



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)

2009 Interim Report



CONTENTS

Important Notice

1. The Board of Directors (the “Board”), the Supervisory Committee (the “Supervisory Committee”) and the directors, supervisors and senior management of Chongqing Iron & Steel Company Limited (the “Company”) warrant that there are no false representations or misleading statements contained in or material omissions from this report, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents contained herein.
2. Independent non-executive Director Mr. Liu Tian Ni had not attended this Board meeting in person and appointed Independent non-executive Director Mr. Zhang Guo Lin in writing to vote on his behalf.
3. Mr. Dong Lin, the 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 interim report.
4. The interim financial statements have not been audited, but they have been reviewed by the Audit Committee of the Board of the Company.
5. This interim report is compiled in Chinese and English. Any interpretation will be subject to the Chinese version if any discrepancies between the two versions arise, excluding the financial statements prepared under the Hong Kong Financial Reporting Standards (“HKFRS”).

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COMPANY INFORMATION

(I) COMPANY PROFILE

Chinese name of the Company:	重慶鋼鐵股份有限公司(「重鋼股份公司」)
English name of the Company:	Chongqing Iron & Steel Company Limited (“CISL”)
Company’s legal representative:	Dong Lin
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Telephone:	8623-6884 5030
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Website:	http://www.cqgt.cn
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Name of newspapers designated for information disclosure of the Company:	
Domestic:	China Securities Journal, Shanghai Securities News, Securities Times
Hong Kong:	Wen Wei Po, China Daily
Website for publishing the interim report:	http://www.sse.com.cn and http://www.hkexnews.hk
Place for preparation and reference of the interim report:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place(s) 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)

COMPANY INFORMATION

(II) KEY FINANCIAL DATA AND INDICES

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

Items	At the end of reporting period	At the end of last year	Increase/decrease at the end of reporting period over the end of last year (%)
Total assets	13,039,028	12,424,968	4.94
Owner's equity (or shareholders' equity)	5,503,255	5,644,946	(2.51)
Net assets per share attributable to the Company's shareholders (RMB)	3.18	3.26	(2.45)

Items	During the reporting period (Jan-June)	During the same period last year	Increase/decrease during the reporting period over the same period last year (%)
Operating profit	35,442	496,543	(92.86)
Profit before income tax	40,659	495,079	(91.79)
Net profit	31,622	483,935	(93.47)
Profit deducted extraordinary gains and loss attributable to the Company's ordinary equity shareholders	27,209	485,258	(94.39)
Basic earnings per share (RMB)	0.02	0.28	(92.86)
Diluted earnings per share (RMB)	0.02	0.28	(92.86)
Net cash flow from operating activities	(167,960)	171,741	(197.80)
Net cash flow per share from operating activities (RMB)	(0.10)	0.10	(200.00)
Return on net asset (weighted average) (%)	0.56	8.86	Decreased by 8.30 percentage points

COMPANY INFORMATION

(II) KEY FINANCIAL DATA AND INDICES (CONTINUED)

1. Key financial data and indices of the Company prepared in accordance with PRC Accounting Standards (RMB'000) (Continued)

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

Extraordinary gain and loss items	Amount
Disposal of non-current assets	503
Government grants	2,478
Others	2,236
Less: effect on taxation	804
Total	4,413

2. Explanations to the differences in net profit during the reporting period and net assets at the end of reporting period between the accounting statements prepared in accordance with PRC Accounting Standards and Hong Kong Financial Reporting Standards (RMB'000)

	PRC Accounting Standards	Hong Kong Financial Reporting Standards (HKFRS)
Net profit	31,622	32,101
Net assets	5,503,255	5,486,050

Explanation 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.

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(I) CHANGES IN SHARE CAPITAL DURING THE REPORTING PERIOD

No changes in the total number of shares and share structure occurred due to bonus share, share capital increase from conversion, right issue, issuance of new shares, conversion of convertible company bonds, implementation of equity incentive plan or other reasons during the reporting period.

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

- At the end of the reporting period, the total number of shareholders was 110,690, of which 110,378 shareholders were the holders of A shares and 303 shareholders were holders of H Shares.
- Shareholdings of the top ten shareholders at the end of the reporting period:

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

Unit: share

Name of shareholder	Type of shareholder	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	48.22%	835,800,000	835,800,000	60,000,000 shares frozen
HKSCC NOMINEES LIMITED	Foreign shareholder	30.37%	526,283,870	0	Unknown
Yao Jian Kang (姚健康)	Domestic natural person shareholder	0.29%	5,000,000	5,000,000	Unknown
Shanghai Royal Sea Capital Company Limited	Holders of domestic non-State owned legal person shares	0.24%	4,200,000	4,200,000	Unknown
Haitong Securities Co., Ltd — Bank of Communications — Nikko Asset Management Co., Ltd — Nikko Asset Management China A Shares Motherfund	Holders of domestic non-State owned legal person shares	0.17%	3,000,872	0	Unknown
Shenzhen Lisha Co., Ltd.	Holders of domestic non-State owned legal person shares	0.13%	2,199,214	0	Unknown

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

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

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

Unit: share

Name of shareholder	Type of shareholder	Percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
BOC — Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund	Holders of domestic non-State owned legal person shares	0.13%	2,170,946	0	Unknown
China Construction Bank — Industrial Social Responsibility Securities Investment Fund	Holders of domestic non-State owned legal person shares	0.11%	1,889,000	0	Unknown
Zhou Yong	Domestic natural person shareholder	0.10%	1,772,700	0	Unknown
China Construction Bank-Bosera Yufu Securities Investment Fund	Holders of domestic non-State owned legal person shares	0.08%	1,333,765	0	Unknown

Note 1: There is no connection or any party acting in concert as defined in Measures for Management on Information Disclosure of Changes in Shareholdings of Listed Company's Shareholders between 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, 60,000,000 shares held by Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding more than 5% (including 5%) shares in the Company were pledged, frozen or in custody.

Note 3: The 526,283,870 H shares of the Company held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

3. Shareholdings of the top ten holders of 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	Class of shares
HKSCC NOMINEES LIMITED	526,283,870	Overseas listed foreign shares
Haitong Securities Co., Ltd	3,000,872	Renminbi denominated ordinary shares
— Bank of Communications		
— Nikko Asset Management Co., Ltd		
— Nikko Asset Management China A Shares Motherfund		
Shenzhen Lisha Co., Ltd.	2,199,214	Renminbi denominated ordinary shares
BOC — Jiashi Shanghai Shenzhen 300 Index Securities Investment Fund	2,170,946	Renminbi denominated ordinary shares
China Construction Bank	1,889,000	Renminbi denominated ordinary shares
— Industrial Social Responsibility Securities Investment Fund		
Zhou Yong	1,772,700	Renminbi denominated ordinary shares
China Construction Bank-Bosera Yufu Securities Investment Fund	1,333,765	Renminbi denominated ordinary shares
Peng Ting Fang (彭廷芳)	1,209,800	Renminbi denominated ordinary shares
Zheng You Zhi (鄭有志)	917,300	Renminbi denominated ordinary shares
Gansu Trust and Investment Company Limited (甘肅省信託投資有限責任公司)	776,200	Renminbi denominated ordinary shares

Note: The Company is not aware of any connected relationship among the top ten holders of shares not subject to trading moratorium or any parties acting in concert.

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

4. Shareholdings of the top ten holders of shares subject to trading moratorium and conditions of trading moratorium

Unit: share

No.	Name of shareholders subject to trading moratorium	Number of shares held subject to trading moratorium	Date of release of trading moratorium	Trading moratorium
1	Chongqing Iron & Steel (Group) Company Limited	835,800,000	29 February 2010	See Note
2	Yao Jian Kang	5,000,000		
3	Shanghai Royal Sea Capital Company Limited	4,200,000		
	Total	845,000,000		

Notes: 1. Chongqing Iron & Steel (Group) Company Limited undertakes that the 845,000,000 shares previously held by 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 date of listing of A shares.

2. The Company was notified by the People's Court of Shizhong District, Neijiang, Sichuan Province (四川省內江市市中區人民法院) that it has appointed Shanghai Jinchui Auction Company Limited (上海金槌拍賣有限公司) to auction the 9.20 million shares subject to trading moratorium in the Company held by the Holding Company. In the auction, auction vendees Yao Jian Kang and Shanghai Royal Sea Capital Company Limited made a successful bid to 5 million shares and 4.20 million shares respectively.

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

5. Save as disclosed above, as at 30 June 2009, the persons having interests or short positions in the shares or underlying shares of the Company recorded in the register maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong (the “SFO”) are as follows:

Name of shareholder	Number of interested shares held (shares)	Percentage to total H shares of the Company	Percentage to total share capital of the Company
BNP Paribas Asset Management	37,189,008 (Long position)	6.91%	2.15%
UBS AG	32,133,346 (Long position)	5.97%	1.85%

Note: Save as disclosed above, as at 30 June 2009, the Board is not aware of any persons or its associated companies having any interest or short positions in the shares or underlying shares of the Company which would fall to be recorded under the provisions of Section 336 of SFO.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the end of reporting period, the Directors, Supervisors and senior management of the Company did not hold shares of the Company.

As at the end of the reporting period, 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, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, 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 (the "Listing Rules of the Stock Exchange") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 Chongqing Hengda Steel Industrial Co., Ltd.):

Name	Type of interest	Number of shares (<i>shares</i>)
Yuan Jin Fu	Individual	2,400
Chen Shan	Individual	800
Sun Yi Jie	Individual	800
Chen Hong	Individual	1,600
Ma Xiao Xiong (馬肖雄)	Individual	800

Note: 1. The above information represents that the interests of the Directors and Supervisors in Chongqing Hengda Steel Industrial Co., Ltd. were transferred from the Company to the Holding Company in December 2002.

2. Ma Xiao Xiong is an associate of the Directors of the Company.

Save as disclosed above, as at 30 June 2009, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its associated corporations.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 15 April 2009, the seventy-seventh meeting of the fourth Board of the Company approved by written proposals the resignation of Mr. Chen Shan from the position of general manager of the Company and the appointment of Mr. Chen Hong as the general manager of the Company.
2. At the 2008 annual general meeting of the Company held on 1 June 2009, Mr. Dong Lin, Mr. Zhang Guo Lin and Mr. Liu Tian Ni were elected as the Directors of the fifth Board of the Company, Mr. Yuan Jin Fu, Mr. Chen Shan, Mr. Chen Hong, Mr. Sun Yi Jie, Mr. Li Ren Sheng and Mr. Liu Xing were elected as the Directors of the fifth Board of the Company, Mr. Zhu Jian Pai, Mr. Huang You He and Ms. Gong Jun were elected as the shareholder representatives of the fifth Supervisory Committee of the Company. Ms. Chen Hong and Mr. Gao Shou Lun were elected as the staff representatives of the fifth Supervisory Committee of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.
3. At the 1st meeting of the fifth Board of the Company held on 1 June 2009, Mr. Dong Lin and Mr. Chen Shan were elected as the chairman and vice chairman, respectively, Mr. Dong Lin was appointed as the chairman of the third Strategic Committee of the Board, with Mr. Chen Shan, Mr. Chen Hong, Mr. Sun Yi Jie, Mr. Li Ren Sheng and Mr. Zhang Guo Lin as members of the third Strategic Committee of the Board, while Mr. Zhang Guo Lin was appointed as the chairman of the third Salary and Remuneration Review Committee of the Board, with Mr. Yuan Jin Fu, Mr. Liu Xing and Mr. Liu Tian Ni as members of the third Salary and Remuneration Review Committee of the Board. Mr. Liu Xing was appointed as the chairman of the fourth Audit Committee of the Board, with Mr. Zhang Guo Lin and Mr. Liu Tian Ni as members of the fourth Audit Committee of the Board.
4. On 1 June 2009, Mr. Zhu Jian Pai was elected as the chairman of the Supervisory Committee at the first meeting of the fifth Supervisory Committee of the Company.

Information of members of the fifth Board of the Company are as follows:

Mr. Dong Lin: the Chairman of the Company, Chairman of the Strategic Committee and Chairman of the Holding Company. Mr. Dong graduated from North-eastern University of Technology majoring in Electrical Automation. He is a professor-level senior engineer, Registered Electrical Engineer and Registered Consulting Engineer of the PRC. Mr. Dong joined the Holding Company in 1972 and has been the Chairman of the Holding Company since February 2006. He was Vice Director and Director of the Design Institute of Chongqing Iron & Steel, Assistant to the General Manager of the Holding Company and Director of the Design Institute, Deputy General Manager, Chief Engineer and General Manager of the Holding Company.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Information of members of the fifth Board of the Company are as follows: *(Continued)*

Mr. Yuan Jin Fu: a Director and member of the Salary and Remuneration Review Committee of the Company, Deputy General Manager and 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 serving as the Chief Accountant since August 2002 and Deputy General Manager of the Holding Company since July 2008. He had been the deputy head and the head of the Finance Office, the deputy chief accountant of the Holding Company and the Chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.

Mr. Chen Shan: Vice Chairman, member of the Strategic Committee, the Secretary to the Communist Party Committee and the Chairman of the Labour Union of the Company. Mr. Chen graduated from Chongqing University specializing in metal heating processing with a bachelor's degree in engineering. He graduated from the Business Administration Faculty of Chongqing University with a MBA degree. He holds the title of senior engineer. Mr. Chen joined the Holding Company in 1982 and has been the deputy factory manager of No. 5 Factory and the head of the Operation Planning Department of the Holding Company, the deputy head of Chongqing Da Du Kou District and Deputy General Manager and General Manager of the Company.

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

Mr. Sun Yi Jie: a Director, 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 majoring 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Information of members of the fifth Board of the Company are as follows: *(Continued)*

Mr. Li Ren Sheng: a Director and Deputy General Manager 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 of the smelting plant, the assistant to plant director and deputy plant director of the smelting plant of the Holding Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited as well as the head of Sales Department of the Company.

Mr. Liu Xing: an independent non-executive Director, the Chairman of 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 the council of Accounting Society of China (中國會計學會), the standing council of education division of Accounting Society of China, the vice president of the Accounting Society of Chongqing (重慶市會計學副會長) and the standing council of Chongqing Institute of Certified Public Accountants (重慶市註冊會計師協會). Mr. Liu engaged in teaching and research in management and engineering department of Chongqing University in 1983, and had been a researcher of accounting department of City University of Hong Kong and the visiting scholar and professor of accounting college of the Chinese University of Hong Kong. Mr. Liu had released a number of academic theses in domestic and foreign academic periodicals and obtained numerous provincial-grade awards for research achievements, constituting a substantial influence in the finance, accounting and banking field of the PRC. Mr. Liu is also currently an independent non-executive Director of Chongqing Gangjiu Co., Ltd., Chongqing Hecheng Co., Ltd., Chongqing Three Gorges Water Conservancy And Electric Power Co. Ltd. and Chongqing Huapont Pharm Co., Ltd.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Information of members of the fifth Board of the Company are as follows: *(Continued)*

Mr. Zhang Guo Lin: the independent non-executive Director, Chairman of Salary and Remuneration Review Committee, a member of the Strategic Committee and the Audit Committee of the Company. He is currently the professor and master tutor of Southwest University of Political Science & Law, an academic leader and secretary to the Party Committee of Chongqing, a member of Technology Advisory Committee of Chongqing government, a member of Discipline Committee of Chongqing and a member to the Third People's Congress of Chongqing. He is also the vice president of Administration Association of Chongqing. Mr. Zhang graduated from the Faculty of Metallurgy of Chongqing University in January 1982 with a doctor's degree in technology economy and management. He had studied as a visiting scholar in University of Illinois at Chicago, USA. Mr. Zhang had released a number of academic theses in academic periodicals and obtained numerous awards for research achievements and projects. Mr. Zhang has extensive teaching and working experience in steel smelting, metallurgy and economy management. Mr. Zhang had been director of the Organization Department of Party Committee, the deputy secretary to party committee, the vice director to school administration committee, the standing member of party committee and the vice president of Chongqing University. He also served as the deputy secretary to working committee and the vice director of Administrative Committee of northern new district of Chongqing, a member of the second CCP Discipline Committee of Chongqing and a member of the second Political Consultative Conference of Chongqing. He is also an independent director of Chongqing Brewery Co. Ltd..

Mr. Liu Tian Ni: the independent non-executive Director and a member of the Salary and Remuneration Review Committee and the Audit Committee, is currently the Founder and Chairman of Wonderful Sky Financial Group Limited, an executive director of Silver Grant International Industries Limited, a listed company in Hong Kong, and the Managing Director of Sure Spread Company Limited. Mr. Liu graduated from Beijing Normal University, with a master's degree in Science. Mr. Liu has extensive experience in fields including international capital market, post-listing corporate financing, mergers & acquisitions and direct investment. In October 2008, Mr. Liu Tian Ni was awarded "Outstanding Young Chinese Entrepreneur of the World" by Asiaweek, as an acknowledgement of his excellent corporate management and prominent business strategies.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Information of members of the fifth Supervisory Committee of the Company are as follows:

Mr. Zhu Jian Pai: the Chairman of the Supervisory Committee 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, the head of the personnel department and the deputy secretary to the Communist Party Committee of the Holding Company, and the secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company.

Mr. Huang You He: a 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: 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. Since March 2008, she has been the head of the Audit Department of the Holding Company. Joining the Holding Company in 1996, she had been the deputy head of the Accounting Department of the Financial and Accounting Office of 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

**Information of members of the fifth Supervisory Committee of the Company are as follows:
(Continued)**

Ms. Chen Hong: 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 Management Office of Design Institute of the Holding Company, and chief officer of Production and Operation Department.

Mr. Gao Shou Lun: a Supervisor of the Company, the secretary to the communist party committee of the medium-gauge 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 in History. He was also awarded a master degree in 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 Holding Company. He was also the deputy secretary to the communist party committee of the power plant of the Company (chairing 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 the head of party committee office (secretary) of the Holding Company.

REPORT OF THE BOARD OF DIRECTORS

(Unless otherwise specified, financial data contained in this report is extracted from the unaudited 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

The first half of 2009 witnessed a global economic recession as the financial crisis struck worldwide. Domestic steel product exports sharply contracted as the global market demand for steels dropped and prices plunged. Meanwhile, the domestic economy has driven the domestic steel product market to falter as it was in the end of 2008 and the demand for steel in the downstream industry saw significant decline, resulting in keen market competitions. In response to the unfavorable conditions upon the financial turmoil, proactive fiscal measures and loosened monetary policies were put into action by the State. As the state-controlled policies of “expanding domestic demand, maintaining growth, adjusting structure and promoting development” began to take effect gradually, the slackening national economy has been back in the saddle. Infrastructural construction has scaled up progressively and the construction steel product sectors has turned resilient. During the reporting period, the Company has overcome problems including the drop in product prices, increasing difficulties for product sales and decent prospect for reducing raw materials cost, aspiring to reduce cost of processes and apply tight control on fees and expenses. Sales revenue amounted to RMB5,241,984,000 and profit before income tax amounted to RMB40,659,000, representing a decrease of 40.61% and 91.79% from the same period last year, respectively.

During the reporting period, the Company controlled its production scale with reference to the market demand, aligned workflows in a more balanced manner, facilitated more organized production of each type of products and arranged examination and maintenance of its equipment as appropriate to effect and smoothen the operation of its production system. In the first half of 2009, the Company produced an aggregate of 664,900 tonnes of coke, 1,444,700 tonnes of pig iron, 1,599,800 tonnes of steels and 1,494,300 tonnes of steel products (billets), representing a decrease of 3.64%, 3.69%, 8.59% and 11.87% as compared with the same period last year, respectively.

During the reporting period, the Company proactively adjusted its sales strategies against the market downturn, which successfully secured production and boosted sales. Since the beginning of the year, the Company leveraged on the rally of the construction steel market to increase the sales proportion of construction steel products, premium steels and steel bars (優鋼棒材). As to medium-gauge plates and steel sections, it adopted the sales strategy of “bargain per order” to secure sales of products. In order to reinforce the sales of major products, the Company seized initiative to seek new strategic clients apart from facilitating its communications with retained strategic clients.

REPORT OF THE BOARD OF DIRECTORS

(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, taking advantage of the price of raw materials which fell in line with that of steel products, the Company controlled the inventory level and modulated procurements of raw materials as appropriate, aspiring for low-cost purchase. Meanwhile, the Company reaped benefits from low ocean freight cost and imported ore spot price to expand the proportion of imported iron ores. Measures such as allocation of regional coals by piles (地方煤單堆單配) as well as expansion of regional coal supply and shipping capacities were implemented to constrain the cost incurred by raw materials procurement.

During the reporting period, the Company actively developed new products and endeavored to expand its market share. With reference to the needs of the market and the users, the Company developed new products, namely S275NL low-alloy high strength structural steel plates (低合金高強度結構鋼板) and Q420B hot-rolled equilateral angle steel (熱軋等邊角鋼). The S275NL steel plates are mainly used for the construction of bridges and hydraulic structures and for the purpose of inventories and devices manufacturing (儲存裝置製作). The Q420B equilateral steel is mainly used for the construction of towers of 750KV and 1,000KV high-voltage electricity transmission system (超高壓輸變電系統). In the first half of 2009, the pilot production of new products and specialized products of the Company totaled 299,200 tonnes, with a value of RMB1.031 billion.

REPORT OF THE BOARD OF DIRECTORS

(I) REVIEW ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

2. Analysis of principal operations during the reporting period

As at 30 June 2009, the Company's principal revenue amounted to RMB5,241,984,000, representing a year-on-year decrease of 40.61%; Profit before tax amounted to RMB40,659,000, representing a year-on-year decrease of 91.79%.

In the first half of 2009, the Company's revenue from principal operations in south-west region amounted to RMB3,432,172,000, representing a year-on-year decrease of 17.47%; the revenue from principal operations in other regions amounted to RMB1,809,812,000, representing a year-on-year decrease of 61.23%.

Region	Revenue from principal operations (RMB'000)	Year-on-year increase/ decrease in revenue from principal operations (%)
South-west region	3,432,172	(17.47)
Other regions	1,809,812	(61.23)
Total	5,241,984	(40.61)

In the first half of 2009, sales of the Company's steel products (billets) amounted to RMB5,022,238,000, representing 95.81% of the total revenue, down 41.21% over the same period last year; sales of water granulated slag, coking by-products, cutting steel leftover and hydroelectricity of the Company amounted to RMB219,746,000, which accounted for 4.19% of the total revenue, down 22.82% from the same period last year.

Turnover	First half of 2009		First half of 2008		Year-on-year increase/ decrease (%)
	RMB'000	Percentage (%)	RMB'000	Percentage (%)	
Steel plates	2,190,074	41.78	3,786,544	42.90	(42.16)
Steel sections	1,613,343	30.78	2,300,360	26.06	(29.87)
Wire rods	803,464	15.33	1,207,769	13.68	(33.48)
Steel billets	309,754	5.91	1,015,283	11.50	(69.49)
Cool rolled plates	105,603	2.01	232,352	2.63	(54.55)
Subtotal	5,022,238	95.81	8,542,308	96.77	(41.21)
Others	219,746	4.19	284,714	3.23	(22.82)
Total	5,241,984	100.00	8,827,022	100.00	(40.61)

REPORT OF THE BOARD OF DIRECTORS

(I) REVIEW ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

2. Analysis of principal operations during the reporting period (Continued)

In the first half of 2009, the sales revenue of the Company's steel products (billets) decreased by RMB3,520,070,000 as compared with the same period last year, which was attributable to the decrease in price, production and sales volume. In the first half of 2009, the average selling prices of steel products (billets) was RMB3,358 per tonne, representing a decrease of 32.96% from the same period of last year which decreased sales revenue by RMB2,560,621,000. Meanwhile, the Company sold 1,495,600 tonnes of steel products (billets), representing a decrease of 12.31% over the same period of last year which decreased sales revenue by RMB959,449,000.

Selling price

Selling price	First half of 2009 (RMB/tonne)	First half of 2008 (RMB/tonne)	Increase/ decrease (%)	Year-on-year Decrease in revenue (RMB'000)
Steel plates	3,496	5,722	(38.90)	1,393,060
Steel sections	3,305	4,719	(29.96)	690,173
Wire rods	3,151	4,439	(29.02)	328,440
Steel billets	3,155	4,215	(25.15)	104,092
Cool rolled plates	3,777	5,379	(29.78)	44,856
Total	3,358	5,009	(32.96)	2,560,621

Sales volume

Sales volume	First half of 2009 (10,000 tonne)	First half of 2008 (10,000 tonne)	Increase/ decrease (%)	Year-on-year Decrease in revenue (RMB'000)
Steel plates	62.63	66.18	(5.36)	203,131
Steel sections	48.81	48.75	0.12	(2,831)
Wire rods	25.5	27.21	(6.28)	75,907
Steel billets	9.82	24.09	(59.24)	601,481
Cool rolled plates	2.8	4.32	(35.19)	81,761
Total	149.56	170.55	(12.31)	959,449

REPORT OF THE BOARD OF DIRECTORS

(I) REVIEW ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

3. Operating results during the reporting period

In the first half of 2009, the Company's profit before tax amounted to RMB40,659,000, representing a decrease of RMB454,420,000 over the same period of last year, of which:

Product	Revenue from principal operations (RMB'000)	Cost of principal operations (RMB'000)	Gross profit margin (%)	Year-on-year	
				increase/ decrease in revenue from principal operations (%)	Year-on-year increase/ decrease in cost of principal operations (%)
Steel plates	2,190,074	1,907,785	12.89	(42.16)	(34.99)
Steel sections	1,613,343	1,461,517	9.41	(29.87)	(30.71)
Wire rods	803,464	730,451	9.09	(33.48)	(36.86)
Steel billets	309,754	283,728	8.40	(69.49)	(71.81)
Cool rolled plates	105,603	122,799	(16.28)	(54.55)	(47.42)
Subtotal	5,022,238	4,506,280	10.27	(41.21)	(39.44)
Others	219,746	204,277	7.04	(22.82)	(16.19)
Total	5,241,984	4,710,557	10.14	(40.61)	(38.70)

(1) During the first half of 2009, gross profit from principal operations amounted to RMB531,427,000, representing a decrease of RMB611,354,000 over the same period last year, mainly due to:

- (i) During the first half of 2009, due to the set back in the national steel market and the steel price staying low, the average selling price of steel products (billets) was RMB3,358/tonne, representing a decrease of 32.96% from the same period last year, which reduced profit by approximately RMB2,560,621,000;
- (ii) Due to lackluster market demand of steel in the first half of the year, the Company set certain limit to the size of production volume for the assurance of moderate bulk production. The sales volume of the Company's steel products (billets) for the first half of 2009 amounted to 1,495,600 tonnes, representing a decrease of 12.31% from the same period last year, which reduced profits by approximately RMB135,603,000;
- (iii) Due to the price fall of raw materials such as ore, pig iron, ferroalloy, coal and scrap steel as compared to the same period last year, the cost of raw materials of the Company decreased by approximately RMB1,903,450,000.

REPORT OF THE BOARD OF DIRECTORS

(I) REVIEW ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

3. Operating results during the reporting period *(Continued)*

- (1) During the first half of 2009, gross profit from principal operations amounted to RMB531,427,000, representing a decrease of RMB611,354,000 over the same period last year, mainly due to: *(Continued)*
 - (iv) Continuous meticulous management, improvement of efficiency and exploration of potential resources and workflow cost reduction of the Company increased profits by approximately RMB102,450,000 during the first half of 2009;
 - (v) Due to the continuous sluggish market condition of steel products and decreased operating efficiency, salaries and surcharges booked in cost of sales in the first half of 2009 decreased by RMB75,020,000 as compared to the same period last year.
- (2) Due to the provision for impairment loss of assets of RMB94,625,000 made by the Company for damaged fixed assets which are to be disposed and obsolete spare parts during the same period last year, profits for the first half of 2009 increased by RMB94,625,000 as compared to the same period last year.
- (3) During the first half of 2009, expenses decreased by RMB57,236,000 as compared to the same period last year, which was mainly due to the decrease in salaries and surcharges booked in general and administrative expenses as compared to the same period last year owing to the implementation of the performance-linked salary system to improve the decrease in efficiency of the Company as a whole in the first half of the year. Furthermore, maintenance expenses decreased through improvement in the inspection system of equipments and fully tapping the potential of internal maintenance.

REPORT OF THE BOARD OF DIRECTORS

(I) REVIEW ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

4. Analysis on financial condition during the reporting period

- (1) As at 30 June 2009, the Company's total assets amounted to RMB13,039,028,000 and the total liabilities amounted to RMB7,535,773,000, with a gearing ratio of 57.79%. The current assets amounted to RMB5,519,482,000 while the current liabilities amounted to RMB5,088,948,000. The current assets/current liabilities ratio was 108.46%.
- (2) In the first half of 2009, due to the decrease in revenue of the Company owing to the plunging steel prices, net cash outflow from operating activities amounted to RMB167,960,000 while net cash inflow from financing activities was RMB505,516,000. The Company's current cash and cash equivalents decreased by RMB165,006,000 after deducting net cash expenditures of RMB502,562,000 attributed to investment project including the construction of hot-rolled plates and wide-thick plates projects by the Company. As at 30 June 2009, the Company's bank balances and cash amounted to RMB982,047,000.

(II) PROSPECT

In the second half of 2009, the state will give precedence to fostering steady economic growth on its economic agenda, moving ahead to roll out active fiscal policies and ease monetary policies in moderate terms. Given strong investment gains from domestic fixed assets, the recovery of the property sector, coupled with positive upturn in sectors such as automobile, home appliances and machine manufacturing, the demand for domestic steel products will pick up in the second half. However, due to the lack of external demand, restricted steel exports, surplus capacity of domestic iron and steels and structural over-supply of steel products, the steel product price is poised to surge but to a limited extent. In the second half of the year, the Company will continue to improve its market intelligence and analysis to actively tackle market changes and aspire for maximized product sales to meet its fundamental target to increase earnings on top of that of the first half. It will also reinforce its production for profitable products, strengthen maintenance of its equipment to ensure smooth production. Going forward, it will leverage on the market sentiment of raw materials and bring forth favorable strategies for raw materials procurement to reduce costs in this respect. On the other hand, it will also complete the pilot production of 4,100mm wide-thick plates project in Changshou New Zone to lay foundation for the implementation of the environmental relocation strategy of the Company.

REPORT OF THE BOARD OF DIRECTORS

(III) INVESTMENT DURING THE REPORTING PERIOD

1. Use of raised proceeds

Unit: RMB'000

Use of proceeds by the Company as at 30 June 2008

Total proceeds	1,008,000	Total utilised proceeds in the reporting period	—
		Accumulated total use of raised proceeds (including fees in relation to underwriting, issuance and other fees)	1,012,308

Items	Amount to be invested	Change of project	Actual amount of investment (excluding fees in relation to underwriting, issuance and other fees)	Return incurred	In line with schedule	In line with estimated earning
Technological renovation project of plate-strip project	2,038,110	No	1,381,842	Not applicable	Yes	Not applicable
Total	2,038,110	—	1,381,842	—	—	—

Reason for the failure in keeping in line with the schedule and estimated returns

Not applicable

Reason and procedure for the change

Not applicable

Use of outstanding proceeds

Deposited at designated bank account for further usage according to the plan of use of proceeds set out in prospectus

REPORT OF THE BOARD OF DIRECTORS

(III) INVESTMENT DURING THE REPORTING PERIOD (CONTINUED)

1. Use of raised proceeds (Continued)

Use of proceeds for undertaken projects

Cold rolling plate-strip Project was operating smoothly at present. Since the previous hot rolling plate-strip (main raw materials for cold rolling production) production line has not yet completed construction and commenced production, cost of purchased raw materials surged, which failed to complete a full load production. Therefore, losses occurred during reporting period.

During the reporting period, the Company proactively pushed forward construction of the hot rolling plate-strip project. Foundation work of factories and equipments of the main rolling line is under progress. An accumulated amount of RMB981,190,000 was paid by the Company.

2. Projects financed by non-raised proceeds

Unit: RMB'000

Project name	Budget amount	Progress	Earnings
4,100mm wide-thick steel plates	1,918,000	75%	Under construction
Total	1,918,000	75%	—

During the reporting period, the Company had paid approximately RMB1,424,450,000 for the project of 4,100mm wide-thick steel plate. Installation and trial operation for the equipments are in progress.

SIGNIFICANT EVENTS

(I) CORPORATE GOVERNANCE

The Company operates strictly in accordance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Listing Rules of the Stock Exchange, the Rules Governing the Listing of Shares on the Shanghai Stock Exchange and Management Standards for Listed Companies to establish a sound corporate governance system and effective internal control system.

During the reporting period, the Board and the Supervisory Committee of the Company were re-elected. The composition of the fifth Board and the fifth Supervisory Committee newly formed was in compliance with relevant laws and regulations and the Articles of Association. Meanwhile, the fifth Board has appointed the members of each of the Special Committees and established the third Strategic Committee, the third Salary and Remuneration Review Committee and the fourth Audit Committee.

During the reporting period, the Company revised and improved the Work Regulations on the Annual Financial Report Review by Audit Committee. Besides, the Board of the Company made amendments to the Articles of Associations and its Appendices in response to the requirement of establishing long-lasting mechanism to prohibit substantial shareholder's misappropriation of listed company's capital pursuant to the Notice in Relation to Announcement of the Special Activity on Corporate Governance of the Company (《關於公司治理專項活動的公告的通知》) issued by China Securities Regulatory Commission ("CSRC"), the Requirement under Rules of Amending Certain Provisions on Cash Dividends by Listed Companies (《關於修改上市公司現金分紅若干規定的規定》), and the latest amendments to the Rules Governing the Listing of Shares on the Shanghai Stock Exchange (Sixth revision in September 2008) and the Listing Rules of Stock Exchange.

Optimizing corporate governance is a long term systematic project, which needs perseverance, constant improvement and rectification in daily work. In future, the Company will timely upgrade and improve internal system of the Company according to relevant regulations and constantly improve awareness of standardized operation for healthy development of the Company.

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

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

SIGNIFICANT EVENTS

(II) INTERIM DIVIDEND FOR 2009

The Board of directors does not recommend declaration of an interim dividend.

(III) PROFIT DISTRIBUTION PLAN AND ITS IMPLEMENTATION DURING THE REPORTING PERIOD

On 1 June 2009, proposed distribution of final profit for the year 2008 was considered and approved at the 2008 annual general meeting of the Company. Based on the total shares of the Company ended 31 December 2008 of 1,733,127,200 shares, the Company resolved to declare a cash dividend of RMB1.00 (tax inclusive) per 10 shares, totaling RMB173,312,700, to all shareholders.

On 1 June 2009, the resolution regarding the reference date of distribution of final dividends in cash of the Company for year 2008 was considered and approved at the first meeting of the fifth Board. The Company will distribute a cash dividend of RMB0.10 (tax inclusive) per share to all shareholders whose names appeared on the register of members of the Company on 25 June 2009. The registration of transfer of H shares of the Company will be closed from 19 June 2009 to 25 June 2009 (both days inclusive). The cheques of H share dividends will be posted by ordinary mail to holders of H shares of the Company whose names appeared on the H share register of members at the close of business on 18 June 2009 on or before 24 July 2009. Registration date, ex-dividend date and dividend date of A shares of the Company were 25 June 2009, 26 June 2009 and 27 July 2009, respectively. As at the date of this report, the dividend distribution of the Company was completed.

(IV) MATERIAL LITIGATION OR ARBITRATION

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

(V) MATERIAL ASSETS ACQUISITIONS, SALE OR DISPOSAL AND MERGER AND ACQUISITION

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

SIGNIFICANT EVENTS

(VI) MATERIAL RELATED PARTY TRANSACTIONS

1. Related party transactions constituted by Service and Supply Agreement

On 22 January 2008, the Company and the Holding Company entered into the Service and Supply Agreement (“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, wire rod and other products);
- (2) utilities services such as water, electricity and natural gas and internal railway transportation services.

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); the fees for managing such social welfare services for the Company’s employees were at the expense of the Parent Group.

SIGNIFICANT EVENTS

(VI) MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

1. Related party transactions constituted by Service and Supply Agreement (Continued)

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.

Basis of price determination of 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 or services 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 or amounts as prescribed by the relevant Chongqing governmental departments; (v) technical services are determined by reference to market prices or prices prescribed by state government documents or a profit mark-up above the cost of providing such products; (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.

2. Related party transactions constituted by Land Lease

Pursuant to the land lease agreement dated 14 August 1997 and its supplemental lease agreement, the land lease agreement dated 8 December 2002 and its supplemental lease agreement, the land lease agreement dated 10 February 2006 and supplementary agreements on land lease dated 12 January 2007 and 17 January 2007 (the "Land Lease Agreements") entered into between the Company and its Holding Company, the Company leased from the Holding Company lands with an 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 Land Lease Agreements, the yearly rent for lease of the Holding Company's land use right by the Company was RMB5.75 per square meters from 2007 to 2009.

SIGNIFICANT EVENTS

(VI) MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

3. Connected transactions during the reporting period

From 1 January 2009 to 30 June 2009, all the continuing connected transactions carried out in the ordinary course of business between the Company and the Parent Group was settled by cash and had no adverse impacts on the Company's profit.

The connected transaction on sales and services provided to by the Company and procurement made and services received from the Parent Group during the reporting period amounted to RMB385,545,000 and RMB908,748,000.

Related party	Products sold to related party		Products purchased from related party	
	Amount (RMB'000)	Percentage to the amount of similar transactions (%)	Amount (RMB'000)	Percentage to the amount of similar transactions (%)
Chongqing Iron & Steel Group Mining Company Limited	3,259	1.25	354,634	16.96
Chongqing Iron & Steel Group Iron Company Limited	—	—	247,598	82.84
Chongqing Iron & Steel Group Construction and Engineering Company Limited	7,249	2.79	77,115	6.83
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	85,132	32.78	125,030	91.92
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	6,699	2.58	15,463	9.53
Chongqing Iron & Steel Group Electronic Company Limited	1,079	0.80	5,273	2.22
Chongqing Iron & Steel Group Refractory Materials Company Limited	53	8.96	8,568	16.90
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	—	—	4,561	3.73
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	—	—	561	0.35
Chongqing Si Gang Steel Company Limited	87,937	1.75	2,631	0.78
Chongqing Iron & Steel Group San Feng Industrial Company	—	—	8,051	5.92
Chongqing Iron & Steel Group Design and Research Institute	56	0.05	38,441	6.95
Chongqing Iron & Steel Group Steel Pipe Company Limited	58,150	1.16	—	—

SIGNIFICANT EVENTS

(VI) MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

3. Connected transactions during the reporting period (Continued)

Related party	Products sold to related party		Products purchased from related party	
	Amount (RMB'000)	Percentage to the amount of similar transactions (%)	Amount (RMB'000)	Percentage to the amount of similar transactions (%)
Chongqing San Gang Steel Company Limited	63,771	1.27	852	0.25
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	45	0.04	31	0.04
Chongqing Iron & Steel Group Transportation Company Limited	3,100	1.19	437	0.11
Chongqing Iron & Steel Group Industrial Company Limited	67,861	1.35	13,076	0.58
Chongqing Iron & Steel Group San Feng Science Technology Company Limited	—	—	4,219	0.53
Others	1,154	—	2,207	—
Total	385,545	—	908,748	—

During the reporting period, the Company paid a land rent of RMB9,000,000 to the Holding Company.

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

4. Material contracts entered into with the Holding Company

As at 30 June 2009, except the Service and Supply Agreement and Land Lease Agreements as described above, no material contracts has been entered into between the Company and the controlling shareholders.

SIGNIFICANT EVENTS

(VII) NON-OPERATING CREDITOR'S RIGHT AND DEBT BETWEEN THE COMPANY AND RELATED PARTIES

As at 30 June 2009, except the ordinary course of business between the Company and related parties, there is no other creditor's rights or debt between the Company and related parties. Also, no controlling shareholders and its subsidiaries appropriated the Company's funds for non-operating purpose.

(VIII) MATERIAL CUSTODY, CONTRACTING OR LEASING

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

(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 violated the above undertakings.

(X) SECURITIES INVESTMENT

During the reporting period, the Company did not hold equity interests in other listed companies.

(XI) HOLDING OF EQUITY INTERESTS IN NON-LISTING FINANCIAL ENTERPRISES

During the reporting period, the Company did not hold equity interests in non-listing financial enterprises.

(XII) 2008 UNDERTAKING ON EXTENSION OF TRADING MORATORIUM BY SHAREHOLDERS OF THE COMPANY HOLDING MORE THAN 5% OF ITS SHARE CAPITAL

During the reporting period, none of the shareholders of the Company holding more than 5% of its share capital had made any undertakings on voluntary extension of trading moratorium, setting or increasing the minimum selling price of shares.

SIGNIFICANT EVENTS

(XIII) STAFF

As at 30 June 2009, the Company had 10,051 staffs, including 8,242 production staffs, 188 sales staffs, 804 technical and engineering staffs, 99 finance staffs, and 718 administrative staffs.

The Company has placed emphasis on staff skill training and knowledge upgrade. During the reporting period, a total of 8,241 staffs received training, covering 81.99% of the staffs.

(XIV) CHANGES IN ACCOUNTING POLICIES

The Ministry of Finance issued No. 3 Explanatory Guidance of Accounting Standards for Business Enterprises (“No. 3 Explanatory Guidance”) on 11 June 2009, stipulating that, except for those specified issues requiring retrospective adjustments in No. 3 Explanatory Guidance, other stipulations shall become effective from 1 January 2009. In accordance with the requirements of No. 3 Explanatory Guidance, corresponding changes have been made to the Company’s major accounting policies. (For details, please see note 4 to the Company’s 2009 Interim Financial Statements prepared under the China Accounting Standards for Business Enterprises (CAS (2006)) issued by the Ministry of Finance of the People’s Republic of China)

The HKICPA has issued one new HKFRS, a number of amendments to HKFRS and new Interpretations that are first effective for the current accounting period of the Company. The Company has adopted the newly effective accounting policies. (For details, please see note 6 to the Company’s 2009 Interim Financial Statements prepared under HKFRS)

(XV) ENVIRONMENTAL RELOCATION

In the State Council’s Opinions on Promoting the Balanced Reform and Development Between the Urban and Rural Areas in Chongqing (《國務院關於推進重慶市統籌城鄉改革和發展的若干意見》) (Guo Fa [2009] No. 3) issued by the General Office of State Council on 26 January 2009, it expressly required the improvement of environmental relocation and the upgrade of product mix of CISL. In the Adjustment and Stimulus Package of Steel Industry (《鋼鐵產業調整和振興規劃》) issued by the State Council in March 2009, it also specifically addressed the issue of coordination, research and promotion of the relocation of steel plants in Fushun, Qingdao, Chongqing, Shijiazhuang and other cities. In response to the State’s policy, the Company actively pushed ahead the environmental relocation of CISL under the guidance of the Chongqing Municipal Government and assisted the Holding Company in preparation for relocation to Changshou New Zone. Save for the establishment of organizations for the preparation of relocation, the investment and construction of the technical improvement project of plate-strip production lines and the 4,100mm wide-thick plates project in Changshou New Zone, the Company is not participating in other project constructions.

SIGNIFICANT EVENTS

(XVI) ISSUANCE OF CORPORATE BONDS

On the 2009 first extraordinary general meeting of the Company held on 14 April 2009, the termination of issuance of bonds with warrants was approved and the issuance of corporate bonds (“Issuance of Corporate Bonds”) in an amount of not more than RMB2,000,000,000 for the purpose of repaying bank loans and supplementing the Company’s working capital was agreed. The Company has submitted formal written application to the CSRC for the Issuance of Corporate Bonds.

(XVII) EXTRAORDINARY ANNOUNCEMENTS INDEXES

Name of announcements	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement in relation to volatile trading of stocks	Lin 2009-001	7 January 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 2009 first extraordinary meeting of the Board	Lin 2009-002	20 February 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice of 2009 first extraordinary general meeting	Lin 2009-003	24 February 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of H shares: circular for H shareholders		24 February 2009	Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 9th meeting of the fourth Supervisory Committee	Lin 2009-004	1 April 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 14th meeting of the fourth Board	Lin 2009-005	1 April 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice on convening 2008 annual general meeting	Lin 2009-006	10 April 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 2009 first extraordinary general meeting	Lin 2009-007	15 April 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

SIGNIFICANT EVENTS

(XVII) EXTRAORDINARY ANNOUNCEMENTS INDEXES (CONTINUED)

Name of announcements	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement of 77th written resolution of the fourth Board	Lin 2009-008	16 April 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of H shares: Notice of board meeting		21 April 2009	Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 2008 annual general meeting	Lin 2009-009	2 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 1st meeting of the fifth Supervisory Committee	Lin 2009-010	2 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 1st meeting of the fifth Board	Lin 2009-011	2 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of H shares: appointment of Directors and re-election of Supervisors from staff representatives		4 June 2009	Shanghai Stock Exchange: www.sse.com.cn
Announcement in relation to appointment of Supervisors from staff representatives	Lin 2009-012	4 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice of 2009 second extraordinary general meeting	Lin 2009-013	18 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of H shares: circular for H shareholders		18 June 2009	Shanghai Stock Exchange: www.sse.com.cn
Announcement of implementation of 2008 dividend distribution	Lin 2009-014	18 June 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

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If there is any conflict of meaning between the Chinese and English versions, the Chinese version will prevail.

BALANCE SHEET

30 June 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Assets	Note	Closing balance	Opening balance
Cash at bank and on hand	VI.1	991,814	1,203,661
Bills receivable	VI.2	802,748	509,457
Accounts receivable	VI.3	371,491	210,035
Prepayments	VI.4	368,901	266,343
Other receivables	VI.5	31,928	24,420
Inventories	VI.6	2,917,238	3,057,732
Other current assets	VI.7	35,362	21,005
Total current assets		5,519,482	5,292,653
Long-term equity investments	VI.8	5,000	5,000
Fixed assets	VI.9	4,867,580	4,985,807
Construction in progress	VI.10	823,743	532,703
Construction materials	VI.11	1,415,279	1,185,619
Intangible assets	VI.12	248,445	251,050
Deferred tax assets	VI.13	120,349	129,386
Other non-current assets		39,150	42,750
Total non-current assets		7,519,546	7,132,315
Total assets		13,039,028	12,424,968

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

BALANCE SHEET (CONTINUED)

30 June 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Liabilities and shareholders' equity	Note	Closing balance	Opening balance
Short-term loans	VI.15	2,504,278	1,798,000
Accounts payable	VI.16	577,820	602,113
Advances from customers	VI.17	631,119	664,007
Employee benefits payable	VI.18	31,740	39,963
Taxes payable	V.3	9,702	189,227
Interest payable		1,030	4,510
Dividends payable		173,313	—
Other payables	VI.19	155,946	261,353
Non-current liabilities due within one year	VI.20	1,004,000	440,000
Total current liabilities		5,088,948	3,999,173
Long-term loans	VI.21	1,699,914	2,324,076
Other non-current liabilities	VI.22	746,911	456,773
Total non-current liabilities		2,446,825	2,780,849
Total liabilities		7,535,773	6,780,022
Share capital	VI.23	1,733,127	1,733,127
Capital reserve	VI.24	1,164,384	1,164,384
Surplus reserve	VI.25	566,679	566,679
Retained earnings	VI.26	2,039,065	2,180,756
Total equity		5,503,255	5,644,946
Total liabilities and shareholders' equity		13,039,028	12,424,968

Dong Lin
Legal representative

Song Ying
Chief Financial Officer

Song Ying
Chief Accountant

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

INCOME STATEMENT

Jan-Jun 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Items	Note	Jan-Jun 2009	Jan-Jun 2008
Operating income	VI.27	5,253,842	8,846,607
Less: Operating costs	VI.28	4,719,528	7,699,308
Business taxes and surcharges		141	164
Selling and distribution expenses		139,233	128,949
General and administrative expenses		247,873	308,234
Financial expenses		111,625	118,784
Impairment loss		—	94,625
Operating profit		35,442	496,543
Add: Non-operating income	VI.29	5,799	2,431
Less: Non-operating expenses	VI.30	582	3,895
Profit before income tax		40,659	495,079
Less: Income tax expenses	VI.31	9,037	11,144
Net profit		31,622	483,935
Earnings per share			
Basic earnings per share (RMB)	XII.1	0.02	0.28
Diluted earnings per share (RMB)	XII.1	0.02	0.28
Add: Other comprehensive income for the period		—	—
Total comprehensive income for the period		31,622	483,935

Dong Lin

Legal representative

Song Ying

Chief Financial Officer

Song Ying

Chief Accountant

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

CASH FLOW STATEMENT

Jan-Jun 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

	Note	Jan-Jun 2009	Jan-Jun 2008
1. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		6,131,419	10,260,682
Other cash received relating to operating activities		6,373	1,658
Sub-total of cash inflows		6,137,792	10,262,340
Cash paid for goods and services		(5,675,818)	(9,289,660)
Cash paid to and for employees		(306,759)	(400,970)
Cash paid for all types of taxes		(259,463)	(300,816)
Other cash paid relating to operating activities		(63,712)	(99,153)
Sub-total of cash outflows		(6,305,752)	(10,090,599)
Net cash (outflow)/inflow from operating activities	VI.32	(167,960)	171,741
2. Cash flows from investing activities:			
Net cash received from disposal of fixed assets		1,124	6,233
Other cash received relating to investing activities		4,124	5,920
Sub-total of cash inflows		5,248	12,153
Cash paid for acquisition of fixed assets		(507,810)	(609,376)
Sub-total of cash outflows		(507,810)	(609,376)
Net cash outflow from investing activities		(502,562)	(597,223)

FINANCIAL REPORT

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CASH FLOW STATEMENT (CONTINUED)

Jan-Jun 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

	Note	Jan-Jun 2009	Jan-Jun 2008
3. Cash flows from financing activities:			
Cash received from borrowings		1,938,956	2,694,055
Sub-total of cash inflows		1,938,956	2,694,055
Cash repayments of borrowings		(1,293,023)	(1,659,519)
Cash payments for interest		(140,417)	(142,199)
Sub-total of cash outflows		(1,433,440)	(1,801,718)
Net cash inflow from financing activities		505,516	892,337
4. Effect of foreign exchange rate changes on cash and cash equivalents		—	—
5. Net (decrease)/increase in cash and cash equivalents		(165,006)	466,855
Add: Cash and cash equivalents at the beginning of the period		1,147,053	971,082
6. Cash and cash equivalents at the end of the period	VI.32	982,047	1,437,937

Dong Lin
Legal representative

Song Ying
Chief Financial Officer

Song Ying
Chief Accountant

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

STATEMENT OF CHANGES IN EQUITY

Jan-Jun 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Items	Share capital	Capital reserve	Amount of current period			Total
			Treasury stocks	Surplus reserve	Retained earnings	
I. Balance at the end of last period	1,733,127	1,164,384	—	566,679	2,180,756	5,644,946
Add: Changes in						
Accounting policies	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—
II. Balance at the beginning of this period	1,733,127	1,164,384	—	566,679	2,180,756	5,644,946
III. Changes in equity for the period						
(Decrease is illustrated by "()")	—	—	—	—	(141,691)	(141,691)
(I) Total comprehensive income for the period	—	—	—	—	31,622	31,622
(II) Gains and losses recognised directly in equity	—	—	—	—	—	—
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—
2. Effect of changes in equity excluding retained earnings of investees under equity methods	—	—	—	—	—	—
3. Deferred tax effect	—	—	—	—	—	—
4. Others	—	—	—	—	—	—
Sub-total of above item (I) and item (II)	—	—	—	—	31,622	31,622

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Jan-Jun 2009

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Items	Share capital	Capital reserve	Amount of current period			Total
			Treasury stocks	Surplus reserve	Retained earnings	
(III) Shareholder's contributions and decrease of capital	—	—	—	—	—	—
1. Contributions by shareholders	—	—	—	—	—	—
2. Equity settled share-based payments	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
(IV) Appropriation of profits	—	—	—	—	(173,313)	(173,313)
1. Appropriation for surplus reserve	—	—	—	—	—	—
2. Distribution to shareholders (Note VI.26)	—	—	—	—	(173,313)	(173,313)
3. Others	—	—	—	—	—	—
(V) Transfers within equity	—	—	—	—	—	—
1. Share capital increased by capital reserve transfer	—	—	—	—	—	—
2. Share capital increased by surplus reserve transfer	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
IV. Balance at the end of the period	1,733,127	1,164,384	—	566,679	2,039,065	5,503,255

Dong Lin
Legal representative

Song Ying
Chief Financial Officer

Song Ying
Chief Accountant

The notes on pages 45 to 114 form part of these financial statements.

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The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Jan-Jun 2008

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Items	Amount of last period					Total
	Share capital	Capital reserve	Treasury stocks	Surplus reserve	Retained earnings	
I. Balance at the end of last period	1,733,127	1,164,384	—	506,849	1,815,601	5,219,961
Add: Changes in accounting policies	—	—	—	—	—	—
Correction of prior period errors	—	—	—	—	—	—
II. Balance at the beginning of this period	1,733,127	1,164,384	—	506,849	1,815,601	5,219,961
III. Changes in equity for the period						
(Decrease is illustrated by "(/)"	—	—	—	—	310,622	310,622
(I) Total comprehensive income for the period	—	—	—	—	483,935	483,935
(II) Gains and losses recognised directly in equity	—	—	—	—	—	—
1. Net changes in fair value of available-for-sale financial assets	—	—	—	—	—	—
2. Effect of changes in equity excluding retained earnings of investees under equity methods	—	—	—	—	—	—
3. Deferred tax effect	—	—	—	—	—	—
4. Others	—	—	—	—	—	—
Sub-total of above item (I) and item (II)	—	—	—	—	483,935	483,935

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STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Jan-Jun 2008

Prepared by: Chongqing Iron & Steel Company Limited

Unit: RMB'000

Items	Share capital	Capital reserve	Amount of last period			Total
			Treasury stocks	Surplus reserve	Retained earnings	
(III) Shareholder's contributions and decrease of capital	—	—	—	—	—	—
1. Contributions by shareholders	—	—	—	—	—	—
2. Equity settled share-based payments	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
(IV) Appropriation of profits	—	—	—	—	(173,313)	(173,313)
1. Appropriation for surplus reserve	—	—	—	—	—	—
2. Distribution to shareholders (Note VI.26)	—	—	—	—	(173,313)	(173,313)
3. Others	—	—	—	—	—	—
(V) Transfers within equity	—	—	—	—	—	—
1. Share capital increased by capital reserve transfer	—	—	—	—	—	—
2. Share capital increased by surplus reserve transfer	—	—	—	—	—	—
3. Others	—	—	—	—	—	—
IV. Balance at the end of the period	1,733,127	1,164,384	—	506,849	2,126,223	5,530,583

Dong Lin
Legal representative

Song Ying
Chief Financial Officer

Song Ying
Chief Accountant

The notes on pages 45 to 114 form part of these financial statements.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

I 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 RMB999,538,500. The legality of the valuation was reviewed and confirmed by the circular (Guo Zi Ping [1997] No. 706) issued by the State-owned Assets Supervision and Administration Bureau on 22 July 1997.

On 27 August 1997, the Company was approved by the circular (Zheng Wei Fa [1997] No.51) from the Securities Commission of the State Council to issue overseas listed foreign shares. The Company issued 410,000,000 ordinary shares and 3,944,000 ordinary shares for over-allotment on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 15 October 1997 and 6 November 2007 respectively. Such shares, with a par value of RMB1, were listed on the Hong Kong Stock Exchange on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company’s total 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.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

I. COMPANY STATUS (CONTINUED)

As approved by the China Securities Regulatory Commission (CSRC), the Company issued 350,000,000 A shares (Renminbi-denominated domestic shares) and raised a total proceeds of RMB1,008,000,000 on 29 January 2007. Such shares were listed on the Shanghai Stock Exchange on 28 February 2007. Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group converted 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.

II. 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 assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) (See Note III 8)
- Available-for-sale financial assets (See Note III 8)

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

II. BASIS OF PREPARATION (CONTINUED)

4 Functional currency and presentation currency

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements.

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 III 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.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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 realisable 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 amortisation are included in the cost of the related assets or profit or loss.

The Company maintains a perpetual inventory system.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4 Long-term equity investments

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 III 9 (b).

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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 III 9 (c)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note III 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 III 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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5 Fixed assets and construction in progress (Continued)

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 III 5. Impairment losses are provided for in accordance with the accounting policy described in Note III 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.

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III. 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 Note III 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 amortisation 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 amortised 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 does not 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 III 9 (c)). Other development expenditures are recognised as expenses in the period in which they are incurred.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8 Financial Instruments (Continued)

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

— 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.

— 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 III 13 (c)).

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8 Financial Instruments (Continued)

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

— 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 III 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.

(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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8 Financial Instruments (Continued)

(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 losses 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.

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III. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(a) Impairment of financial assets

- 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.

(b) Impairment of other long-term equity investments

Other long-term equity investments (see Note III 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

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III. 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 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.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10 Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. 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 organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic 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. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11 Income tax

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11 Income tax (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 cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

(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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13 Revenue recognition (Continued)

(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.

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III. 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.

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III. 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; and

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17 Related parties (Continued)

- (l) other enterprises that are controlled jointly controlled or significantly influenced by principal individual investors, key management personnel of the Company, and close family members of such individuals.

Besides the related parties stated above, determined in accordance with the requirements of 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18 Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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.

Except for 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 III 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.

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

As described in Note III 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18 Significant accounting estimates and judgments (Continued)

(c) Depreciation and amortisation

As described in Note III 5 and III 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 III 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.

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IV. CHANGES IN ACCOUNTING POLICIES

1 Description of and reasons for changes in accounting policies

The Ministry of Finance issued No. 3 Explanatory Guidance of Accounting Standards for Business Enterprises (“No. 3 Explanatory Guidance”), stipulating that, except for those issues requiring retrospective adjustments, other stipulations shall become effective from 1 January 2009. In accordance with the requirements of No. 3 Explanatory Guidance, the following changes have been made to the Company’s accounting policies:

— Presentation of the income statement

According to No. 7 Q&A of No. 3 Explanatory Guidance, enterprises should present “other comprehensive income” and “total comprehensive income” under “earnings per share” in the income statement. “Other comprehensive income” represents the net balance of gains/losses unrecognised in profit or loss after taking into consideration the effect of income tax in accordance with CAS. “Total comprehensive income” represents the total amount of net profit and other comprehensive income.

The Company has adjusted the presentation of its income statement in accordance with the requirements of No. 3 Explanatory Guidance, while certain comparative figures have been adjusted to conform to current period’s presentation.

— Segment Reporting

No. 3 Explanatory Guidance revised ASBE 35-segment reporting. According to the requirements of No. 8 Q&A of No. 3 Explanatory Guidance, enterprises should identify operating segments based on their internal organisational structure, management requirements and internal reporting system. They should determine reportable segments based on operating segments identified and disclose segment information in compliance with relevant regulations. The previous stipulations, that required an enterprise to identify geographical segments and business segments and identify a primary reporting format and secondary reporting format, will no longer apply.

As the Company’s chief operating decision maker makes decision about resources allocation and performance assessment based on the entity-wide financial information, there is only one single reportable segment for the Company.

2 Effect of the above accounting policy changes on the current financial statements

Except for the above adjustments to the presentation of the income statement, the changes of accounting policies in the period have no impact on the relevant accounts of the income statement for the six months ended 30 June 2009 and the balance sheet at 30 June 2009.

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V. 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 tax

The income tax rate applicable to the Company for the year is 15% (2008: 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.

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V. TAXATION (CONTINUED)

2 Income tax (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 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

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
VAT payable	3,138	105,840
Business tax payable	33	30
Income tax payable	1,265	79,084
Others	5,266	4,273
Total	9,702	189,227

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VI. NOTES TO THE FINANCIAL STATEMENTS

1 Cash at bank and on hand

	Closing balance			Opening balance		
	Original currency '000	Exchange rate	RMB equivalents RMB'000	Original currency '000	Exchange rate	RMB equivalents RMB'000
Cash on hand						
— RMB	694	1.0000	694	373	1.0000	373
Deposits with banks						
— RMB	975,268	1.0000	975,268	1,124,589	1.0000	1,124,589
— US Dollars	187	6.8319	1,279	26	6.8346	175
— HK Dollars	48	0.8815	42	48	0.8819	42
Other monetary funds						
— RMB	14,531	1.0000	14,531	77,448	1.0000	77,448
— US Dollars	—	6.8319	—	151	6.8346	1,034
Total			991,814			1,203,661

Other cash and cash equivalents include:

	Closing balance RMB'000	Opening balance RMB'000
Restricted:		
— Guarantee for letter of credit	9,767	56,608
Unrestricted:		
— Cash in transit	4,764	21,874
Total	14,531	78,482

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Bills receivable

All bills receivable held by the Company are bank acceptance 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 above balance of bills receivable. Bills receivables due from related parties are set out in Note X.5(b).

3 Accounts receivable

(1) Accounts receivable by customer type:

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Amounts due from related parties	184,786	118,191
Amounts due from other customers	341,346	246,485
Sub-total	526,132	364,676
Less: Provision for bad and doubtful debts	154,641	154,641
Total	371,491	210,035

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (Continued)

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

The Company's accounts receivable due from related parties amounted to RMB184,786,000 (2008: RMB118,191,000) (refer to Note X.5(a)), or 35% (2008: 32%) 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 30 June 2009, accounts receivable due from the five biggest debtors of the Company are as follows:

	Amount	Ageing	Percentage of total accounts receivable
	RMB'000		
Chongqing Si Gang Steel Co., Ltd.	89,013	within three month (inclusive)	16.92%
Guangzhou Shipbuilding Co., Ltd.	48,763	within three month (inclusive)	9.27%
Chongqing San Gang Steel Co., Ltd.	42,674	within three month (inclusive)	8.11%
Ningbo Baoyi Trading Co., Ltd.	39,406	within three month (inclusive)	7.49%
Guangzhou Shipyard International Co., Ltd.	37,013	within three month (inclusive)	7.03%

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (Continued)

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

Amounts due from related companies:

	Closing balance RMB'000	Opening balance RMB'000
Within 3 months (inclusive)	137,066	78,451
4 to 12 months (inclusive)	29,952	22,400
1 to 2 years (inclusive)	475	47
2 to 3 years (inclusive)	377	1,514
Over 3 years	16,916	15,779
Sub-total	184,786	118,191
Less: Provision for bad and doubtful debts	10,079	10,079
Total	174,707	108,112

Amounts due from other customers:

	Closing balance RMB'000	Opening balance RMB'000
Within 3 months (inclusive)	193,644	99,529
4 to 12 months (inclusive)	2,019	767
1 to 2 years (inclusive)	1,490	1,800
2 to 3 years (inclusive)	125	629
Over 3 years	144,068	143,760
Sub-total	341,346	246,485
Less: Provision for bad and doubtful debts	144,562	144,562
Total	196,784	101,923

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

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (Continued)

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

	Closing balance				Opening balance			
	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision	Amount	Percentage of total accounts receivable	Bad debts Provision	Rate of provision
	RMB'000		RMB'000		RMB'000		RMB'000	
Individually significant	256,869	49%	—	—	158,636	44%	—	—
Individually insignificant but with a material portfolio credit risk	216,164	41%	(144,562)	67%	185,691	51%	(144,562)	78%
Other immaterial items	53,099	10%	(10,079)	19%	20,349	5%	(10,079)	50%
Total	526,132	100%	(154,641)	29%	364,676	100%	(154,641)	42%

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (Continued)

(3) An analysis of provision for bad and doubtful debts is as follows: (continued)

For amounts due from related companies, the provision for bad debt is individually assessed. As at 30 June 2009, the Company's amounts due from related parties with ageing over 3 years mainly include the amount of RMB10,079,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to unsatisfied financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that it was unlikely to recover the amount. Therefore, a provision of RMB2,710,000 was made for bad debts in full before 2005; Due to cession of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company's management considered it was unlikely to recover the amount. Therefore, a provision of RMB7,369,000 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%

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Prepayments

(1) The prepayments by category:

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Material prepayments	247,023	135,995
Prepayments for construction and equipment	21,709	29,348
Prepaid land premiums	100,169	101,000
Total	368,901	266,343

(2) The ageing analysis of prepayments is as follows:

	Closing balance		Opening balance	
	Amount <i>RMB'000</i>	Percentage	Amount <i>RMB'000</i>	Percentage
Within 1 year (inclusive)	251,877	68.28%	157,745	59.23%
1 to 2 years (inclusive)	111,564	30.24%	102,074	38.32%
2 to 3 years (inclusive)	5,053	1.37%	6,117	2.30%
Over 3 years	407	0.11%	407	0.15%
Total	368,901	100%	266,343	100%

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Other receivables

(1) Other receivables by customer type:

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Other receivables	38,646	31,138
Less: Provision for bad and doubtful debts	6,718	6,718
Total	31,928	24,420

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

As at 30 June 2009, other receivables due from the five biggest debtors of the Company are as follows:

	Amount <i>RMB'000</i>	Ageing	Percentage of total other receivables
Chongqing Special Steel, Co., Ltd	5,587	above three years	14.46%
Guangzhou Jianhe Transport Co , Ltd	3,322	within one year (inclusive)	8.60%
Chengdu Railway Bureau of Dadukou District Station	2,547	within one year (inclusive)	6.59%
Mining Company of Da County	1,131	above three years	2.93%
Chongqing Administration of Work Safety	1,050	within one year (inclusive)	2.72%

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Other receivables (Continued)

(2) Ageing analysis of other receivables is as follows:

	Closing balance		Opening balance	
	Amount RMB'000	Percentage	Amount RMB'000	Percentage
Within 1 year (inclusive)	25,291	65.44%	18,792	60.35%
1 to 2 years (inclusive)	6,161	15.94%	5,204	16.71%
2 to 3 years (inclusive)	99	0.26%	1,127	3.62%
Over 3 years	7,095	18.36%	6,015	19.32%
Total	38,646	100%	31,138	100%

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

(3) Analysis of provision for bad and doubtful debts for other receivables is as follows:

	Closing balance				Opening balance			
	Amount RMB'000	Percentage of total other receivables	Bad debts provision RMB'000	Rate of provision	Amount RMB'000	Percentage of total other receivables	Bad debts provision RMB'000	Rate of provision
Individually significant	13,637	35%	(6,718)	49%	14,460	46%	(6,718)	46%
Other immaterial items	25,009	65%	—	0%	16,678	54%	—	0%
Total	38,646	100%	(6,718)	17%	31,138	100%	(6,718)	22%

For other receivables, provision for bad debts is made on the basis of individual evaluation.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Other receivables (Continued)

- (3) Analysis of provision for bad and doubtful debts for other receivables is as follows:
(Continued)

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 RMB36,540,000 dividend to be distributed to the Holding Company ("the Dividend"). The Courts had withdraw RMB4,528,000 and RMB1,059,000 from the Company's bank accounts in 2005 and 2006 respectively, totaling RMB5,587,000.

In November 2006, as the Parent Group settled its debts amounting to RMB18,200,000, the Courts withdrew those verdicts and enforcement orders against the Parent Group, and accordingly the Company was not required to assist the execution of the verdicts.

As at the date of these interim 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 counselor, 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 Company or the Company since June, 2003, and accordingly the Company has no obligation to assist the execution of the order against CSSG. The Company has appealed to the Courts and seeks 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) No.16) ("the notice") to The Supreme Court of Sichuan Province on 25 May 2007. 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 noticed the Sichuan Supreme People's Court to terminate suspend the execution procedure for such cases, which will be handled upon relevant advices are given by Supreme People's Court.

Although the above objection is still in process, management of the Company is of view that the recoverability of the withdrawn bank deposits (recorded as other receivable) is uncertain, thus a total of full impairment provision of RMB5,587,000 was recorded for the years ended 31 December 2005 and 2006.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Inventories

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

	Opening balance at the beginning of the period <i>RMB'000</i>	Addition during the period <i>RMB'000</i>	Reduction during the period <i>RMB'000</i>	Closing balance at the end of the period <i>RMB'000</i>
Raw materials	2,612,088	3,591,040	(3,821,455)	2,381,673
Work in process	658,484	4,608,005	(4,561,772)	704,717
Finished goods	237,547	4,561,772	(4,578,677)	220,642
Reusable materials	382,550	162,316	(161,323)	383,543
Sub-total	3,890,669	12,923,133	(13,123,227)	3,690,575
Less: Provision for diminution in value of inventories	832,937	—	(59,600)	773,337
Total	3,057,732	12,923,133	(13,063,627)	2,917,238

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

	Opening balance <i>RMB'000</i>	Provision made in the period <i>RMB'000</i>	Reversal in the period <i>RMB'000</i>	Closing balance <i>RMB'000</i>
Raw materials	596,147	—	(32,175)	563,972
Work in process	122,406	—	(15,828)	106,578
Finished goods	50,598	—	(11,597)	39,001
Reusable materials	63,786	—	—	63,786
Total	832,937	—	(59,600)	773,337

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

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Other current asset

Other current asset is deductible input VAT.

8 Long-term equity investment

Long-term equity investment is made by the Company in Xiamen Shipbuilding Industry Co., Ltd., a non-listing company. With an initial investment of RMB5,000,000, the Company held 2% equity interest in it since March 2002. The Company does not control, jointly control nor has significant influence over it.

Xiamen Shipbuilding Industry Co., Ltd.	<i>RMB'000</i>
Investment costs	
Balance at the beginning/end of the period	5,000
Less: Provision for impairment	
Balance at the beginning/end of the period	—
Carrying amount	
At the beginning/end of the period	5,000

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Fixed assets

	Plant and buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Transportation vehicles and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
Balance at the beginning of the period	2,331,032	5,848,067	26,657	8,205,756
Transfer from construction in progress	1,903	27,416	2,873	32,192
Disposals	—	(2,471)	—	(2,471)
Balance at the end of the period	2,332,935	5,873,012	29,530	8,235,477
Less: Accumulated depreciation				
Balance at the beginning of the period	845,699	2,306,671	13,093	3,165,463
Charge for the period	27,084	121,193	1,521	149,798
Written off on disposals	—	(1,204)	—	(1,204)
Balance at the end of the period	872,783	2,426,660	14,614	3,314,057

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Fixed assets (Continued)

	Plant and buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Transportation vehicles and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Less: Provision for impairment				
Balance at the beginning of the period	4,687	49,744	55	54,486
Written off on disposals	—	(646)	—	(646)
Balance at the end of the period	4,687	49,098	55	53,840
Carrying amounts				
At the end of the period	1,455,465	3,397,254	14,861	4,867,580
At the beginning of the period	1,480,646	3,491,652	13,509	4,985,807

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Construction in progress

	<i>RMB'000</i>
Cost	
Balance at the beginning of the period	532,703
Additions during the period	323,232
Transferred to fixed assets	(32,192)
Balance at the end of the period	823,743
Carrying amounts	
At the end of the period	823,743
At the beginning of the period	532,703

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Construction in progress (Continued)

As at 30 June 2009, the Company's major constructions in progress were as follows:

Construction Project	Budget RMB'000	Beginning balance RMB'000	Additions in the period RMB'000	Transfer to fixed assets in the period RMB'000	Closing balance RMB'000	Percentage of projects investment in budget	Resources of fund
4,100mm wide-thick plates	1,918,000	249,748	188,345	—	438,093	23%	Bank loans/ self-financing
1,780mm Hot-rolled plates	1,400,000	215,806	83,334	—	299,140	21%	Fund raised/ self-financing
Limestone transportation system improvements	61,180	—	3,795	—	3,795	6%	Bank loans/ self-financing
Gas turbine blades improvements	15,700	—	12,978	—	12,978	83%	Bank loans/ self-financing
Others		67,149	34,780	(32,192)	69,737		
Total		532,703	323,232	(32,192)	823,743		

11 Construction materials

Construction materials mainly represent the special equipment and large equipment for 4,100mm wide-thick plates and 1,780mm Hot-rolled plates projects.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Intangible assets

	Land use rights RMB'000	Trademark RMB'000	Total RMB'000
Cost			
Balance at the beginning/end of the period	257,718	6,478	264,196
Less: Accumulated amortisation			
Balance at the beginning of the period	(6,668)	(6,478)	(13,146)
Charge for the period	(2,605)	—	(2,605)
Balance at the end of the period	(9,273)	(6,478)	(15,751)
Carrying Amounts			
At the end of the period	248,445	—	248,445
At the beginning of the period	251,050	—	251,050

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Deferred tax assets

	Deferred tax assets			Ending Balance of temporary differences RMB'000
	Balance at the beginning of the period RMB'000	Charged to profit or loss during the period RMB'000	Balance at the end of the period RMB'000	
Provision for bad and doubtful debts	251	—	251	1,675
Provision for diminution in value of inventories	120,962	(8,940)	112,022	746,813
Provision for impairment against fixed assets	8,173	(97)	8,076	53,840
Total	129,386	(9,037)	120,349	802,328

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

	Balance at the end of the period RMB'000	Balance at the beginning of the period RMB'000
Deferred tax assets, net	120,349	129,386

14 Provision for impairment

As at 30 June 2009, the provisions for impairment losses of the Company are set out as below:

	Balance at the beginning of the period RMB'000	Charge for the period RMB'000	Decrease during the period		Balance at the end of the period RMB'000
			Reversal RMB'000	Write-off RMB'000	
Accounts receivable	154,641	—	—	—	154,641
Other receivables	6,718	—	—	—	6,718
Inventories	832,937	—	—	(59,600)	773,337
Fixed assets	54,486	—	—	(646)	53,840
Total	1,048,782	—	—	(60,246)	988,536

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Short-term loans

	Annual interest rate	Principle RMB'000	Currency	Closing balance Exchange rate	Secured/guarantee RMB'000
Bank loans					
Credit loans	5.31%-5.58%	130,000	RMB	1.0000	130,000
Guaranteed loans					
— Guaranteed loans denominated in RMB	5.04%-7.47%	2,239,000	RMB	1.0000	2,239,000 Guaranteed
— Guaranteed loans denominated in USD	0.45%-1.80%	19,801	USD	6.8319	135,278 Guaranteed
Total					2,504,278
	Annual interest rate	Principle RMB'000	Currency	Opening balance Exchange rate	Secured/guarantee RMB'000
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

The guaranteed loans are guaranteed by the Parent Group (Note X. 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.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Accounts payable

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

17 Advances from customers

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

18 Employee Benefits Payable

	Balance at the beginning of the year RMB'000	Accrued during the period RMB'000	Paid during the period RMB'000	Balance at the end of the period RMB'000
Salaries, bonus, allowances	21,817	188,149	(199,549)	10,417
Staff welfare fees	—	5,291	(5,291)	—
Social insurance				
Medical insurance premium	—	24,380	(24,380)	—
Pension insurance premium	—	40,330	(35,349)	4,981
Unemployment insurance premium	12,699	3,851	(5,079)	11,471
Work injury insurance premium	—	2,141	(2,141)	—
Maternity insurance premium	—	1,417	(1,417)	—
Housing fund	—	18,092	(18,092)	—
Labor union fee, staff and workers' education fee	5,447	4,587	(5,163)	4,871
Others	—	10,298	(10,298)	—
Total	39,963	298,536	(306,759)	31,740

19 Other payables

Except for the payables shown in Note X. 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.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Non-current liabilities due within one year

	Annual interest rate	Principle RMB'000	Currency	Closing balance Exchange rate	Secured/guarantee RMB'000
Long-term loans due within 1 year					
Credit loans	7.23%-7.92%	904,000	RMB	1.0000	904,000
Guaranteed loans	6.48%-7.56%	100,000	RMB	1.0000	100,000
					Guaranteed
Total					1,004,000

	Annual interest rate	Principle RMB'000	Currency	Opening balance Exchange rate	Secured/guarantee RMB'000
Long-term loans due within 1 year					
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

Guaranteed loans were guaranteed by the Parent Group (Note X. 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.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Long-term loans

Long-term loans	Annual interest rate	Principle RMB'000	Currency	Closing balance Exchange rate	Secured/guarantee RMB'000	
Long-term loans						
Guaranteed loans						
— Guaranteed loans denominated in RMB	5.29%-7.56%	1,290,000	RMB	1.0000	1,290,000	Guaranteed
— Guaranteed loans denominated in USD	1.61%-2.16%	60,000	USD	6.8319	409,914	Guaranteed
Total					1,699,914	

Long-term loans	Annual interest rate	Principle RMB'000	Currency	Opening balance Exchange rate	Secured/guarantee RMB'000	
Long-term loans						
Credit loans	7.02%-7.56%	569,000	RMB	1.0000	569,000	
Guaranteed loans						
— Guaranteed loans denominated in RMB	5.56%-7.74%	1,345,000	RMB	1.0000	1,345,000	Guaranteed
— Guaranteed loans denominated in USD	2.50%-5.29%	60,000	USD	6.8346	410,076	Guaranteed
Total					2,324,076	

The guaranteed loans were guaranteed by the Parent Group (see Note X. 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.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Other non-current liabilities

	Closing balance RMB'000	Opening balance RMB'000
Other financial liabilities	729,061	440,000
Government grants	17,850	16,773
Total	746,911	456,773

23 Share capital

The Company's share capital status at 30 June is as follows:

	Closing balance RMB'000	Opening balance RMB'000
(1) Shares subject to selling restrictions		
— State-owned shares	835,800	845,000
— Shares held by domestic legal persons	4,200	—
— Shares held by domestic natural persons	5,000	—
(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

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Share capital (Continued)

In February 2007, the Company issued 350,000,000 A shares to the public investors at a price of RMB2.88 per share and raised a total proceeds of RMB1,008,000,000, of which, RMB39,949,000 was used to cover the issuance expenses. The Company's A shares were listed on Shanghai Stock Exchange on 28 February 2007. Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group were converted 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.

The People's Court of Shizhong District, Neijiang, Sichuan Province informed the Holding Company on 6 May 2009 that it had accepted the application of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Construction Engineering Company that the entity subject to execution for CSSG's external debt would be the Holding Company. In accordance with the verdict, the court entrusted Shanghai Jinchui Auction Company Limited to auction 9,200,000 selling-restricted shares of the Company held by the Holding Company on 4 May 2009. Auction vendee Yao Jiankang bought 5,000,000 shares and Auction vendee Shanghai Royal Sea Capital Co., Ltd. bought 4,200,000 shares. The register of shareholders was updated on 12 May 2009.

24 Capital reserve

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Share premiums	894,257	894,257
Transfer from items under previous standards	270,127	270,127
Total	1,164,384	1,164,384

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 Surplus reserve

	Statutory surplus reserve
	<i>RMB'000</i>
Balance at the beginning of the period	566,679
Profit appropriation	—
Balance at the end of the period	<u>566,679</u>

26 Retained earnings

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 30 June 2009, the Company's undistributed profits amounted to RMB2,039,065,000, 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.

Pursuant to the shareholders' approval at the Shareholders' Meeting on 23 June 2008, a cash dividend of RMB0.1 per share totaling RMB173.313 million was declared and paid to the Company's ordinary shareholders on 16 July 2008. Distribution base was the 1,733.127 million issued shares as at 31 December 2007.

Pursuant to the shareholders' approval at the Shareholders' Meeting on 1 June 2009, a cash dividend of RMB0.1 per share totaling RMB173.313 million was declared and paid to the Company's ordinary shareholders on 24 July 2009. Distribution base was the 1,733.127 million issued shares as at 31 December 2008.

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Operating income

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Steel products	5,022,238	8,542,308
By products	219,746	284,714
Other operating income	11,858	19,585
Total	5,253,842	8,846,607

The Company's customers are all based in China and there was no individual customer with whom transactions have exceeded 10% of the Company's sales for the six months ended 30 June 2009. Revenue from sales to the top five customers of the Company totalled RMB995,728,000, which accounts for 19% (Jan to Jun in 2008: 21%) of the total sales for the six months ended 30 June 2009.

28 Operating costs

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Operating cost from principal activities	4,710,557	7,684,241
Other operating costs	8,971	15,067
Total	4,719,528	7,699,308

29 Non-operating income

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Gains on disposal of fixed assets	503	826
Government grants	2,478	300
Others	2,818	1,305
Total	5,799	2,431

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 Non-operating income (Continued)

Government grants mainly consist of compensation for stable employment and employee training in accordance with the Notice of Compensation for Stable Employment and Employee Training to Enterprises Suffering Economy Crisis (Yu Lao She Fa [2009] No 2) from Chongqing Municipal Human Resource and Social Security Bureau and other authorities.

30 Non-operating expenses

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Losses on disposal of fixed assets	—	2,114
Others	582	1,781
	582	3,895

31 Income tax

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Current tax expenses for the period	—	25,381
Deferred taxation	9,037	(14,237)
Total	9,037	11,144

The analysis of deferred income tax expenses is set out bellows:

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
(Reversal)/origination of temporary differences	(9,037)	14,237

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VI. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Supplement to Cash Flow Statement

(1) Reconciliation of net profit to cash flows from operating activities:

	Jan-Jun 2009 <i>RMB'000</i>	Jan-Jun 2008 <i>RMB'000</i>
Net profit	31,622	483,935
Add: Impairment provisions	—	94,625
Depreciation of fixed assets	149,798	158,311
Amortisation of intangible assets	2,605	2,218
(Gains)/losses on disposal of fixed assets	(503)	1,288
Financial expenses	92,653	112,451
Decrease/(increase) in deferred tax assets	9,037	(14,237)
Decrease/(increase) in inventories	140,494	(538,722)
Decrease/(increase) in operating receivables	(537,197)	(522,531)
(Decrease)/increase in operating payables	(56,469)	394,403
Net cash flow from operating activities	(167,960)	171,741

(2) Change in cash and cash equivalents:

	Jan-Jun 2009 <i>RMB'000</i>	Jan-Jun 2008 <i>RMB'000</i>
Cash and cash equivalents at the end of the period	982,047	1,437,937
Less: Cash and cash equivalents at the beginning of the period	1,147,053	971,082
Net (decrease)/increase in cash and cash equivalents	(165,006)	466,855

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VII. COMMITMENTS

1 Capital commitments

As at 30 June, the capital commitments of the Company are summarised as follows:

	Closing balance RMB'000	Opening balance RMB'000
Contracts entered into but not performed or performed partially	2,363,104	2,758,627
Authorized but not contracted	95,217	30
Total	2,458,321	2,758,657

2 Operating lease commitments

As at 30 June, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

	Closing balance RMB'000	Opening balance RMB'000
Within 1 year (inclusive)	18,058	17,904
After 1 year but within 2 years (inclusive)	18,158	18,101
After 2 year but within 3 years (inclusive)	17,061	18,101
After 3 years	81,484	95,785
Total	134,761	149,891

VIII. CONTINGENCIES

Save for the pending litigation and arbitration disclosed in Note VI. 5(3), as at 30 June 2009, the Company did not have other discloseable significant or contingent events.

IX. NON-ADJUSTING POST BALANCE SHEET EVENTS

As at 30 June 2009, the Company did not have any discloseable significant non-adjusting post balance sheet events.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Related party in which the Company has control

(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 No.1 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	48%	48%

(2) Registered capital and changes therein

	Opening balance RMB'000	Increase in the period RMB'000	Decrease in the period RMB'000	Closing balance RMB'000
Parent Group	1,579,044	—	—	1,579,044

(3) Changes in shares held by the Company's parent company

	Opening balance		Increase in the period	Decrease in the period	Closing balance	
	Amount RMB'000	Percentage	Amount RMB'000	Amount RMB'000	Amount RMB'000	Percentage
Parent Group	845,000	49%	—	(9,200)	835,800	48%

2 Transaction with its key management personnel

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Remuneration of key management personnel	1,796	1,997

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3 Related parties in which the Company has no control

Name of related party	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Machinery Manufacturing Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Transportation Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Electronic Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Mining Co., Ltd.	Under the same parent company
Chongqing Xinteng Metallurgical Burden Materials Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Iron Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Co., Ltd.	Under the same parent company
Chongqing San Gang Steel Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Co., Ltd.	Under the same parent company
Chongqing Si Gang Steel Co., Ltd.	Under the same parent company
Chongqing Sanfeng Covanta Environment Industrial Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	Under the same parent company
Chongqing Sanhuan Construction Supervision Consultant Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group Industrial Co., Ltd.	Under the same parent company
Chongqing Iron & Steel Group San Feng Science & technology Co., Ltd.	Under the same parent company
Chongqing Donghua Special Steel Co., Ltd.	Under the same parent company
Chongqing Hongfa Real Estate Development Co., Ltd.	Under the same parent company
Chongqing Sanfeng Metallurgy Equipment Manufacturing Co., Ltd.	Under the same parent company
Chongqing Keding antiseptis project Co., Ltd.	Under the same parent company
Chongqing Anyang Automation Instrumentation Co., Ltd.	Under the same parent company
Chongqing Huanya Construction Material Co., Ltd.	Under the same parent company

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4 Related party transactions

- (a) Set out below are purchase of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties:

		Jan-Jun 2009		Jan-Jun 2008	
		Transaction	Percentage in	Transaction	Percentage in
		amount	the total amount	amount	the total amount
		RMB'000	of similar	RMB'000	of similar
			transactions		transactions
			%		%
Purchase of products					
Chongqing Iron & Steel Group Mining Company Limited	Gas, Ore and ancillary product	354,634	16.96	556,480	15.49
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	247,598	82.84	396,877	53.59
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets, spare parts and construction in progress	77,115	6.83	4,665	1.33
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Gas for industrial use	125,030	91.92	120,980	92.33
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts	15,463	9.53	23,112	14.24
Chongqing Iron & Steel Group Electronic Company Limited	Components of instruments	5,273	2.22	12,018	2.34
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	8,568	16.90	11,000	23.03
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Refractory materials and ancillary product	4,561	3.73	4,991	10.45
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Scrap steel and spare parts	561	0.35	4,571	0.71
Chongqing Si Gang Steel Company Limited	Scrap steel	2,631	0.78	3,323	0.52
Chongqing Iron & Steel Group San Feng Industrial Company	Spare parts and gas for industrial gas	8,051	5.92	9,226	7.04
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and construction in progress	38,441	6.95	—	—
Chongqing Iron & Steel Group Industrial Co., Ltd.	Gas, ore and ancillary product	13,076	0.58	—	—
Others		7,746		6,587	
Total		908,748		1,153,830	

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4 Related party transactions (Continued)

- (a) Set out below are purchase of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties: (Continued)

Save for the purchase 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 parties and other third party, sum of cost and profit premium or bidding price of suppliers;

Prices for fixed assets purchased from related parties were determined with reference to the bidding price of suppliers.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4 Related party transactions (Continued)

(b) Sale of products to related parties by the Company is summarised as follows:

		Jan-Jun 2009		Jan-Jun 2008	
		Transaction amount	Percentage in the total amount of similar transactions	Transaction amount	Percentage in the total amount of similar transactions
Sale of products		RMB'000	%	RMB'000	%
Chongqing Si Gang Steel Company Limited	Steel products	87,937	1.75	275,463	3.22
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	58,150	1.16	129,083	1.51
Chongqing San Gang Steel Company Limited	Steel products	63,771	1.27	112,838	1.32
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Utilities and ancillary materials	85,132	32.78	84,338	30.11
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Utilities and ancillary materials	6,699	2.58	14,442	5.16
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	3,259	1.25	2,891	1.03
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products, utilities and ancillary materials	7,249	2.79	7,065	2.52
Chongqing Iron & Steel Group Transportation Company Limited	Utilities and ancillary materials	3,100	1.19	2,040	0.73
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Steel Products	—	—	6,901	0.08
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Utilities and steel products	45	0.04	4,460	0.05
Chongqing Iron & Steel Group Industrial Co., Ltd.	Steel products	67,861	1.35	—	—
Others		2,342		1,904	
Total		385,545		641,425	

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.

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X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4 Related party transactions (Continued)

- (c) Guarantee for the Company's loans provided by the Holding Company and other related parties:

As at 30 June 2009, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to RMB2,374,278,000 (2008: RMB1,623,000,000) (Note VI. 15) and RMB1,799,914,000 (2008: RMB1,800,076,000) (Note VI. 20 and 21) respectively were guaranteed by the Parent Group.

The Parent Group and other related parties did not charge to the Company in respect of the above pledges and guarantees.

- (d) Other transactions between the Company and the Holding Company and its subsidiaries:

	Jan-Jun 2009		Jan-Jun 2008	
	Transaction amount RMB'000	Percentage in the total amount of similar transactions %	Transaction amount RMB'000	Percentage in the total amount of similar transactions %
Prepayments paid by the Parent Group (i)	27,116	40	54,398	54
Fees paid for supporting service (ii)	89,297	24	237,307	29
Rental expenses for land use right (iii)	9,000	100	9,000	100
Fees received for supporting services (iv)	1,576	53	1,285	59

Save for the transactions aforesaid, the Company had no other transactions with shareholders holding 5% or more of its shares with voting rights.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

4 Related party transactions (Continued)

- (d) Other transactions between the Company and the Holding Company and its subsidiaries:
(Continued)
- (i) Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions and were paid through the Parent Group. No handling fee was charged by the Parent Group.
 - (ii) Fees paid for supporting services mainly represent fees charged for environmental, construction, computer development, labour and transportation 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.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5 Balance of accounts due from and due to related parties:

(a) Accounts receivable

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Chongqing Si Gang Steel Company Limited	89,013	62,658
Chongqing San Gang Steel Company Limited	42,674	19,193
Chongqing Iron & Steel Group Steel Pipe Company Limited	23,348	15,991
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	7,369	7,369
Chongqing Iron & Steel Group San Feng Industrial Company	4,659	4,342
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	891	2,878
Chongqing Iron & Steel Group Yingsite Mould Company Limited	3,054	3,054
Chongqing Xinteng Metallurgical Burden Materials Company Limited	2,281	2,281
Chongqing Iron & Steel Group Iron Company Limited	8,000	—
Chongqing Iron & Steel Group Chaoyang Gas Co., Ltd.	936	107
Chongqing Iron & Steel Group Transportation Co., Ltd.	554	—
Chongqing Donghua Special Steel Co., Ltd.	688	—
Others	1,319	318
Subtotal	184,786	118,191
Less: Provision for bad and doubtful debts	10,079	10,079
Total	174,707	108,112

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5 Balance of accounts due from and due to related parties: (Continued)

(b) Bills receivable

	Closing balance <i>RMB'000</i>	Opening balance <i>RMB'000</i>
Chongqing San Gang Steel Company Limited	8,326	36,555
Chongqing Si Gang Steel Company Limited	10,484	20,230
Chongqing Iron & Steel Group Steel Pipe Company Limited	15,000	40,874
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	—	184
Total	33,810	97,843

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

5 Balance of accounts due from and due to related parties: (Continued)

(c) Other payables

	Notes	Closing balance RMB'000	Opening balance RMB'000
Parent group	(1)	81,978	176,863
Chongqing Iron & Steel Group Construction and Engineering Company Limited		17,659	20,276
Chongqing San Feng Covanta Environment Industrial Company Limited		343	343
Chongqing Iron & Steel Group Electronic Company Limited		1,198	534
Chongqing San Huan Construction Supervision Consultant Company Limited		865	15
Chongqing Iron & Steel Group Design and Research Institute		—	1,965
Chongqing Iron & Steel Group Industrial Company Limited		5,278	6,469
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited		285	—
Chongqing Iron & Steel Group Mining Company Limited		2,427	548
Others		2,070	567
		112,103	207,580

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 Parent Group's subsidiaries. No handling fee was charged by the Parent Group. As at 30 June 2009, the Company didn't settle the procurement payments.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

XI. 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:

	Jan-Jun 2009 RMB'000	Jan-Jun 2008 RMB'000
Extraordinary gain and loss for the period		
Disposal of non-current asset	503	(1,288)
Government grants	2,478	300
Others	2,236	(476)
	5,217	(1,464)
Less: effect on taxation	804	(141)
Total	4,413	(1,323)

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

XII. EARNINGS PER SHARE AND RETURN ON NET ASSETS

1 Earnings per share

	Jan-Jun 2009 Basic/Diluted	Jan-Jun 2008 Basic/Diluted
(a) Earnings per share inclusive of extraordinary gain and loss (RMB)	0.02	0.28
— Profit attributable to the Company's ordinary equity shareholders (RMB'000)	31,622	483,935
— Weighted average number of the Company's ordinary shares ('000)	1,733,127	1,733,127
(b) Earnings per share net of extraordinary gain and loss (RMB)	0.02	0.28
— Profit deducted extraordinary gains and loss attributable to the Company's ordinary equity shareholders (RMB'000)	27,209	485,258
— Weighted average number of the Company's ordinary shares ('000)	1,733,127	1,733,127

Weighted average number of the Company's ordinary shares ('000 shares):

	Jan-Jun 2009	Jan-Jun 2008
Issued ordinary shares at 1 January	1,733,127	1,733,127
Weighted average number of ordinary shares at 30 June	1,733,127	1,733,127

As at 30 June 2009 there was no issuance of dilutive potential ordinary shares (30 June 2008: nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

FINANCIAL REPORT

The 2009 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

XII. 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 are calculated as follows:

(RMB'000)	Jan-Jun 2009		Jan-Jun 2008	
	Fully diluted	Weighted average	Fully diluted	Weighted averaged
(a) Return on net assets inclusive of extraordinary gain and loss	0.57%	0.56%	8.75%	8.86%
— Net profit attributable to the Company's ordinary equity shareholders	31,622	31,622	483,935	483,935
— Period-end equity attributable to the Company's ordinary equity shareholders	5,503,255	N/A	5,530,583	N/A
— Weighted average of equity attributable to the Company's ordinary equity shareholders	N/A	5,631,872	N/A	5,461,929
(b) Return on net assets net of extraordinary gain and loss	0.49%	0.48%	8.77%	8.88%
— Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	27,209	27,209	485,258	485,258
— Period-end equity attributable to the Company's ordinary equity shareholders	5,503,255	N/A	5,530,583	N/A
— Weighted average of equity attributable to the Company's ordinary equity shareholders	N/A	5,631,872	N/A	5,461,929

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

The Board of Directors of the Company hereby announces the unaudited interim financial statements of the Company for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008. The interim financial statements have not been audited by the auditor of the Company, but have been reviewed by the Audit Committee of the Company.

BALANCE SHEET

at 30 June 2009

		30 June 2009 RMB'000	31 December 2008 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	7,106,602	6,704,129
Land use right		248,445	251,050
Available-for-sale financial asset		5,000	5,000
Deferred income tax assets		120,349	129,386
Trade and other receivables	9	39,150	42,750
Total non-current assets		7,519,546	7,132,315
Current assets			
Inventories	10	2,917,238	3,057,732
Trade and other receivables	9	1,610,430	1,031,260
Restricted cash		9,767	56,608
Cash and cash equivalents		982,047	1,147,053
Total current assets		5,519,482	5,292,653
Total assets		13,039,028	12,424,968

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

BALANCE SHEET (CONTINUED)

at 30 June 2009

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	11	1,733,127	1,733,127
Other reserves		1,677,009	1,677,009
Retained earnings			
— Proposed interim/final dividend		—	173,313
— Others		2,075,914	2,043,813
Total equity		5,486,050	5,627,262
LIABILITIES			
Non-current liabilities			
Trade and other payables	12	729,061	440,000
Borrowings	13	1,699,914	2,324,076
Deferred income		35,055	34,457
Total non-current liabilities		2,464,030	2,798,533

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

BALANCE SHEET (CONTINUED)

at 30 June 2009

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000
Current liabilities			
Trade and other payables	12	1,579,405	1,682,089
Borrowings	13	3,508,278	2,238,000
Current taxation		1,265	79,084
Total current liabilities		5,088,948	3,999,173
Total liabilities		7,552,978	6,797,706
Total equity and liabilities		13,039,028	12,424,968
Net current assets		430,534	1,293,480
Total assets less current liabilities		7,950,080	8,425,795

Approved and authorised for issue by the board of directors on 7 August 2009.

Dong Lin
Chairman

Chen Shan
Vice Chairman

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	Note	RMB'000	RMB'000
Sales	14	5,241,984	8,827,022
Cost of goods sold		(4,710,698)	(7,684,404)
Gross profit		531,286	1,142,618
Other gains — net		13,064	13,154
Selling and marketing costs		(139,233)	(128,949)
Administrative expenses		(247,873)	(402,859)
Operating profit		157,244	623,964
Finance costs		(116,106)	(128,616)
Profit before income tax		41,138	495,348
Income tax expense	16	(9,037)	(11,144)

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

for the six months ended 30 June 2009

	Note	Six months ended 30 June	
		2009	2008
		RMB'000	RMB'000
Profit for the period		32,101	484,204
Other comprehensive income for the period (after taxation and reclassification adjustments)		—	—
Total comprehensive income for the period		32,101	484,204
Profit/total comprehensive income attributable to equity shareholders of the Company		32,101	484,204
Earnings per share for profit attributable to the Company's shareholders during the period:			
— basic and diluted	17	RMB0.019	RMB0.279

Approved and authorised for issue by the board of directors on 7 August 2009.

Dong Lin
Chairman

Chen Shan
Vice Chairman

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 18.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2009

	Note	Attributable to equity shareholders of the Company					Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Statutory common reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2008		1,733,127	894,259	216,071	506,849	1,851,433	5,201,739
Change in equity for the six months ended 30 June 2008:							
Total comprehensive income for the period		—	—	—	—	484,204	484,204
Dividends relating to 2007	18(a)	—	—	—	—	(173,313)	(173,313)
Balance at 30 June 2008 and 1 July 2008		1,733,127	894,259	216,071	506,849	2,162,324	5,512,630
Change in equity for the six months ended 31 December 2008:							
Total comprehensive income for the period		—	—	—	—	114,632	114,632
Appropriation		—	—	—	59,830	(59,830)	—
Balance at 31 December 2008		1,733,127	894,259	216,071	566,679	2,217,126	5,627,262

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2009

	Note	Attributable to equity shareholders of the Company					Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital surplus RMB'000	Statutory common reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2009		1,733,127	894,259	216,071	566,679	2,217,126	5,627,262
Change in equity for the six months ended 30 June 2009:							
Total comprehensive income for the period		—	—	—	—	32,101	32,101
Dividends relating to 2008	18(a)	—	—	—	—	(173,313)	(173,313)
Balance at 30 June 2009		1,733,127	894,259	216,071	566,679	2,075,914	5,486,050

Approved and authorised for issue by the board of directors on 7 August 2009.

Dong Lin
Chairman

Chen Shan
Vice Chairman

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

CONDENSED CASH FLOW STATEMENT

for the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Cash (used in)/generated from operations	(90,141)	472,557
Income tax paid	(77,819)	(300,816)
Net cash (used in)/generated from operating activities	(167,960)	171,741
Net cash flows used in investing activities	(502,562)	(597,223)
Net cash flows generated from financing activities	505,516	892,337
Net (decrease)/increase in cash and cash equivalents	(165,006)	466,855
Cash and cash equivalents at 1 January	1,147,053	971,082
Cash and cash equivalents at 30 June	982,047	1,437,937

Approved and authorised for issue by the board of directors on 7 August 2009.

Dong Lin
Chairman

Chen Shan
Vice Chairman

The notes on pages 123 to 143 form an integral part of these condensed interim financial statements.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM 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 Company issued 413,944,000 H shares which 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 declared dividends of bonus shares of 319,183,000 shares. In February 2007, the Company 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. The total number of shares of the Company has been 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.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 7 August 2009.

The interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2008 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”)

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements prepared under HKFRSs for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company’s registered office. The Company’s auditor has expressed an unqualified opinion on those financial statements in their report dated 31 March 2009.

3 ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 6.

4 FINANCIAL RISK

The Company’s financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 31 December 2008.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

5 CRITICAL ACCOUNTING ESTIMATES

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2008.

6 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRS and new Interpretations that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

- HKRS 8, Operating segments
- HKAS 1(revised 2007), Presentation of financial statements
- Improvements to HKFRSs (2008)
- Amendments to HKFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments
- HKAS 23(revised 2007), Borrowing costs

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

6 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The amendments to HKAS 23 and improvements to HKFRSs (2008) have had no material impact on the Company's financial statements as the amendments were consistent with policies already adopted by the Company. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Company's chief operating decision maker regards and manages the Company, with the amounts reported for each reportable segment being the measures reported to the Company's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Company's financial statement into segments based on related products and services and on geographical areas.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised statement of changes in equity. All other items of income and expenses recognised as part of profit or loss or taken directly to equity for the period are presented in the statement of comprehensive income. The new format for the statement of comprehensive income and the statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

7 SEGMENT INFORMATION

As the Company's chief operating decision maker makes decision about resources allocation and performance assessment based on the entity-wide financial information, there is only one single reportable segment for the Company.

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment RMB'000
Net book amount at 1 January 2008	5,397,278
Additions	1,724,491
Disposals	(11,544)
Depreciation and impairment	(406,096)
Net book amount at 31 December 2008	6,704,129
Net book amount at 1 January 2009	6,704,129
Additions	552,892
Disposals	(621)
Depreciation and impairment	(149,798)
Net book amount at 30 June 2009	7,106,602

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER RECEIVABLES

	<i>Note</i>	30 June 2009 RMB'000	31 December 2008 RMB'000
Notes receivables		768,938	411,614
Accounts receivable	(a)	341,346	246,485
Trade receivables		1,110,284	658,099
Less: provision for impairment		(144,562)	(144,562)
Trade receivables — net		965,722	513,537
Receivables from fellow subsidiaries of the Holding Company	(b)	218,596	216,034
Less: provision for impairment		(10,079)	(10,079)
Receivables from fellow subsidiaries of the Holding Company — net		208,517	205,955
Prepayments and deposits		408,051	309,093
Other receivables	(c)	74,008	52,143
Less: provision for impairment		(6,718)	(6,718)
Other receivables — net		67,290	45,425
		1,649,580	1,074,010
Less non-current portion: prepayment to a supplier		(39,150)	(42,750)
Current portion		1,610,430	1,031,260

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Trade receivables	965,722	513,537
Receivables from fellow subsidiaries of the Holding Company	208,517	205,955
Prepayments and deposits	408,051	309,093
Other receivables	67,290	45,425
	1,649,580	1,074,010

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Between 1 and 2 years	10,800	10,800
Between 2 and 5 years	28,350	31,950
	39,150	42,750

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (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 30 June 2009 is as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 3 months	193,644	99,529
Between 3 months and 1 year	2,019	767
Between 1 and 2 years	1,490	1,800
Between 2 and 3 years	125	629
Over 3 years	144,068	143,760
	341,346	246,485

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

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
At the beginning of the period/year	144,562	144,880
Impairment loss recognised	—	256
Reversal of impairment of trade receivables	—	(234)
Receivables written off during the period/ year as uncollectible	—	(340)
At the end of the period/year	144,562	144,562

The amount recognised and reversed has been included in administrative expenses in the statement of comprehensive income.

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2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (b) The ageing analysis of receivables from fellow subsidiaries of the Holding Company as at 30 June 2009 is as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 3 months	165,510	160,756
Between 3 months and 1 year	35,318	37,938
Between 1 and 2 years	475	47
Between 2 and 3 years	377	1,514
Over 3 years	16,916	15,779
	218,596	216,034

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
At the beginning of the period/year	6,718	11,718
Reversal of impairment of other receivables	—	(5,000)
At the end of the period/year	6,718	6,718

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (c) During the year ended 31 December 2005, the Company received verdicts and enforcement orders from certain courts (“the Courts”), including the People’s Courts of Neijiang, Sichuan Province of the PRC, in relation to certain debts owed by the 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 interim 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 counselor, 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 seeks 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) No.16) (“the notice”) to The Supreme Court of Sichuan Province on 25 May 2007. 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 noticed 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.

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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

10 INVENTORIES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Raw materials	1,817,701	2,015,941
Work in process	598,139	536,078
Finished goods	181,641	186,949
Reusable materials	319,757	318,764
	2,917,238	3,057,732

11 SHARE CAPITAL

	Number of shares (<i>'000</i>)	A shares subject to selling restrictions RMB'000	A shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid:					
At 1 January 2008/ 30 June 2008	1,733,127	845,000	350,000	538,127	1,733,127
At 1 January 2009/ 30 June 2009	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 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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

11 SHARE CAPITAL (CONTINUED)

The People's Court of Shizhong District, Neijiang, Sichuan Province informed the Holding Company on 6 May 2009 that it had accepted the application of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Construction Engineering Company that the entity subject to execution for CSSG's external debt would be the Holding Company. In accordance with the verdict, the court entrusted Shanghai Jinchui Auction Company Limited to auction 9,200,000 selling-restricted shares of the Company held by the Holding Company on 4 May 2009. Auction vendee Yao Jiankang bought 5,000,000 shares and Auction vendee Shanghai Royal Sea Capital Co., Ltd. bought 4,200,000 shares. The register of shareholders was updated on 12 May 2009.

The H shares and A shares rank pari passu in all respects.

12 TRADE AND OTHER PAYABLES

		30 June 2009 RMB'000	31 December 2008 RMB'000
	<i>Note</i>		
Trade payables	(a)	577,820	602,113
Advances from customers		1,360,180	1,104,007
Amounts due to the Holding Company and its subsidiaries		112,103	207,580
Value added tax and other tax payables		8,437	110,143
Salaries payable		31,740	39,963
Deposits from customers		8,456	6,411
Dividend payable		173,313	—
Other payables		36,417	51,872
		2,308,466	2,122,089
Less non-current portion:			
— Advances from customers		(729,061)	(440,000)
Current portion		1,579,405	1,682,089

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2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

12 TRADE AND OTHER PAYABLES (CONTINUED)

(a) The ageing analysis of trade payables as at 30 June 2009 is as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 6 months	492,368	494,650
Between 6 months and 1 year	15,865	32,340
Between 1 and 2 years	14,047	26,945
Between 2 and 3 years	26,694	21,179
Over 3 years	28,846	26,999
	577,820	602,113

13 BORROWINGS

	30 June 2009 RMB'000	31 December 2008 RMB'000
Non-current		
Unsecured bank borrowings	1,699,914	2,324,076
Current		
Unsecured bank borrowings	3,508,278	2,238,000
Total	5,208,192	4,562,076

Unsecured bank borrowings of RMB4,174,192,000 (2008: RMB3,423,076,000) are guaranteed by the Holding Company (Note 21(a)).

FINANCIAL REPORT

2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

14 SALES

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

	Six months ended 30 June	
	2009	2008
Steel products	5,022,238	8,542,308
By products	219,746	284,714
	5,241,984	8,827,022

The Company's customers are all based in China and there was no individual customer with whom transactions have exceeded 10% of the Company's sales for the six months ended 30 June 2009.

15 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	149,798	158,311
Amortisation	2,605	2,218
Provision for impairment of receivables	—	256
Provision for impairment of inventories	—	25,886
Provision for impairment of property, plant and equipment	—	68,483
Staff costs	298,536	405,784
Raw materials and consumables used	3,950,603	6,915,817
Maintenance expenses	137,281	161,587
Rental for land use rights	9,000	9,000
Transportation expenses	148,457	137,927

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

16 INCOME TAXES EXPENSE

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current PRC income tax	—	25,381
Deferred income tax	9,037	(14,237)
	9,037	11,144

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.

No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the periods presented.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

17 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company of RMB32,101,000 (six months ended 30 June 2008: RMB484,204,000) by the weighted average number of ordinary shares in issue during the six months ended 30 June 2009 of 1,733,127,200 shares (six months ended 30 June 2008: 1,733,127,200 shares).

Diluted earnings per share equals to basic earnings per share as there are no potential dilutive shares outstanding for the periods presented.

18 DIVIDENDS

(a) 2008 dividend

During the Annual General Meeting of shareholders on 1 June 2009, it was resolved to declare dividend in respect of 2008 of RMB0.10 per share (2007: RMB0.10 per share), totaling RMB173.313 million (2007: RMB173.313 million). The allocation basis of the dividend being distributed to the shareholders is based on the number of shares in issue of 1,733.127 million as at 31 December 2008.

(b) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

19 CONTINGENT LIABILITIES

As at 30 June 2009, other than the pending litigation as disclosed in Note 9(c), the Company had no material contingent liabilities.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

20 COMMITMENTS

(a) Capital commitment

	30 June 2009 RMB'000	31 December 2008 RMB'000
Contracted but not provided for	2,363,104	2,758,627
Authorised but not contracted for	95,217	30
	2,458,321	2,758,657

(b) Operating lease commitments

As at 30 June 2009, the Company's future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 1 year	18,058	17,904
Between 1 and 5 years	67,148	68,130
Over 5 years	49,555	63,857
	134,761	149,891

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

21 MATERIAL RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

- (a) The Company's bank borrowings of RMB4,174,192,000 as at 30 June 2009 (31 December 2008: RMB3,423,076,000) are guaranteed by the Holding Company (Note 13).
- (b) Other than the transactions described above, the following is a summary of the significant transactions entered into by the Company on normal commercial terms with the Holding Company and its fellow subsidiaries:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Income		
Sales to fellow subsidiaries of the Holding Company (Note (i))	385,545	641,425
Fees received for supporting services (Note (ii))	1,042	967
Fees received for lease rental (Note (iii))	534	318
Expenditure		
Fees paid for supporting services (Note (iv))	88,948	236,728
Fees paid for lease rental (Note (v))	349	579
Purchase of raw materials and spare parts (Note (vi))	797,638	1,147,607
Purchase of property, plant and equipment (Note (vii))	111,110	6,222
Rental for land use rights (Note (viii))	9,000	9,000
Social welfare services (Note (ix))	27,116	54,398

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2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

21 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 and its fellow subsidiaries: (Continued)**
- (i) Sales to the fellow subsidiaries were made at prices determined by reference to market price or the prices as prescribed by the relevant Chongqing government departments.
 - (ii) Fees received for supporting services mainly represent fees charged to the fellow subsidiaries for internal railway transportation services at prices determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries.
 - (iii) Fees received for lease rental mainly represents fee charged to the fellow subsidiaries for the lease of the Company's factory premises at price determined by reference to a mark-up for maintenance over and above the cost of depreciation of the factory premises.
 - (iv) Fees paid for supporting services mainly represent fees charged for environmental, construction, technical, computer development, labor 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.

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2009 Interim Financial Statements of the Company prepared under Hong Kong Financial Reporting Standards (unaudited)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

21 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 and its fellow subsidiaries: (Continued)

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

(c) Transactions with state-owned banks in the PRC:

Cash and cash equivalents deposited with and borrowings from state-owned banks in the PRC, including the related interest income and expense are as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Cash and cash equivalents	314,278	328,129
Restricted cash	3,839	10,100
Borrowings	2,233,278	1,839,000

	Six months ended 30 June 2009 RMB'000	2008 RMB'000
Interest income (Note(i))	2,220	4,706
Interest expense (Note(i))	64,008	60,904

- (i) Related party transactions with state-owned banks were conducted in the normal course of business at normal commercial terms.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

21 MATERIAL RELATED-PARTY TRANSACTIONS (CONTINUED)

(d) Transactions with state-owned entities in the PRC:

The Company operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Apart from transactions mentioned above, transactions with other state-owned entities include but are not limited to the following:

- sales and purchases of goods and other assets
- use of public utilities

These transactions are conducted in the ordinary course of the Company’s business on terms similar to those that would have been entered into with non-state-owned entities. The Company has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Company is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management compensation

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Salaries and other short-term employee benefits	1,796	1,997

22 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As at 30 June 2009, the Company had no material events after the balance sheet date.

DOCUMENTS AVAILABLE FOR INSPECTION

1. The copy of interim report signed by the Chairman;
2. The copy of financial report signed and sealed by the person in charge of the Company, the Chief Financial Officer and the Chief Accountant;
3. The copy of all the documents which have been publicly disclosed in the magazines designated by the CSRC during the reporting period;
4. The copy of summary of interim report published in China Securities Journal, Shanghai Securities News and Securities Times, and preliminary results announcement published in Hong Kong Wen Wei Po and China Daily.

Chongqing Iron & Steel Company Limited

Chairman

Dong Lin

7 August 2009