12) Provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions 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 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 in profit or loss 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:

#### *(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 significant risks and rewards of ownership of goods have been transferred to the buyers

— The Company retains neither continuing managerial involvements to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement

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

### (13) Revenue recognition *(Continued)*

#### *(b) Rendering of services*

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the progress of work performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

#### *(c) Interest income*

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

### (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 investor in the company. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Company will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Company for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Company for expenses incurred is recognised in profit or loss immediately.

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

### (15) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction of a qualifying asset are capitalised as part of the cost of the asset.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

— Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period 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.

— Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

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 initially recognised amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction that are necessary to prepare the asset for its intended use are in progress, and ceases when the assets become ready for their intended use. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts over three months.

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

### (16) Dividends appropriated to investors

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 a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Company. Related parties of the Company include, but are not limited to:

(a) the Company's parent

(b) the Company's subsidiaries

(c) enterprises that are controlled by the Company's parent

(d) investors that have joint control or exercise significant influence over the Company

(e) enterprises or individuals if a party has control, joint control or significant influence over both the enterprises or individuals and 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

(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.

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

### (17) Related parties *(Continued)*

Besides the related parties stated above, determined in accordance with the requirements of CAS (2006), the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(m) enterprises or persons those act in concert that hold 5 % or more of the Company's shares

(n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares

(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 an individual assumes the position of a director or senior executive.

### (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. 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 and in any future periods affected.

Note 44 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

#### *(a) Impairment of receivables*

As described in Note 3(9)(a), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company 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 provision for impairment, the impairment loss recognised in prior years is reversed.

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

### (18) Significant accounting estimates and judgments

#### *(b) Impairment of non-financial long-term assets*

As described in Note 3(9)(c), non-financial long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. 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 value in use, 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 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 useful lives are determined based on historical experience of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

#### *(d) Allowance for diminution in value of inventories*

As described in Note 3(3), if the cost of inventories is higher than the net realisable value, a provision for a diminution in the value of inventories shall be recognised. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The Company determines the net realisable value of inventories based on objective evidence that has a direct impact, such as the market selling prices of completed products or products of a similar nature, information on production cost and related information provided by sales department.

## 4 Taxation

**(1) The types of taxes applicable to the Company's sale of goods and rendering of services include value added tax (VAT) and business tax.**

| | |
|---|---|
| VAT rate | 17% |
| Business tax rate | 5% |

**(2) Income taxes**

The income tax rate applicable to the Company for the year is 15% (2007: 15%).

(a) 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 17 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 21 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 its income tax rate is reduced to 15% for the period from 2001 to 2010.

Enterprise Income Tax Law of the PRC ("new PRC EIT law") has been approved by the 5th Session of the 10th National People's Congress on 16 March 2007, and came into effect on 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 (Guo Fa No. [2007] 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the 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 laws, 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 2008.

## 4 Taxation *(Continued)*

### (2) Income taxes *(Continued)*

(b) The Company purchased certain domestic manufactured equipment between 2004 and 2007. In accordance with Cai Shui Zi [2000] No. 49 the Notice concerning the Reduction in Enterprise 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 Reply to Application for Income Tax Reduction lodged by the Company on the 2004 Purchased Domestic Manufactured Equipment (Da Dukou Guo Shui Han [2006] No.3), the Application Form for the Income Tax Reduction lodged by the Company ("the Application Form") on the 2005 Purchased Domestic Manufactured Equipment, the Application Form on the 2006 Purchased Domestic Manufactured Equipment, and Filing Form of Tax Credit and Exemption for Tax Payers in Chongqing (Da Guo Shui Jian (Di) Bei Mian [2008] No.041801) issued and approved by the Chongqing Administration of State Taxation of Da Dukou District from 2006 to 2008. The Company was entitled to a total tax reduction of RMB 238,692,000 on the domestic manufactured equipment purchased from 2004 to 2007. Of them, RMB 12,178,000, RMB 52,394,000, RMB 53,287,000 and RMB 86,214,000 were utilised to offset the Company's income tax liability for 2005, 2006, 2007 and 2008 respectively. The remaining RMB 34,619,000 approved in 2007 and 2008 was not utilised.

In accordance with Circular Guo Shui Fa [2008] No. 52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the Company did not apply for tax credit or exemption for purchase of domestic manufactured equipment, neither did it recognise related income tax after 1 January 2008.

### (3) Taxes Payable

| | **2008**<br>***Rmb'000*** | 2007<br>*Rmb'000* |
|---|---|---|
| VAT payable | **105,840** | 72,877 |
| Business tax payable | **30** | 56 |
| Income tax payable | **79,084** | 3,510 |
| Others | **4,273** | 2,018 |
| Total | **189,227** | 78,461 |

## 5 Cash at bank and on hand

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Original currency** *'000* | **Exchange rate** | **RMB/RMB equivalents** *'000* | Original currency *'000* | Exchange rate | RMB/RMB equivalents *'000* |
| Cash on hand | | | | | | |
| — RMB | **373** | **1.0000** | **373** | 681 | 1.0000 | 681 |
| Deposits with banks | | | | | | |
| — RMB | **1,124,589** | **1.0000** | **1,124,589** | 777,768 | 1.0000 | 777,768 |
| — US Dollars | **26** | **6.8346** | **175** | 9,714 | 7.3046 | 70,958 |
| — HK Dollars | **48** | **0.8819** | **42** | 41 | 0.9364 | 39 |
| Other monetary fund | | | | | | |
| — RMB | **77,448** | **1.0000** | **77,448** | 134,169 | 1.0000 | 134,169 |
| — US Dollars | **151** | **6.8346** | **1,034** | 15,095 | 7.3046 | 110,264 |
| Total | | | **1,203,661** | | | 1,093,879 |

Other cash and cash equivalents include:

| | **2008** *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| Restricted | | |
| — Guarantees for letter of credit | **56,608** | 859 |
| — Guarantees for bills | **—** | 121,938 |
| Unrestricted | | |
| — Bank cheque deposits | **—** | 115,000 |
| — Cash in transit | **21,874** | 6,636 |
| Total | **78,482** | 244,433 |

## 6 Bills receivable

All bills receivables held by the Company are bank acceptances due within six months.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of bills receivable. Bills receivable due from related parties are set out in Notes 48(5) (b).

## 7 Accounts receivable

### (1) Accounts receivable by customer type:

| | **2008** *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| Amount due from related parties | **118,191** | 103,038 |
| Amounts due from other customers | **246,485** | 198,807 |
| Subtotal | **364,676** | 301,845 |
| Less: provision for bad and doubtful debts | **154,641** | 154,959 |
| Total | **210,035** | 146,886 |

The Company's accounts receivable due from related parties amounted to RMB 118,191,000 (2007: RMB103, 038,000) (see Notes 48(5) (a)), or 32% (2007:34%) of the total accounts receivable.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of accounts receivable.

As at 31 December 2008, accounts receivable due from the five biggest debtors of the Company are as follows:

| | **Amount** *RMB'000* | **Ageing** | **Percentage of total accounts receivable** |
|---|---|---|---|
| Chongqing Si Gang Steel Co., Ltd. | 40,987 | within three month (inclusive) | 11.24% |
| Chongqing Si Gang Steel Co., Ltd. | 21,671 | four to six month (inclusive) | 5.94% |
| Guangzhou Shipyard International Co., Ltd. | 43,092 | within three month (inclusive) | 11.82% |
| Chongqing San Gang Steel Co., Ltd. | 19,193 | within three month (inclusive) | 5.26% |
| Shanghai Jiangnan Changxing Heavy Industry Co, Ltd | 17,702 | within three month (inclusive) | 4.85% |
| Chongqing Iron & Steel Group steel Pipe Co., Ltd. | 15,991 | within three month (inclusive) | 4.38% |

## 7 Accounts receivable *(Continued)*

**(2) The ageing analysis of accounts receivable is as follows:**

Amounts due from related companies

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Within 3 months (inclusive) | **78,451** | 81,112 |
| 4 to 12 months (inclusive) | **22,400** | 457 |
| 1 to 2 years (inclusive) | **47** | 3,819 |
| 2 to 3 years (inclusive) | **1,514** | 5,028 |
| Over 3 years | **15,779** | 12,622 |
| Sub-total | **118,191** | 103,038 |
| Less: provision for bad and doubtful debts | **10,079** | 10,079 |
| Total | **108,112** | 92,959 |

Amounts due from other customers:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Within 3 months (inclusive) | **99,529** | 48,068 |
| 4 to 12 months (inclusive) | **767** | 4,679 |
| 1 to 2 years (inclusive) | **1,800** | 1,557 |
| 2 to 3 years (inclusive) | **629** | 491 |
| Over 3 years | **143,760** | 144,012 |
| Sub-total | **246,485** | 198,807 |
| Less: provision for bad and doubtful debts | **144,562** | 144,880 |
| Total | **101,923** | 53,927 |

The ageing is counted starting from the date accounts receivable is recognised.

## 7 Accounts receivable *(Continued)*

**(3) An Analysis of provision for bad and doubtful debts is as follows:**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount *Rmb'000* | Percentage of Total accounts receivable | Bad debts provision *Rmb'000* | Rate of provision | Amount *Rmb'000* | Percentage of Total accounts receivable | Bad debts provision *Rmb'000* | Rate of provision |
| Individually significant | 158,636 | 44% | — | — | 119,295 | 40% | (14,597) | 12% |
| Individually insignificant but with a material portfolio credit risk | 185,691 | 51% | (144,562) | 78% | 135,842 | 45% | (130,283) | 96% |
| Other immaterial items | 20,349 | 5% | (10,079) | 50% | 46,708 | 15% | (10,079) | 22% |
| Total | 364,676 | 100% | (154,641) | 42% | 301,845 | 100% | (154,959) | 51% |

For amounts due from related companies, the provision for bad debt is individually assessed. As at 31 December 2008, the Company's amounts due from related parties with ageing over 3 years mainly include the amount of RMB 10,079,000 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 it was unlikely to recover the amount. Therefore, a provision of RMB 2,710,000 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 it was unlikely to recover the amount. Therefore, a provision of RMB 7,369,000 was made for bad debts in full in 2006.

For amounts due from other companies, the Company assessed credit risk based on ageing of the balance. For accounts receivables individually insignificant, and accounts receivables individually significant with no evidence of impairment after being individually tested for impairment, general bad debts provision will be provided on the following ratio, which is based on the actual loss ratio of accounts receivable groups with similar risk characteristics in previous years, current positions and other relevant information, provisions for bad debts are made as follows:

| Ageing | Percentage of provision |
|---|---|
| 4 to 12 months (inclusive) | 5% |
| 1 to 2 years (inclusive) | 25% |
| 2 to 3 years (inclusive) | 50% |
| Over 3 years | 100% |

In 2008, the Company wrote off irrecoverable accounts receivable and bad debt provisions totaling RMB 340,000 (2007: RMB 1,427,000).

## 8 Prepayment

### (1) The prepayments by category:

| | 2008 *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| Material prepayments | **135,995** | 250,335 |
| Prepayments for construction and equipment | **29,348** | 502,834 |
| Prepaid land premiums | **101,000** | 300,000 |
| Total | **266,343** | 1,053,169 |

### (2) The ageing analysis of prepayments are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Amount *Rmb'000* | Percentage | Amount *Rmb'000* | Percentage |
| Within 1 year (inclusive) | **157,745** | **59.23%** | 1,029,849 | 97.79% |
| 1 and 2 years (inclusive) | **102,074** | **38.32%** | 14,125 | 1.34% |
| 2 and 3 years (inclusive) | **6,117** | **2.30%** | 9,167 | 0.86% |
| Over 3 years | **407** | **0.15%** | 28 | 0.01% |
| Total | **266,343** | **100%** | 1,053,169 | 100% |

Ageing is counted starting from the date of recognition of prepayment. As at 31 December 2008, the decrease in prepayments for equipments was due to the construction progress of 1780mm hot-rolled plates project and 4100mm wide-thick plates project and the recognition of construction materials. As at 31 December 2008, the decrease in prepayments for land was due to the land use rights of hot-rolled plates project has been obtained and recognised as an intangible asset. Prepayments aged over one year mainly represent the prepayment for land cost of the 4100mm wide-thick plates project.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of prepayments.

## 9 Other receivables

**(1) Other receivable by customer type:**

| | **2008** *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| Other receivables | **31,138** | 30,345 |
| Less: provision for bad and doubtful debts | **6,718** | 11,718 |
| Total | **24,420** | 18,627 |

No amounts due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of other receivables.

As at 31 December 2008, other receivables due from the five biggest debtors of the Company are as follows:

| | **Amount** *RMB'000* | **Ageing** | **Percentage of total other receivables** |
|---|---|---|---|
| Chongqing Special Steel, Co., Ltd | 5,587 | above two years | 17.94% |
| Chengdu Railway Bureau of Dadukou District Station | 4,583 | within one year (inclusive) | 14.72% |
| Guangzhou Jianhe Transportation Company | 2,109 | within one year (inclusive) | 6.77% |
| Mining Company of Da County | 1,131 | above three years | 3.63% |
| Chongqing Administration of Work Safety | 1,050 | within one year (inclusive) | 3.37% |

## 9 Other receivables *(Continued)*

**(2) The ageing analysis of other receivables is as follows:**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Amount** *Rmb'000* | **Percentage** | Amount *Rmb'000* | Percentage |
| Within 1 year (inclusive) | **18,792** | **60.35%** | 18,812 | 61.99% |
| 1 year to 2 years (inclusive) | **5,204** | **16.71%** | 293 | 0.97% |
| 2 years to 3 years (inclusive) | **1,127** | **3.62%** | 5,109 | 16.84% |
| Over 3 years | **6,015** | **19.32%** | 6,131 | 20.20% |
| Total | **31,138** | **100%** | 30,345 | 100% |

The ageing is counted starting from the date of recognition of other receivables.

**(3) An analysis of provision for bad or doubtful debts for other receivables is as follows:**

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Amount** *Rmb'000* | **Percentage of total other receivables** | **Bad debts Provision** *Rmb'000* | **Ratio of provision** | Amount *Rmb'000* | Percentage of total other receivables | Bad debts Provision *Rmb'000* | Ratio of provision |
| Individually significant | **14,460** | **46%** | **6,718** | **46%** | 17,350 | 57% | 9,528 | 55% |
| Other immaterial items | **16,678** | **54%** | **—** | **0%** | 12,995 | 43% | 2,190 | 17% |
| Total | **31,138** | **100%** | **6,718** | **22%** | 30,345 | 100% | 11,718 | 39% |

## 9 Other receivables *(Continued)*

**(3) An analysis of provision for bad or doubtful debts for other receivables is as follows:** *(Continued)*

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 debts owed by Chongqing Special Steel (Group) Limited Company ("CSSG", a 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 RMB 36,540,000 dividend to be distributed to the Holding Company ("the Dividend"). The Courts had withdraw RMB 4,528,000 and RMB 1,059,000 from the Company's bank accounts in 2005 and 2006 respectively, totalling RMB 5,587,000.

In November 2006, as the Parent Group settled its debts amounting to RMB 18,200,000, 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 the Sichuan Supreme People's Court. It is stated in the Notice that, as the cases regarding historical debt of Chongqing Special Steel are been coordination and handled, Supreme People's Court requests the 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.

## 9 Other receivables *(Continued)*

**(3) An analysis of provision for bad or doubtful debts for other receivables is as follows:** *(Continued)*

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 RMB 5,587,000 was recorded for the years ended 31 December 2005 and 2006.

## 10 Inventories

**(1) An analysis of the movements of inventories for the year is as follows:**

| | Balance at the beginning of the year *Rmb'000* | Additions during the year *Rmb'000* | Reductions during the year *Rmb'000* | Balance at the end of the year *Rmb'000* |
|---|---|---|---|---|
| Raw materials | 1,590,793 | 12,799,345 | (11,778,050) | 2,612,088 |
| Work in progress | 649,653 | 13,778,909 | (13,770,078) | 658,484 |
| Finished goods | 152,337 | 13,909,962 | (13,824,752) | 237,547 |
| Reusable materials | 317,883 | 422,646 | (357,979) | 382,550 |
| Sub-total | 2,710,666 | 40,910,862 | (39,730,859) | 3,890,669 |
| Less: Provision for dimination in value of inventories | 50,421 | 787,490 | (4,974) | 832,937 |
| Total | 2,660,245 | 40,123,372 | (39,725,885) | 3,057,732 |

## 10 Inventories *(Continued)*

**(2) An analysis of provision for diminution in value of inventories is as follows:**

| | Balance at the beginning of the year *RMB'000* | Provision made for the year *RMB'000* | Reductions during the year Write-back *RMB'000* | Write-off *RMB'000* | Balance at the end of the year *RMB'000* |
|---|---|---|---|---|---|
| Raw materials | 2,405 | 593,742 | — | — | 596,147 |
| Work in progress | 1,118 | 122,406 | — | (1,118) | 122,406 |
| Finished goods | 1,970 | 50,598 | (1,970) | — | 50,598 |
| Reusable materials | 44,928 | 20,744 | — | (1,886) | 63,786 |
| Total | 50,421 | 787,490 | (1,970) | (3,004) | 832,937 |

The provision for inventories mainly represents provisions for raw materials, work-in-process, finished goods whose net realisable values are lower than their costs and obsolete reusable materials.

## 11 Other current asset

Other current asset is deductible input VAT.

## 12 Long-term equity investments

Long-term equity investment refers to the Company's investment in Xiamen Shipbuilding Industry Co., Ltd., a non-listed company. With an initial investment of RMB 5,000,000, the Company has held a 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 | |
| Balance at the beginning /end of the year | 5,000 |
| Less: provision for impairment | |
| Balance at the beginning /end of the year | — |
| Carrying amount | |
| At the beginning/end of the year | 5,000 |

## 13 Fixed assets

| | Plant and Buildings Rmb'000 | Machinery Rmb'000 | Transportation vehicles and equipment Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|
| Cost | | | | |
| Balance at the beginning of the year | 2,301,464 | 5,882,729 | 26,517 | 8,210,710 |
| Transfer from Construction in progress | 41,246 | 111,466 | 5,013 | 157,725 |
| Additions during the year | 8,915 | 1,949 | 1,989 | 12,853 |
| Disposals during the year | (17,284) | (122,870) | (6,862) | (147,016) |
| Transfer out for improvement | (3,309) | (25,207) | — | (28,516) |
| Balance at the end of the year | 2,331,032 | 5,848,067 | 26,657 | 8,205,756 |
| Less: Accumulated depreciation | | | | |
| Balance at the beginning of the year | 804,694 | 2,113,435 | 15,997 | 2,934,126 |
| Charge for the year | 54,590 | 257,293 | 2,317 | 314,200 |
| Written off on disposals | (10,656) | (55,271) | (5,221) | (71,148) |
| Transfer out for improvement | (2,929) | (8,786) | — | (11,715) |
| Balance at the end of the year | 845,699 | 2,306,671 | 13,093 | 3,165,463 |
| Less: Provision for impairment | | | | |
| Balance at the beginning of the year | 3,676 | 22,104 | 1,134 | 26,914 |
| Charge for the year | 5,569 | 86,327 | — | 91,896 |
| Written off on disposal | (4,558) | (58,687) | (1,079) | (64,324) |
| Balance at the end of the year | 4,687 | 49,744 | 55 | 54,486 |
| Carrying amounts | | | | |
| At the end of the year | 1,480,646 | 3,491,652 | 13,509 | 4,985,807 |
| At the beginning of the year | 1,493,094 | 3,747,190 | 9,386 | 5,249,670 |

## 13 Fixed assets *(Continued)*

In 2008, due to being technically obsolete and physically damaged and other reasons, the carrying amount of relevant assets were written down to recoverable amounts with impairment provision of RMB 91,896,000(2007:RMB19,700,000). The estimates of recoverable amounts were based on the assets' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry. In particular, details of fixed assets to be disposed as at 31 December 2008 are as follows:

| | Book value | Accumulated depreciation | Impairment provision | Net book value | Fair value | Estimated disposal cost | Estimated disposal time |
|---|---|---|---|---|---|---|---|
| Buildings | 13,762 | 8,664 | 4,687 | 411 | 411 | — | 2009-2011 |
| Plant and machinery | 261,037 | 202,168 | 49,744 | 9,125 | 9,139 | 14 | 2009-2011 |
| Transportation vehicles and equipment | 225 | 164 | 55 | 6 | 6 | — | 2009-2011 |
| Total | 275,024 | 210,996 | 54,486 | 9,542 | 9,556 | 14 | 2009-2011 |

As at 31 December 2008, except for above fixed assets held for disposal, fixed assets with carrying amount of RMB 1,381,000, and cost of RMB 9,144,000 (2007: carrying amount of RMB 1,255,000, and cost of RMB 42,428,000 ) was idle.

As at 31 December 2008, fixed assets with carrying amount of RMB 25,580,000 and cost of RMB 861,350,000 (2007: carrying amount of RMB 21,730,000 and cost of RMB 729,295,000) were fully depreciated but still in use. The carrying amount is residual value.

As at 31 December 2008, the Company was in the process of obtaining ownership certificates of certain plants and buildings with carrying amount of RMB 296,380,000 and cost of RMB 332,292,000 (2007: carrying amount of RMB 258,643,000 and cost of RMB 281,233,000).

As at 31 December 2008, the Company had no pledged fixed assets (2007: the carrying amount of fixed assets pledged for bank loan was RMB 923,287,000, its cost was RMB 1,306,682,000 (see Note 21, 26 and 27)).

## 13 Fixed assets *(Continued)*

As at 31 December 2008, the carrying amounts of the Company's fixed assets leased out under operating lease were:

| | Buildings | Plant and Machinery | Total |
|---|---|---|---|
| Balance at the end of the year | 13,193 | 52 | 13,245 |
| Balance at the beginning of the year | 13,681 | 68 | 13,749 |

## 14 Construction in progress

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Cost | | |
| Balance at the beginning of the year | **124,830** | 671,926 |
| Additions during the year | **548,797** | 306,041 |
| Transferred from fixed assets for improvement | **16,801** | 12,732 |
| Transferred to fixed assets | **(157,725)** | (844,469) |
| other reductions | — | (21,400) |
| Balance at the end of the year | **532,703** | 124,830 |
| Carrying amounts | | |
| At the end of the year | **532,703** | 124,830 |
| At the beginning of the year | **124,830** | 671,926 |

The carrying amount of construction in progress of the Company at the end of the year included capitalised borrowing cost of RMB 57,472,000 (2007: RMB 11,070,000). The interest rate per annum, at which the borrowing costs were capitalized for the current year by the Company were 7.16% (2007: 6.84%).

## 14 Construction in progress *(Continued)*

The Company's major constructions in progress as at 31 December 2008 were as follows:

| Construction projects | Budget *Rmb'000* | Opening balance of the year *Rmb'000* | Increase in the year *Rmb'000* | Improvement transfer-in in the year *Rmb'000* | Transferred in fixed assets in the year *Rmb'000* | Other decrease in the year *Rmb'000* | Ending balance of the year *Rmb'000* | Percentage of projects investment in budget | Resource of fund |
|---|---|---|---|---|---|---|---|---|---|
| 4100mm wide-thick plates | 1,918,000 | 23,056 | 226,692 | — | — | — | 249,748 | 13% | Bank loans/self-financing |
| 1780mm hot-rolled plates | 1,400,000 | 1,414 | 214,392 | — | — | — | 215,806 | 15% | Fund raised/self-financing |
| Heat treatment production line | 260,000 | 1,460 | 22,054 | — | (23,514) | — | — | 95% | Bank loans/self-financing |
| Overhaul to No. 2 coke oven and technological renovation of support facilities | 88,355 | 13,928 | 17,583 | 2,833 | (34,344) | — | — | 117% | Bank loans/self-financing |
| Technological renovation of waste water treatment facilities | 28,000 | 25,024 | 1,916 | — | (26,940) | — | — | 96% | Bank loans/self-financing |
| Others | — | 59,948 | 66,160 | 13,968 | (72,927) | — | 67,149 | | |
| Total | | 124,830 | 548,797 | 16,801 | (157,725) | — | 532,703 | | |

## 15 Construction materials

| | **2008** ***Rmb'000*** | 2007 *Rmb'000* |
|---|---|---|
| Construction materials for large equipment | **927,808** | 15,057 |
| Construction materials for special equipment | **257,811** | 7,720 |
| Total | **1,185,619** | 22,777 |

## 16 Intangible assets

| | Land use rights Rmb'000 | Trademark Rmb'000 | Total Rmb'000 |
|---|---|---|---|
| Cost | | | |
| Balance at the beginning of the year | 27,665 | 6,478 | 34,143 |
| Additions for the year | 230,053 | — | 230,053 |
| Balance at the end of the year | 257,718 | 6,478 | 264,196 |
| Less: Accumulated amortisation | | | |
| Balance at the beginning of the year | (1,845) | (6,478) | (8,323) |
| Charge for the year | (4,823) | — | (4,823) |
| Balance at the end of the year | (6,668) | (6,478) | (13,146) |
| Carrying amounts | | | |
| At the end of the year | 251,050 | — | 251,050 |
| At the beginning of the year | 25,820 | — | 25,820 |

The amount of trademark 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 2008, the Company has no pledged intangible asset (2007: carrying amount and cost of land use right pledged for bank loan were RMB 25,820,000 and RMB 27,665,000). (see note 26 and 27)

## 17 Deferred tax assets

| | Deferred tax assets | | | |
|---|---|---|---|---|
| | Balance at the beginning of the year *RMB'000* | Charged to profit or loss during the year *RMB'000* | Balance at the end of the year *RMB'000* | Ending Balances of temporary differences *RMB'000* |
| Provision for bad and doubtful debts | 213 | 38 | 251 | 1,675 |
| Provision for diminution in value of inventories | 2,839 | 118,123 | 120,962 | 806,414 |
| Provision for impairment against fixed assets | 4,277 | 3,896 | 8,173 | 54,486 |
| Total | 7,329 | 122,057 | 129,386 | 862,575 |

At the balance sheet date, the net deferred tax assets on the balance sheet were as follows:

| | **2008** *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| Deferred tax assets, net | **129,386** | 7,329 |

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. As at 31 December 2008, the Company has not recognised deferred tax assets, in respect of impairment provision for accounts receivable, inventories and fixed assets not allowed for tax deductible, amounted to RMB 27,931,000 (2007: RMB 29,273,000).

## 18 Other non-current assets

Other non-current assets are long-term prepayments for purchase of raw materials and will be settled between 2009 and 2013.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of long-term prepayments.

## 19 Provision for impairment

As at 31 December 2008, the provisions for impairment losses of the Company are set out below:

| Item | Notes | Balance at the beginning of the year Rmb'000 | Charge for the year Rmb'000 | Decrease in the year Reversal Rmb'000 | Decrease in the year Write-off Rmb'000 | Balance at the end of the year Rmb'000 |
|---|---|---|---|---|---|---|
| Accounts receivable | 7 | 154,959 | 256 | (234) | (340) | 154,641 |
| Other receivables | 9 | 11,718 | — | (5,000) | — | 6,718 |
| Inventories | 10 | 50,421 | 787,490 | (1,970) | (3,004) | 832,937 |
| Fixed assets | 13 | 26,914 | 91,896 | — | (64,324) | 54,486 |
| Total | | 244,012 | 879,642 | (7,204) | (67,668) | 1,048,782 |

Please refer to the respective notes of the assets for reasons of provisioning.

## 20 Restricted assets

As at 31 December 2008, the restricted assets were as follows:

| Type | Notes | Balance of the beginning of the year RMB'000 | Charge for the year RMB'000 | Decrease in the year RMB'000 | Balance at the end of the year RMB'000 |
|---|---|---|---|---|---|
| Restricted assets | | | | | |
| — Cash at bank | 5 | 122,797 | 378,318 | (444,507) | 56,608 |
| — Fixed assets | 13 | 923,287 | — | (923,287) | — |
| — Intangible assets | 16 | 25,820 | — | (25,820) | — |
| Total | | 1,071,904 | 378,318 | (1,393,614) | 56,608 |

## 21 Short-term loans

**2008**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Credit loans | 5.58%~7.47% | 175,000 | RMB | 1.0000 | 175,000 | |
| Guaranteed loans | 5.31%~7.47% | 1,623,000 | RMB | 1.0000 | 1,623,000 | Guaranteed |
| Total | | | | | 1,798,000 | |

**2007**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Credit loans | 6.43%~7.22% | 317,000 | RMB | 1.0000 | 317,000 | |
| Secured loans | 6.14%~6.73% | 136,600 | RMB | 1.0000 | 136,600 | Secured |
| Guaranteed loans | 6.12%~8.02% | 1,267,000 | RMB | 1.0000 | 1,267,000 | Guaranteed |
| Total | | | | | 1,720,600 | |

The guaranteed loans are guaranteed by the Parent Group (Note 48 (4)(c)).

As at 31 December 2007, the secured loans are secured by the Company's fixed assets (Note 13) and land use rights owned by the Parent Group (Note 48 (4)(c)).

No amount due to shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of short-term loans.

## 22 Accounts payable

Ageing analysis of Accounts payable:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Amount** ***Rmb'000*** | **Percentage** | Amount *Rmb'000* | Percentage |
| Within 1 year (inclusive) | **526,990** | **87.52%** | 1,349,111 | 95.55% |
| 1year-2 years (inclusive) | **26,945** | **4.48%** | 32,112 | 2.27% |
| 2 year-3 years (inclusive) | **21,179** | **3.52%** | 11,908 | 0.85% |
| Over 3 years | **26,999** | **4.48%** | 18,830 | 1.33% |
| Total | **602,113** | **100%** | 1,411,961 | 100% |

No amount due to the shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of accounts payable.

As at 31 December 2008, payables aged over three years mainly represented payables for construction equipment and other procurement payables of which construction payables mainly represents project quality deposit. Other procurement payables have not yet settled because of the quality of the goods. As at the date of approval of the financial statement, the above payables remained unsettled.

## 23 Advances from customers

As at 31 December 2008, the ageing of advances from customers is within one year.

No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of advances from customers.

## 24 Employee benefits Payable

| | Balance at the beginning of the year *RMB'000* | Accrued during the year *RMB'000* | Paid during the year *RMB'000* | Balance at the end of the year *RMB'000* |
|---|---|---|---|---|
| Salaries, bonus, allowances | 12,732 | 585,745 | (576,660) | 21,817 |
| Staff welfare fees | — | 11,087 | (11,087) | — |
| Social insurances | | | | |
| Medical insurance premium | — | 82,305 | (82,305) | — |
| Pension insurance premium | 1,045 | 106,131 | (107,176) | — |
| Unemployment insurance premium | 5,082 | 11,715 | (4,098) | 12,699 |
| Work injury insurance premium | — | 3,689 | (3,689) | — |
| Maternity insurance premium | — | 2,421 | (2,421) | — |
| Housing fund | — | 37,976 | (37,976) | — |
| Labour union fee, staff and workers' education fee | 2,888 | 19,664 | (17,105) | 5,447 |
| Others | — | 23,181 | (23,181) | — |
| Total | 21,747 | 883,914 | (865,698) | 39,963 |

## 25 Other payables

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Payables to related parties | **207,580** | 30,591 |
| Others | **53,773** | 40,670 |
| Total | **261,353** | 71,261 |

Ageing analysis of other payables is as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Amount Rmb'000** | **Percentage** | Amount Rmb'000 | Percentage |
| Within 1 year (inclusive) | **253,839** | **97.13%** | 58,359 | 81.89% |
| 1 year-2 years (inclusive) | **4,212** | **1.61%** | 9,961 | 13.98% |
| 2 year-3 years (inclusive) | **925** | **0.35%** | 495 | 0.69% |
| More than 3 years | **2,377** | **0.91%** | 2,446 | 3.44 % |
| Total | **261,353** | **100%** | 71,261 | 100% |

As at 31 December 2008, other payables aged over three years mainly represented dividends payable to the minority shareholder of Hengda, and the quality deposit received from suppliers. As at the date of approval of the financial statements, the above payables remained unsettled.

Except for the payables shown in Note 48(5)(c), no amount due to the shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of other payables.

## 26 Non-current liabilities due within one year

| | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|
| Long-term loans due within one year | **440,000** | 286,000 |

The analysis of loans due within one year is set out as follows:

**2008**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ Guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Credit loans | 7.02%~7.92% | 395,000 | RMB | 1.0000 | 395,000 | |
| Guaranteed loans | 5.40%~7.29% | 45,000 | RMB | 1.0000 | 45,000 | Guaranteed |
| Total | | | | | 440,000 | |

**2007**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ Guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Secured loans | 6.34%~7.43% | 220,000 | RMB | 1.0000 | 220,000 | Secured |
| Guaranteed loans | 7.03%~7.56% | 66,000 | RMB | 1.0000 | 66,000 | Guaranteed |
| Total | | | | | 286,000 | |

Guaranteed loans were guaranteed by the Parent Group (Note 48(4)(c)).

As at 31 December 2007, Secured loans were secured by the Company's fixed assets (Note 13), land use rights (Note 16) and the land use rights owned by the Parent Group (Note 48(4)(c)).

No amount due to the shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of long-term loans due within one year.

## 27 Long-term loans

**2008**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ Guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Credit loans | 7.02%~7.56% | 569,000 | RMB | 1.0000 | 569,000 | |
| Guaranteed loans | | | | | | |
| — Guaranteed loans denominated in USD | 2.50%~5.29% | 60,000 | USD | 6.8346 | 410,076 | Guaranteed |
| — Guaranteed loans denominated in RMB | 5.56%~7.74% | 1,345,000 | RMB | 1.0000 | 1,345,000 | Guaranteed |
| Total | | | | | 2,324,076 | |

**2007**

| | Annual interest rate | Principal '000 | Currency | Exchange rate | Rmb'000 | Secured/ Guaranteed |
|---|---|---|---|---|---|---|
| Bank loans | | | | | | |
| Credit loans | 7.23%~7.47% | 150,000 | RMB | 1.0000 | 150,000 | |
| Secured loans | 6.48%~7.92% | 230,000 | RMB | 1.0000 | 230,000 | Secured |
| Guaranteed loans | | | | | | |
| — Guaranteed loans denominated in USD | 5.78%~6.08% | 32,000 | USD | 7.3046 | 233,747 | Guaranteed |
| — Guaranteed loans denominated in RMB | 7.32%~7.56% | 575,000 | RMB | 1.0000 | 575,000 | Guaranteed |
| Total | | | | | 1,188,747 | |

## 27 Long-term loans *(Continued)*

The maturity date analysis of the Company's long-term loans (not include long-term loans within one year) which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates on, if floating, based on rates current at the balance sheet date), is set out below:

| | **2008** <br> ***Rmb'000*** | 2007 <br> *Rmb'000* |
|---|---|---|
| Due within 1 year | **147,600** | 82,836 |
| Due after 1 year but within 2 years (inclusive) | **1,951,160** | 783,026 |
| Due after 2 year but within 3 years (inclusive) | **430,343** | 408,928 |
| Due after 3 years | **45,267** | 98,658 |
| Total contractual undiscounted cash flows | **2,574,370** | 1,373,448 |
| Carrying amounts | **2,324,076** | 1,188,747 |

Guaranteed loans were guaranteed by the Parent Group (Note 48(4)(c)).

Secured loans were secured by the Company's fixed assets (Note 13) and land use rights (Note 16) and the land use rights owned by the Parent Group (Note 48(4)(c)).

No amount due to the shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of long-term loans.

## 28 Other non-current liabilities

| | **2008** <br> ***Rmb'000*** | 2007 <br> *Rmb'000* |
|---|---|---|
| Other financial liabilities | **440,000** | 95,361 |
| Government grants | **16,773** | 16,923 |
| Total | **456,773** | 112,284 |

## 28 Other non-current liabilities *(Continued)*

According to relevant agreement, the Company received three long term advances from customer totaling RMB 800,000,000 in 2006 and 2008. Such amounts were settled on monthly basis during the period form April 2007 to October 2011. The customer was entitled to a certain amount of discount in selling prices every month. Such long term advance was recognised as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the actual interest rate method. In 2008, the effective interest rate was 5.72~7.19% (2007: 5.48~7.19%); interest expense for financial liabilities has been recognised at RMB 24,731,000 (2007: RMB 18,993,000).

The Company received government grants of RMB 17,140,000 from 2005 to 2008 relating to the construction of environmental protection equipment and facilities. These government grants were recognised as deferred income and evenly amortised over the estimated useful life of relevant assets. The amortisation amount in 2008 accounted to RMB 350,000 (2007: RMB 17,000).

## 29 Share capital

The Company's share capital status at 31 December is as follows:

| | **2008** *Rmb'000* | 2007 *Rmb'000* |
|---|---|---|
| (1) Shares subject to selling restrictions | | |
| — State-owned shares | **845,000** | 845,000 |
| (2) Shares not subject to selling restrictions | | |
| — RMB-denominated ordinary shares-domestically listed A shares | **350,000** | 350,000 |
| — Overseas listed foreign shares-Hong Kong listed H shares | **538,127** | 538,127 |
| Total | **1,733,127** | 1,733,127 |

## 29 Share capital *(Continued)*

In February 2007, the Company issued 350,000,000 A shares to the public investors at a price of RMB 2.88 per share and raised a total proceeds of RMB 1,008,000,000, of which, RMB 39,949,000 was used to cover the issuance expenses. The Company's A 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 were conversed into A shares automatically upon the issuance of the above-mentioned A shares. The Parent Group undertook that they would neither transfer nor entrust others to manage any shares held by them, nor agree 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 capital verification report (Zhong Lei Yan Zi [2007] No.8001) on 13 February 2007.

## 30 Capital reserve

| | **2008**<br>***Rmb'000*** | 2007<br>*Rmb'000* |
|---|---|---|
| Share premiums | **894,257** | 894,257 |
| Transfer from items under previous standards | **270,127** | 270,127 |
| Total | **1,164,384** | 1,164,384 |

## 31 Surplus reserve

| | **Statutory surplus reserve**<br>*Rmb'000* |
|---|---|
| Balance at the beginning of the year | 506,849 |
| Profit appropriation *(Note 33(1))* | 59,830 |
| Balance at the end of the year | 566,679 |

## 32 Appropriation of profits and retained earnings at the end of the year

According to the prospectus, the Extraordinary General Meeting convened on 16 April 2003 has passed a resolution that all of its existing and new shareholders are entitled to the undistributable profit before the date of issuance of A share in 2007 after the completion of issuance of A share in 2007. As at 31 December 2008, the Company's undistributed profits amounted to RMB 2,180,756,000, which shall be shared on a pro rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

### (1) Appropriation to surplus reserves

In accordance with the Articles of Association, the Company made appropriations to the following surplus reserve for 2008:

| | |
|---|---|
| Statutory surplus reserve | 10% |

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the Board of Directors, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital. In 2008, the Company appropriated 10% of the net profit to statutory surplus reserve, totalling RMB 59,830,000 (2007: RMB 44,924,000).

The amount appropriated to discretionary surplus reverse is proposed by the Board of Directors and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. The Company did not appropriate any profit to the discretionary surplus reserve in 2008.

### (2) Dividends of ordinary shares

#### (a) Distribution of ordinary share dividends

On 12 July 2007, a final dividend of RMB 0.1 per share for the year 2006, totalling RMB 173,313,000, as approved at the AGM held on 18 June 2007. The distribution base was the 1,733,127,000 shares issued as at 28 February 2007.

On 16 July 2008, a final dividend of RMB 0.1 per share for the year 2007, totalling RMB 173,313,000, as approved at the AGM held on 23 June 2008. The distribution base was the 1,733,127,000 shares issued as at 31 December 2007.

#### (b) Dividends for ordinary shares distributed after the balance sheet date

On 31 March 2009, the Board approved to distribute cash dividend of RMB 0.1 per share (2007: RMB 0.1 per share), totalling RMB 173,313,000 (2007: RMB 173,313,000) to holders of ordinary shares of the company. The proposal is subject to the approval of the Shareholder's Meeting. Cash dividend of ordinary shares approved to be distributed after the balance sheet date has not been recognised as liability as at the balance sheet date.

## 33 Operating income

| | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|
| Operating income from principal activities | | |
| — Sale of goods | | |
| Steel plates | **7,415,739** | 5,069,516 |
| Steel billets | **1,782,887** | 1,411,190 |
| Steel sections | **4,183,558** | 3,039,558 |
| Wire rods | **2,164,677** | 1,594,629 |
| Cool-rolled sheets | **392,450** | 345,664 |
| Others | **542,872** | 560,638 |
| Subtotal | **16,482,183** | 12,021,195 |
| Other operating income | **35,260** | 37,258 |
| Total | **16,517,443** | 12,058,453 |

The Company's sales to the top five customers for the year amount to RMB 2,893,480,000 (2007: RMB 2,197,390,000), which account for 18% (2007: 18%), of the total sales.

## 34 Operating costs

| | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|
| Operating cost from principal activities | | |
| — Sale of goods | | |
| Steel plates | **5,418,500** | 3,694,805 |
| Steel billets | **1,645,644** | 1,374,870 |
| Steel sections | **3,842,707** | 2,933,293 |
| Wire rods | **2,049,082** | 1,537,195 |
| Cool-rolled sheets | **405,152** | 388,629 |
| Others | **475,133** | 459,646 |
| Subtotal | **13,836,218** | 10,388,438 |
| Other operating costs | **29,149** | 29,597 |
| Total | **13,865,367** | 10,418,035 |

## 35 Business taxes and surcharges

| | Basis | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| Business tax | 5% of operating income | **329** | 372 |

## 36 Financial expenses

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Interest expenses from loans and advances | **328,033** | 226,191 |
| Less: Borrowing costs capitalised | **51,605** | 13,415 |
| Net Interest expenses | **276,428** | 212,776 |
| Exchange losses/gains | **(17,100)** | (2,915) |
| Less: capitalised Exchange losses/gains | **—** | (2,345) |
| Net exchange losses/gains | **(17,100)** | (570) |
| Interest income | **(10,122)** | (8,918) |
| Other financial expenses | **5,637** | 3,469 |
| Total | **254,843** | 206,757 |

## 37 Impairments losses

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Receivables | **(4,978)** | (4,641) |
| Inventories | **785,520** | 15,503 |
| Fixed assets | **91,896** | 19,700 |
| Total | **872,438** | 30,562 |

## 38 Investment income

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Held-to-maturity investments | | |
| — Gains on sale of investments | **32** | — |

Investment income mainly represents the income from the purchase of Go Fortune No.1103 financial products issued by China Merchants Bank. As at 31 December 2008, the investment had been fully redeemed.

## 39 Non-operating Income

| | Notes | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| Gains on disposal of fixed assets | | **2,175** | 4,656 |
| Government grants | (1) | **650** | 3,219 |
| Others | | **2,789** | 3,528 |
| Total | | **5,614** | 11,403 |

### (1) Government grants

Government grants mainly consist of compensation for Cleaner Production Award from Chongqing Municipal Environmental Protection Bureau.

## 40 Non-operating Expenses

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---:|---:|
| Losses on disposal of fixed assets | **6,290** | 26,891 |
| Donation expenses | **1,610** | 7,948 |
| Others | **1,056** | 314 |
| Total | **8,956** | 35,153 |

## 41 Income tax

### (1) Income tax expenses for the year represent:

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---:|---:|
| Current tax expenses for the year | **129,523** | 25,381 |
| Deferred taxation | **(122,057)** | (4,391) |
| Total | **7,466** | 20,990 |

The analysis of deferred income tax expenses is set out below:

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---:|---:|
| Origination of temporary differences | **122,057** | 4,391 |

## 41 Income tax *(Continued)*

**(2) Reconciliation between income tax expenses and accounting profits is as follows:**

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Profit before taxation | **605,764** | 470,234 |
| Expected income tax expenses at a tax rate of 15% | **90,865** | 70,535 |
| Unrecognised temporary differences | **1,274** | (1,693) |
| Excess part in welfare fees, labour union fee, staff and workers' education fee | **384** | 4,280 |
| Other non-deductible fees | **1,157** | 1,155 |
| Reduction in income tax for purchase of domestic manufactured equipment | **(86,214)** | (53,287) |
| Income tax expenses | **7,466** | 20,990 |

## 42 Supplement to income statement

Expenses are analysed by their nature as follows:

| | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|
| Operating income | **16,517,443** | 12,058,453 |
| Changes in inventories of finished goods and work in progress | **94,041** | 265,095 |
| Raw materials and consumables used | **(12,136,029)** | (9,090,789) |
| Employee benefits expenses | **(883,914)** | (696,961) |
| Depreciation and amortisation expenses | **(319,023)** | (312,606) |
| Impairment losses | **(872,438)** | (30,562) |
| Financial expenses | **(254,843)** | (206,757) |
| Others | **(1,539,473)** | (1,515,639) |
| Profit before income tax | **605,764** | 470,234 |

## 43 Supplement to cash flow statement

### (1) Supplemental Information to Cash Flow Statement

(a) Reconciliation of net profit to cash flows from operating activities:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Net profit | **598,298** | 449,244 |
| Add: Impairment Provisions | **872,438** | 30,562 |
| Depreciation of fixed assets | **314,200** | 311,132 |
| Amortisation of intangible assets | **4,823** | 1,474 |
| Losses on disposal of fixed assets | **4,115** | 22,235 |
| Financial expenses | **224,476** | 184,865 |
| Investment income | **(32)** | — |
| Increase in deferred tax assets | **(122,057)** | (4,391) |
| Increase in gross inventories | **(1,183,007)** | (528,780) |
| Decrease/ (increase) in operating receivables | **93,722** | (292,275) |
| (Decrease)/ increase in operating payables | **(323,467)** | 305,917 |
| Net cash flow from operating activities | **483,509** | 479,983 |

(b) Change in cash and cash equivalents:

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Cash at the end of the year | **1,147,053** | 971,082 |
| Less: Cash at the beginning of the year | **971,082** | 313,772 |
| Add: Cash equivalents at the end of the year | **—** | — |
| Less: Cash equivalents at the beginning of the year | **—** | — |
| Net increase in cash and cash equivalents | **175,971** | 657,310 |

## 43 Supplement to cash flow statement *(Continued)*

**(2) Cash and cash equivalents held by the Company are as follows:**

| | | 2008<br>*Rmb'000* | 2007<br>*Rmb'000* |
|---|---|---|---|
| (a) | Cash at bank and on hand | | |
| | — Cash on hand | **373** | 681 |
| | — Bank deposits available on demand | **1,124,806** | 848,765 |
| | — Other monetary fund available on demand | **21,874** | 121,636 |
| | — Cash with restricted usage | **56,608** | 122,797 |
| (b) | Cash equivalents | | |
| | — Bonds investment with a maturity of 3 months or less | **—** | — |
| (c) | Closing balance of cash and cash equivalents | **1,203,661** | 1,093,879 |
| | Less: cash with restricted usage | **56,608** | 122,797 |
| (d) | Closing balance of cash and cash equivalents available on demand | **1,147,053** | 971,082 |

## 44 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments

The Company's financial risk management covers establishing a financial risk objectives and system, analysing the causes and evaluating risk. The objective of risk management is to identify and analyse the risks mainly the Company exposed to, and to set up control measures to monitor whether the risks are acceptable. The risk management system is a tool for managing risks.

The Company's financial instrument risks mainly include: credit risk, liquidity risk, interest rate risk and foreign currency risk. These are analysed below.

## 44 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(Continued)*

### (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 is primarily attributable to receivables.

The Company requires prepayment by cash or bills from most of its customers prior to delivery. As for accounts receivable 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 obtain collateral from its customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in note 7 and note 9 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Company did not provide any other guarantees which would expose the Company to credit risk.

### (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 2008, it had an undrawn standby credit of RMB 1,497,000,000. Drawn borrowing facilities were recorded in non-current borrowings, and current borrowings respectively. The maturity analysis of long-term loans is disclosed in Note 27.

### (3) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest risk respectively.
The Company adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Company has achieved an appropriate mix of fixed and floating rate exposure consistent with the Company's policy. Interest rates for short-term and long-term liabilities are set out in note 21, note 26, note 27 and note 28.

As at 31 December 2008, it is estimated that a general increase of 100 basis points with all other variables held constant, would decrease the Company's net profit by RMB30,550,000 (2007: RMB 27,190,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied 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. The analysis is performed on the same basis for 2007.

## 44 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(Continued)*

### (4) Foreign currency risk

As the Company's sales of products and purchases of raw material for production are mainly carried out in Renminbi, foreign currency risk is primarily attributable to the foreign currency deposits and loans.

The Company's exposure as at 31 December to foreign currency risk arising from recognised assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in renminbi, translated using the spot rate at the balance sheet date. The description of other exposure items is excluded.

*(Express in RMB'000)*

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***USD*** | ***HK*** | *USD* | *HK* |
| Deposits with bank | **1,209** | **42** | 180,919 | 39 |
| Long-term loans | **(410,076)** | **—** | (233,747) | — |
| Net amount | **(408,867)** | **42** | (52,828) | 39 |

Major foreign exchange rates applied by the Company:

| | **Average rate** | | **Reporting date middle mid-spot** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| USD | **7.0696** | 7.5567 | **6.8346** | 7.3046 |
| HKD | **0.9092** | 0.9706 | **0.8819** | 0.9364 |

Assuming other variables remain unchanged, a 5% strengthening of the Renminbi against the US dollar and the HK dollar as at 31 December 2008 would increase the Company's profit after tax by approximately RMB 17,375,000 (2007: RMB 360,000).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Company which expose the Company to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2007.

## 44 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(Continued)*

### (5) Price risks

As the Company sells steel and iron products at market prices it is exposed to market price fluctuations.

### (6) Fair values

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These 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 values of the Company's bank loans are evaluated at discounted cash flow based on similar financial instruments' prevailing market interest rates, and approximate to the book value.

The Company's other long-term equity investments without public quotation do not have a significant impact on the financial condition and operating result of the Company.

There were no significant differences between the book value and fair value of the Company's financial assets and financial liabilities as at 31 December 2008.

## 45 Commitments

### (1) Capital commitments

As at 31 December, the capital commitments of the Group and the Company are summarised as follows:

| | **2008**<br>***Rmb'000*** | 2007<br>*Rmb'000* |
|---|---|---|
| Contracts entered into but not performed or performed partially | **2,758,627** | 2,662,417 |
| Authorised but not contracted | **30** | 307,993 |
| Total | **2,758,657** | 2,970,410 |

The Company paid RMB 839,681,000 in 2008 for construction and equipment under capital commitment of 2007.

## 45 Commitments *(Continued)*

### (2) Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Within 1 year (inclusive) | **17,904** | 17,904 |
| After 1 year but within 2 years (inclusive) | **18,101** | 15,964 |
| After 2 years but within 3 years (inclusive) | **18,101** | 15,964 |
| After 3 years | **95,785** | 111,750 |
| Total | **149,891** | 161,582 |

The lease payments for land use right paid by the Company amounted to RMB 17,957,000 in 2008

## 46 Contingencies

Save for the pending litigation and arbitration disclosed in Note 9(3), as at 31 December 2008, the Company did not have other disclosable significant or contingent events.

## 47 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 32(2) (b).

## 48 Related party relationships and transactions

### (1) Information on the parent of the Company is listed as follows

| Company name | Organization Code | Registered place | Business nature | Registered capital *RMB'000* | Shareholding percentage | Proportion 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, steel 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* | Ending 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 RMB 52,642,450 in Chongqing Donghua Special Steel Company (representing 87.79% of the registered capital with total amount of RMB59,842,450) Limited held by the Chongqing Energy Investment (Group) Co., Ltd was transferred to Chongqing Iron & Steel (Group) Company Limited as capital investment 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 RMB 59,842,450, 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.

## 48 Related party relationships and transactions

### (1) Information on the parent of the Company is listed as follows *(Continued)*

**Shares of the Company held by the Parent Group and changes therein:**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | Amount | Percentage |
| | ***Rmb'000*** | | *Rmb'000* | |
| Parent Group | **845,000** | **49%** | 845,000 | 49% |

The Company issued 350,000,000 A shares in February 2007, listing them on the Shanghai Stock Exchange on 28 February 2007 (Note 29). The A share issue decreased the shareholding of the Parent Group to 49%.

### (2) Transactions with its key management personnel

| | *Notes* | **2008** ***Rmb'000*** | 2007 *Rmb'000* |
|---|---|---|---|
| Remuneration of key management personnel | | | |
| Luo Fu Qin | | **275** | 250 |
| Yuan Jin Fu | | **275** | 231 |
| Chen Shan | | **272** | 245 |
| Sun Yi Jie | | **262** | 233 |
| Chen Hong | | **262** | 204 |
| Li Ren Sheng | (a) | **258** | 202 |
| Wang Xiang Fei | | **60** | 60 |
| Sun Yu | | **60** | 40 |
| Liu Xing | | **60** | 40 |
| Zhu Jian Pai | | **275** | 249 |
| Huang You He | | **190** | 150 |
| Gong Jun | (b) | **160** | 40 |
| Chen Hong | | **171** | 134 |
| Gao Shou Lun | (c) | **194** | — |
| Xu Gang | | **261** | 235 |
| Wu Zi Sheng | | **260** | 234 |
| Song Ying | (d) | **203** | 93 |
| You Xiao An | | **198** | 165 |
| Tu De Ling | (e) | **—** | 118 |
| Yuan Xue Bing | (f) | **—** | 56 |
| Lu Kang Mei | (f) | **—** | 84 |

## 48 Related party relationships and transactions *(Continued)*

### (2) Transactions with its key management personnel *(Continued)*

(a) The Board of the Company appointed Mr. Li Ren Sheng as director of the Company on 25 March 2008

(b) The Board of the Company appointed Ms. Gong Jun as Supervisor of the Company on 23 August 2007.

(c) The Workers Congress appointed Mr. Gao Shou Lun as Supervisor of the Company on 25 March 2008.

(d) The Board of Directors appointed Ms. Song Ying as the Chief Financial Officer of the Company on 29 June 2007.

(e) The Company's Director Mr. Tu De Ling resigned from the position of Director, Chief Accountant and member of special Board committee on 26 June 2007.

(f) The Company's Supervisors Ms. Yuan Xue Bing and Ms. Lu Kang Mei resigned from their positions as Supervisors on 26 June 2007.

### (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 |

## 48 Related party relationships and transactions *(Continued)*

### (3) Related parties in which the Company has no control *(Continued)*

| Name of related party | Organization code | Relationship with the 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 Covanta 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 |
| Chongqing Iron & Steel Group Industrial Company Limited | 202987624 | Under the same parent company |
| Chongqing Iron & Steel Group San Feng Science & technology Company Limited | 663595607 | Under the same parent company |

## 48 Related party relationships and transactions *(Continued)*

### (4) Related-party transactions

**(a) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties:**

| | Purchase of products | 2008 Transaction amount *Rmb'000* | 2008 Percentage in the total amount of similar transactions *%* | 2007 Transaction amount *Rmb'000* | 2007 Percentage in the total amount of similar transactions *%* |
|---|---|---|---|---|---|
| Chongqing Iron & Steel Group Mining Company Limited | Ore and ancillary products | **1,107,844** | **14.47%** | 720,033 | 15.38% |
| Chongqing Iron & Steel Group Iron Company Limited | Pig iron | **739,881** | **57.73%** | 544,412 | 56.17% |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | Fixed assets and construction in progress | **203,285** | **5.98%** | 22,511 | 7.16% |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | Gas for industrial use | **249,441** | **91.99%** | 243,233 | 85.25% |
| Chongqing Iron & Steel Group Machinery Manufacturing Company Limited | Spare parts | **57,154** | **3.2%** | 72,238 | 17.86% |
| Chongqing Iron & Steel Group Electronic Company Limited | Components of instruments | **20,649** | **1.16%** | 22,240 | 5.50% |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | Refractory materials | **24,017** | **19.38%** | 14,650 | 18.00% |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | Refractory materials | **10,386** | **8.38%** | 6,475 | 7.96% |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | Scrap steel and spare parts | **10,652** | **0.60%** | 7,750 | 0.99% |
| Chongqing Si Gang Steel Company Limited | Scrap steel | **7,188** | **0.62%** | 2,761 | 0.73% |

## 48 Related party relationships and transactions *(Continued)*

### (4) Related-party transactions *(Continued)*

(a) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties *(Continued)*:

| | Purchase of products | 2008 Transaction amount *Rmb'000* | 2008 Percentage in the total amount of similar transactions *%* | 2007 Transaction amount *Rmb'000* | 2007 Percentage in the total amount of similar transactions *%* |
|---|---|---|---|---|---|
| Chongqing Iron & Steel Group Design and Research Institute | Fixed assets and construction in progress | **2,842** | **0.08%** | 14,999 | 4.77% |
| Chongqing Iron & Steel Group San Feng Industrial Company Limited | Spare parts and gas for industrial use | **17,418** | **0.95%** | 17,490 | 2.54% |
| Chongqing Iron & Steel Group Industrial Company Limited | Ore and ancillary products | **21,588** | **0.28%** | — | — |
| Chongqing Iron & Steel Group San Feng Science & technology Company Limited | Ancillary products | **4,940** | **0.62%** | — | — |
| Others | | **7,722** | | 7,586 | |
| Total | | **2,485,007** | | 1,696,378 | |

Save for the purchase stated 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 and other third parties, sum of costs and profit premium or the bidding price of suppliers;

Prices for fixed assets purchased from related parties were determined with reference to the bidding price of suppliers.

## 48 Related party relationships and transactions *(Continued)*

### (4) Related-party transactions *(Continued)*

(b) Sales of products to related parties by the Company is summarised as follows:

| | Sale of Products | 2008 Transaction amount *Rmb'000* | 2008 Percentage in the total amount of similar transactions % | 2007 Transaction amount *Rmb'000* | 2007 Percentage in the total amount of similar transactions % |
|---|---|---|---|---|---|
| Chongqing Si Gang Steel Company Limited | Steel products | **451,331** | **2.83%** | 373,970 | 3.26% |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | Steel products | **214,809** | **1.35%** | 220,586 | 1.92% |
| Chongqing San Gang Steel Company Limited | Steel products | **226,073** | **1.42%** | 174,552 | 1.52% |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | Utilities and ancillary materials | **173,397** | **31.94%** | 160,971 | 28.71% |
| Chongqing Iron & Steel Group Machinery Manufacturing Company Limited | Utilities and ancillary materials | **27,258** | **5.02%** | 32,233 | 5.75% |
| Chongqing Iron & Steel Group Mining Company Limited | Utilities and ancillary materials | **7,337** | **1.35%** | 10,692 | 1.91% |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | Steel products, utilities and ancillary materials | **16,531** | **0.10%** | 4,928 | 0.88% |
| Chongqing Iron & Steel Group Transportation Company Limited | Utilities and ancillary materials | **4,239** | **0.78%** | 5,957 | 1.06% |
| Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. | Steel products | **4,521** | **0.03%** | 2,792 | 0.02% |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | Steel products | **6,901** | **0.04%** | 61,413 | 0.44% |

## 48 Related party relationships and transactions *(Continued)*

### (4) Related-party transactions *(Continued)*

(b) Sales of products to related parties by the Company is summarised as follows *(Continued)*:

| | Sale of Products | 2008 Transaction amount Rmb'000 | 2008 Percentage in the total amount of similar transactions % | 2007 Transaction amount Rmb'000 | 2007 Percentage in the total amount of similar transactions % |
|---|---|---|---|---|---|
| Chongqing Iron & Steel Group Iron Company Limited | Steel products | **8,184** | **0.05%** | 177 | 0.00% |
| Chongqing Iron & Steel Group Industrial Company Limited | Steel products | **201,502** | **1.26%** | — | — |
| Others | | **3,787** | | 8,322 | |
| Total | | **1,345,870** | | 1,056,593 | |

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) Guarantees for the Company's loans provided by the Holding Company and other related parties:

As at 31 December 2008, the Company had no pledged bank loan. As at 31 December 2007, the short-term and long-term (including long-term bank loans due within one year) bank borrowings of the Company amounting to RMB 136,600,000 (Note 21) and RMB 155,000,000 (Note 26 and 27) respectively were jointly secured by fixed assets of the Company and the land use rights of the Parent Group.

In addition, as at 31 December 2008, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to RMB 1,623,000 (2007: RMB 1,267,000,000) (Note 21) and RMB 1,800,076,000 (2007: RMB 874,747,000) (Note 26 and 27) respectively were guaranteed by the Parent Group.

The Parent Group and other related parties did not charge the Company in respect of the above pledges and guarantees.

## 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:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Transaction amount *Rmb'000* | Percentage in the total amount of similar transactions *%* | Transaction amount *Rmb'000* | Percentage in the total amount of similar transactions *%* |
| Social welfare expenses paid by the parent Group (i) | **119,882** | **58.04%** | 87,544 | 48.16% |
| Fees paid for supporting services (ii) | **230,310** | **31.03%** | 220,691 | 57.81% |
| Rental expenses for land use right (iii) | **17,957** | **100.00%** | 17,957 | 100.00% |
| Fees received for supporting services (iv) | **3,232** | **64.47%** | 3,376 | 31.73% |
| Advance payment for land use right cost (v) | **31,000** | **100.00%** | — | — |

Save for the transactions aforesaid, the Company had no other transactions with shareholders holding 5% or more of its shares with voting rights.

(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 agency 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 in accordance with, 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.

(v) The advance payment for land use right cost refers to advances paid on the Company's behalf to the Wansheng District Land and Resources Bureau by Chongqing Iron & Steel Group Ming Company Limited ("Mining Company"). No handling fee was charged by the Mining Company.

## 48 Related party relationships and transactions *(Continued)*

### (5) Balance of accounts due from and due to related parties

(a) Receivables

| | **2008** | 2007 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Chongqing Si Gang Steel Company Limited | **62,658** | 31,515 |
| Chongqing San Gang Steel Company Limited | **19,193** | 30,250 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | **15,991** | 15,150 |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | **7,369** | 7,385 |
| Chongqing Iron & Steel Group San Feng Industrial Company Limited | **4,342** | 5,205 |
| Chongqing Iron & Steel Group Machinery Manufacturing Company Limited | **2,878** | 2,984 |
| Chongqing Iron & Steel Group Yingsite Mould Company Limited | **3,054** | 2,757 |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | **—** | 2,556 |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | **—** | 2,421 |
| Chongqing Xinteng Metallurgical Burden Materials Company Limited | **2,281** | 1,705 |
| Others | **425** | 1,110 |
| Total accounts receivable | **118,191** | 103,038 |
| Including: provision for bad and doubtful debts | **(10,079)** | (10,079) |
| Total net accounts receivable | **108,112** | 92,959 |

## 48 Related party relationships and transactions *(Continued)*

### (5) Balance of accounts due from and due to related parties *(Continued)*

(b) Bills receivable

| | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|
| Chongqing San Gang Steel Company Limited | **36,555** | 37,564 |
| Chongqing Si Gang Steel Company Limited | **20,230** | 62,752 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | **40,874** | 43,793 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | **—** | 50 |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | **184** | 7,615 |
| Total bills receivable | **97,843** | 151,774 |

(c) Other Payables

| | Notes | 2008 Rmb'000 | 2007 Rmb'000 |
|---|---|---|---|
| Parent Group | (1) | **176,863** | 3,059 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | | **20,276** | 19,716 |
| Chongqing Sanfeng Cavanta Environment Industrial Company Limited | | **343** | 550 |
| Chongqing Iron & Steel Group Electronic Company Limited | | **534** | — |
| Chongqing Sanhuan Construction Supervision Consultant Company Limited | | **15** | 265 |
| Chongqing Iron & Steel Group Design and Research Institute | | **1,965** | 6,320 |

## 48 Related party relationships and transactions *(Continued)*

### (5) Balance of accounts due from and due to related parties *(Continued)*

(c) Other Payables *(Continued)*

| | *Notes* | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|---|
| Chongqing Iron & Steel Group Industrial Company Limited | | **6,469** | — |
| Others | | **1,115** | 681 |
| Total other payables | | **207,580** | 30,591 |

The amounts due from/to the related parties are unsecured, un-guaranteed and have no fixed terms of repayment.

(1) The Company deals with Parent Group to settle payments to ParentGroup's subsidiaries. No handling fee was charged by the Parent Group. As at 31 December 2008, the Company didn't settle the procurement payments.

## 49 Comparative Figures

The comparative figures of 2007 represented figures for the year from 1 January 2007 to 31 December 2007. Certain items in these comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

## 50 Extraordinary gain and loss

In accordance with Interpretive Pronouncement on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 - Extraordinary Gain and Loss (2008), the extraordinary gain and loss of the Company is listed as follows:

| | **2008** **Rmb'000** | 2007 *Rmb'000* |
|---|---|---|
| Extraordinary gain and loss for the year | | |
| Disposal of non-current asset | **(4,115)** | (22,235) |
| Government grants *(Note 39(1))* | **650** | 3,219 |
| Gains on disposal of hold to maturity | **32** | — |
| Others | **123** | (4,734) |
| | **(3,310)** | (23,750) |
| Less: effect on taxation | **(380)** | (2,875) |
| Total | **(2,930)** | (20,875) |

## 51 Earnings per share and return on net assets

### (1) The Company's earnings per share

| | 2008 Basic / Diluted earnings per share | 2007 Basic / Diluted earnings per share |
|---|---|---|
| (a) Earnings per share inclusive of extraordinary gain and loss *(RMB)* | **0.35** | 0.27 |
| — Profit attributable to the Company's ordinary equity shareholders *(RMB'000)* | **598,298** | 449,244 |
| — Weighted average number of the Company's ordinary shares *('000 shares)* | **1,733,127** | 1,674,794 |
| (b) Earnings per share net of extraordinary gain and loss *(RMB)* | **0.35** | 0.28 |
| — Profit deducted extraordinary gains and loss attributable to the Company's ordinary equity shareholders *(RMB'000)* | **601,228** | 470,119 |
| — Weighted average number of the Company's ordinary shares *('000 shares)* | **1,733,127** | 1,674,794 |

Weighted average number of the Company's ordinary shares ('000 shares):

| | 2008 | 2007 |
|---|---|---|
| Issued ordinary shares at 1 January | **1,733,127** | 1,383,127 |
| Effect of A shares issued in 2007 *(Note 29(2))* | **—** | 291,667 |
| Weighted average number of ordinary shares at 31 December | **1,733,127** | 1,674,794 |

As at 31 December 2008, there was no issuance of dilutive potential ordinary shares, the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

## 51 Earnings per share and return on net assets *(Continued)*

### (2) Return on net assets

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 9 -Calculation and Disclosure of the Return on Net Assets and Earnings per share" (2007 revised) issued by the CSRC, the Company's return on net assets is calculated as follows:

*(Unit: RMB'000)*

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Fully diluted** | **Weighted average** | Fully diluted | Weighted average |
| (a) Return on net assets inclusive of extraordinary gain and loss | **10.60%** | **11.01%** | 8.61% | 9.13% |
| — Net profit attributable to the Company's ordinary equity shareholders | **598,298** | **598,298** | 449,244 | 449,244 |
| — Year-end equity attributable to the Company's ordinary equity shareholders | **5,644,946** | **N/A** | 5,219,961 | N/A |
| — Weighted average of equity attributable to the Company's ordinary equity shareholders | **N/A** | **5,432,454** | N/A | 4,920,654 |
| (b) Return on net assets net of extraordinary gain and loss | **10.65%** | **11.07%** | 9.01% | 9.55% |
| — Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders | **601,228** | **601,228** | 470,119 | 470,119 |
| — Year-end equity attributable to the company's ordinary equity shareholders | **5,644,946** | **N/A** | 5,219,961 | N/A |
| — Weighted average of equity attributable to the Company's ordinary equity shareholders | **N/A** | **5,432,454** | N/A | 4,920,654 |

*(Expressed in thousands of renminbi yuan)*

## 1 Reconciliation statements of differences in financial statements prepared under different GAAP

**(1) The effect of the differences between CAS (2006) and Hong Kong Financial Reporting Statement ("HKFRS") on profit attributable to shareholders of the Company is analysed as follows:**

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Amount under CAS (2006): | **598,298** | 449,244 |
| Adjustments: | | |
| a. Government grants for year 2006 | **538** | 538 |
| b. Others | **—** | (1,102) |
| Total | **538** | (564) |
| Amount under HKFRS | **598,836** | 448,680 |

Under HKFRS, the government grants related to assets shall be recognised as deferred income, equally distributed within the useful lives of the relevant assets, and included in the profits and losses. The Company began adopting the CAS (2006) from 1 January 2007 ("first adoption date"). In accordance with CAS (2006), before the first adoption date, government grants were recognised in capital reserve once they complied with the conditions associated. After the first adoption date, such government grants are recognised initially as deferred income and equally recognised in profit or loss over the useful life of the asset. No retrospective adjustment has been made by the Company for the change of accounting policy on government grants.

**(2) The effect of the significant difference between CAS (2006) and HKFRS on equity attributable to shareholders of the Company is analysed as follows:**

| | **2008** **Rmb'000** | 2007 Rmb'000 |
|---|---|---|
| Amount under CAS (2006) | **5,644,946** | 5,219,961 |
| Adjustments: | | |
| a. Government grants for year 2006 | **(17,684)** | (18,222) |
| Total | **(17,684)** | (18,222) |
| Amount under HKFRS | **5,627,262** | 5,201,739 |

The overseas auditor that audited the financial statements under HKFRS was KPMG.

# Documents available for inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. Original copy of the auditor's report prepared under PRC GAAP which has been signed by certified public accountants, Lin Jian Kun and Gong Wei Li, 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 reporting period in China Securities Journal, Shanghai Securities News, Securities Times, Wen Wei Po and China Daily.

4. Summary of the Annual Report which was published in China Securities Journal, Shanghai Securities News and Securities Times, and Announcement of Annual Results for 2008 which was published in Wen Wei Po and China Daily.