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




Annual Report 2009

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

Contents

IMPORTANT NOTICE

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

2. All directors of the Company attended the 3rd Meeting of the fifth session Board convened on 22 April 2010.

3. Mr. Dong Lin, Chairman of the Company, and Ms. Song Ying, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness and completeness of the financial statements in the Annual Report.

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

Company Profile

(I) BASIC INFORMATION

Chinese name of the Company:	重慶鋼鐵股份有限公司(「重鋼股份公司」)
English name:	Chongqing Iron & Steel Company Limited ("CISL")
Company's legal representative:	Dong Lin
Secretary to the Board:	You Xiao An
Correspondence address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Telephone:	86-23-6884 5030
Fax:	86-23-6884 9520
E-mail:	yxa@email.cqgt.cn
Securities representative:	Peng Guo Ju
Correspondence address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Telephone:	86-23-6884 2582
Fax:	86-23-6884 9520
E-mail:	clarapeng@email.cqgt.cn
Registered address and office address:	No.30, Gangtie Road, Dadukou District, Chongqing, the PRC
Postal code:	400084
Website:	http://www.cqgt.cn
E-mail:	dms@email.cqgt.cn

(I) BASIC INFORMATION *(CONTINUED)*

Name of newspapers designated for information disclosure of the Company:

Domestic:	China Securities Journal, Shanghai Securities News, and Securities Times
Hong Kong:	Wen Wei Po and China Daily
Website for publishing annual report:	http://www.sse.com.cn and http://www.hkexnews.hk
Place for Inspection of annual reports:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place of listing of the Company's Shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Abbreviated name of Shares:	重慶鋼鐵(A shares)/Chongqing Iron (H shares)
Stock code:	601005(A shares)/1053(H shares)
Date of first business registration of the Company:	11 August 1997
Place of registration:	Chongqing Municipal Administration of Industry and Commerce.
Business registration number:	500000400003546
Tax registration number:	500104202852965
Organization Code:	20285296-5

Auditors of the Company:

Domestic:	KPMG Huazhen
Office address:	8/F, Office Tower E2, Oriental Plaza, 1 East Dong Chang An Avenue, Beijing, China
Postal Code:	100738
Overseas:	KPMG
Office address:	8th Floor, Prince's Building, 10 Chater Road Central, Hong Kong

Company Profile (Continued)

(I) BASIC INFORMATION *(CONTINUED)*

Legal Advisers:

Domestic:	Chongqing Branch of Beijing Kai Wen Law Firm
Office address:	Room 2307, Metropolitan Tower, No.68, ZouRong Road, Yuzhong District, Chongqing
Postal Code:	400010
Domestic:	Chongqing Zhong Shi Law Firm
Office address:	F19, Tower A5, Asia Pacific Enterprise Valley, No.1 Yatai Road, Nan'an District, Chongqing
Postal Code:	400060
Overseas:	S.H. LEUNG & CO.SOLICITORS & NOTARIES
Office address:	Room 502, Aon China Building, 29 Queen's Road Central, Hong Kong

Share Registrar:

A shares:	China Securities Depository and Clearing Corporation Limited, Shanghai Branch
	3/F, China Insurance Building, No.166 Lujiazui Road East, Pudong New District, Shanghai
H shares:	Hong Kong Registrars Limited
	Room1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong

(II) PRINCIPAL BUSINESSES AND MAJOR PRODUCTS

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

Major products of the Company in 2009 and their applications are set out below

Plates for shipbuilding:	Mainly used in the construction of the skeleton and super structure of 10,000 ton ocean-going ships and hull structure of inland ships.
Pressure vessel plates:	Mainly used in the manufacturing of pressure vessels I, II, III and other kinds of pressure vessels such as reaction vessels, heat exchanging vessels, separating vessels, storage vessels, corrosion-resisting vessels and cylinder of multilayered high pressure vessels.
Plates for boilers:	Mainly used in the manufacturing of cylinders and shell covers for medium and low pressure boilers.
Steel plates for bridge building:	Mainly used in building of large railway bridges and highway bridges.
Low-alloy high strength steel plates:	Widely used in the manufacturing of mine machinery, engineering machinery and heavy vehicle and construction of high-rise building.
Normal carbon structural plates:	Widely used in the machinery, construction and transportation industries.
Steel Sections:	Widely used in machinery, construction, shipbuilding, mine exploration and transportation industries.
High speed wire rod:	Mainly used in construction and wire rod products industries.
Cold rolled thin plates:	Mainly used in automobile, motorcycle, security doors and steel-structured factory premises.
Steel billets:	Mainly sold to other steel producers who are not deemed as competitors of the Company.

Summary Of Financial And Operational Figures

(I) KEY FINANCIAL DATA PREPARED IN ACCORDANCE WITH PRC GAAP (RMB'000)

Profit before income tax	95,028
Net profit attributable to the Company's shareholders	84,029
Net profit after extraordinary gains and loss attributable to the Company's shareholders	65,058
Profit from principal operations	1,169,438
Profit from other operations	5,138
Operating profit	72,657
Net non-operating income and expenses	22,371
Net cash flow from operating activities	-809,882
Net increase in cash and cash equivalents	257,895

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

Extraordinary gain and loss item	Amount
Disposal of non-current assets	1,099
Government grants	11,076
Ad hoc tax refund	7,410
Other non-operating income and expenses	2,786
Less: effect on taxation	3,400
Total	18,971

(II) DIFFERENCES BETWEEN DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS (RMB'000)

	Under PRC GAAP	Under HKFRS
Net profit	84,029	84,986
Net assets	5,555,662	5,538,935

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

(III) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE COMPANY OVER THE RECENT YEARS (RMB'000)

1. Prepared under PRC GAAP

(1) Major Financial data

Item	**2009**	2008	Increase or decrease from last year (%)	2007
Operating income	**10,654,115**	16,517,443	-35.50	12,058,453
Total profit	**95,028**	605,764	-84.31	470,234
Income tax	**10,999**	7,466	47.32	20,990
Net profit attributable to shareholders of the Company	**84,029**	598,298	-85.96	449,244
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**65,058**	601,228	-89.18	470,119
Net cash flow from operating activities	**-809,882**	483,509	-267.50	479,983

Item	**At the end of 2009**	At the end of 2008	Increase or decrease from last year (%)	At the end of 2007
Total assets	**15,968,458**	12,424,968	28.52	10,974,111
Total liabilities	**10,412,796**	6,780,022	53.58	5,754,150
Shareholders' equity	**5,555,662**	5,644,946	-1.58	5,219,961

(III) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE COMPANY OVER THE RECENT YEARS (RMB'000) *(CONTINUED)*

1. Prepared under PRC GAAP *(Continued)*

(2) Major financial indicators

Unit: RMB

Item	2009	2008	Increase or decrease from last year *(%)*	2007
Basic earnings per share	**0.05**	0.35	-85.71	0.27
Diluted earnings per share	**0.05**	0.35	-85.71	0.27
Basic earnings per share after extraordinary gain and loss	**0.04**	0.35	-88.57	0.28
Return on net assets (fully diluted) (%)	**1.51**	10.60	Decreased by 9.09 percentage points	8.61
Return on net assets (weighted average) (%)	**1.50**	11.01	Decreased by 9.51 percentage points	9.13
Return on net assets net of extraordinary gain and loss (fully diluted) (%)	**1.17**	10.65	Decreased by 9.48 percentage points	9.01
Return on net assets net of extraordinary gain and loss (weighted average) (%)	**1.16**	11.07	Decreased by 9.91 percentage points	9.55
Net cash flow per share from operating activities	**-0.47**	0.28	-267.86	0.29

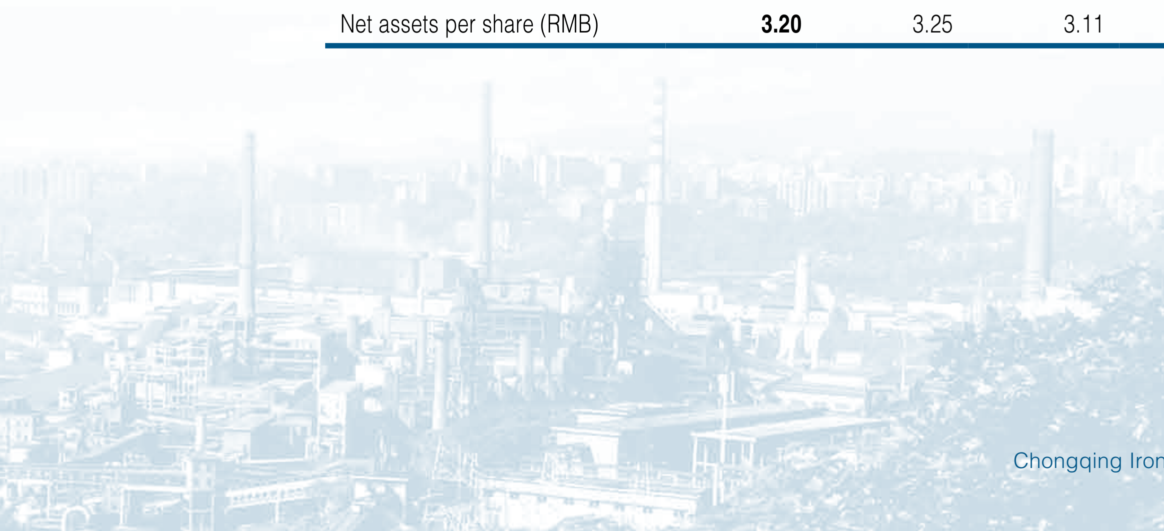
Item	At the end of 2009	At the end of 2008	Increase or decrease from last year (%)	At the end of 2007
Net asset per share attributable to shareholders of the Company	**3.21**	3.26	-1.53	3.12

(III) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE COMPANY OVER THE RECENT YEARS (RMB'000) *(CONTINUED)*

2. Prepared under HKFRS

Item	2009	2008	2007	2006 (After adjustment)	2005 (After adjustment)
Sales	**10,633,996**	16,482,183	12,021,195	9,621,897	8,856,126
Profit before tax	**95,985**	606,302	469,670	303,578	273,620
Income tax	**10,999**	7,466	20,990	1,093	32,663
Net profit from ongoing operations attributable to shareholders	**84,986**	598,836	448,680	302,485	240,957
Fully diluted earnings per share (RMB)	**0.05**	0.35	0.26	0.22	0.17
Weighted average earnings per share (RMB)	**0.05**	0.35	0.27	0.22	0.17
Net cash flow per share from operating activities (RMB)	**-0.47**	0.11	0.16	0.49	0.07
Return on net assets (fully diluted) (%)	**1.53**	10.64	8.63	7.64	6.14
Return on net assets (weighted average) (%)	**1.52**	11.06	9.15	7.67	6.20

Item	At the end of 2009	At the end of 2008	At the end of 2007	At the end of 2006 (After adjustment)	At the end of 2005 (After adjustment)
Total assets	**15,968,458**	12,424,968	10,974,111	8,864,407	8,132,279
Total liabilities	**10,429,523**	6,797,706	5,772,372	4,906,086	4,206,201
Shareholders' equity	**5,538,935**	5,627,262	5,201,739	3,958,321	3,926,078
Net assets per share (RMB)	**3.20**	3.25	3.11	2.86	2.84



(IV) MOVEMENTS IN SHAREHOLDER'S EQUITY DURING THE REPORTING PERIOD (RMB'000)

1. Prepared under PRC GAAP

Item	Share capital	Capital reserve	Surplus reserve	Retained profits	Including: Proposed dividend in cash by the Board	Shareholders' equity
Opening balance	1,733,127	1,164,384	566,679	2,180,756	173,313	5,644,946
Increase during the year	—	—	8,403	75,626	—	84,029
Decrease during the year	—	—	—	173,313	173,313	173,313
Closing balance	1,733,127	1,164,384	575,082	2,083,069	—	5,555,662

2. Prepared under the HKFRS

Item	Share capital	Share premium	Capital surplus	Statutory provident fund	Retained profits	Shareholders' equity
Opening balance	1,733,127	894,259	216,071	566,679	2,217,126	5,627,262
Increase during the year	—	—	—	8,403	76,583	84,986
Decrease during the year	—	—	—	—	173,313	173,313
Closing balance	1,733,127	894,259	216,071	575,082	2,120,396	5,538,935

Reasons for the changes:

Pursuant to the Company Law, the Articles of Association and approval of the Board, the Company appropriated 10% of its net profit for the year 2009 calculated under PRC GAAP to statutory surplus reserve, totaling RMB8,403,000.

(I) CHANGES IN SHARE CAPITAL

Changes in Share Capital as at 31 December 2009

Unit: share

	Before the change		Increase/decrease (+, -)					After the change	
	Number	Percentage (%)	Issue of new share	Bonus share	Conversion from reserve	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	845,000,000	48.76	—	—	—	—	—	845,000,000	48.76
1. State owned shares	—	—	—	—	—	—	—	—	—
2. State owned legal person shares	845,000,000	48.76	—	—	—	(9,200,000)	(9,200,000)	835,800,000	48.23
3. Other domestic shares	—	—	—	—	—	9,200,000	9,200,000	9,200,000	0.53
Including:									
Domestic non-state owned legal person shares	—	—	—	—	—	4,200,000	4,200,000	4,200,000	0.24
Domestic natural person shares	—	—	—	—	—	5,000,000	5,000,000	5,000,000	0.29
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including:									
Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to trading moratorium	888,127,200	51.24	—	—	—	—	—	888,127,200	51.24
1. Renminbi ordinary shares	350,000,000	20.19	—	—	—	—	—	350,000,000	20.19
2. Foreign shares listed domestically	—	—	—	—	—	—	—	—	—
3. Foreign shares listed overseas	538,127,200	31.05	—	—	—	—	—	538,127,200	31.05
4. Others	—	—	—	—	—	—	—	—	—
III. Total shares	1,733,127,200	100	—	—	—	—	—	1,733,127,200	100

(I) CHANGES IN SHARE CAPITAL *(CONTINUED)*

Changes in Shares Subject to Trading Moratorium

Unit: share

NO.	Name of holders of shares subject to trading moratorium	Number of shares subject to trading moratorium held	Date of release of trading moratorium	Trading moratorium
1	Chongqing Iron & Steel (Group) Company Limited	835,800,000	1 March 2010	Note 1
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 845,000,000 shares of the Company held by it will not be transferred or entrusted to others for management and shall not be repurchased by the Company within 36 months from the listing of A shares.

2. According to the notice by the People's Court of Shizhong District, Neijiang City, Sichuan Province, it had appointed Shanghai Jinchui Commodity Auction Co., Ltd. to auction 9,200,000 shares of the Company subject to trading moratorium held by the Holding Company, Yao Jian Kang and Shanghai Royal Sea Capital Company Limited (being purchasers) purchased 5,000,000 shares and 4,200,000 shares respectively.

3. The 845,000,000 shares of the Company were released from trading moratorium on 1 March 2010.

(II) ISSUE AND LISTING OF SHARES

1. Issue of shares in the last three years

Unit: share

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

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

The Company was established on 11 August 1997 as part of the restructuring by Chongqing Iron & Steel (Group) Company Limited (the "Holding Company"). Pursuant to the Restructure Agreement, the principal iron and steel business undertakings and one of the subsidiaries of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), were taken over by the Company, where upon the Company issued 650,000,000 state-owned shares of RMB1 each to the Holding Company. 413,944,000 Renminbi dominated ordinary shares ("H shares") issued by the Company in Hong Kong were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 October 1997. Upon the issuance of H shares, the Company's total share capital amounted to 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 H shares.

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

319,183,200 bonus shares were distributed to all shareholders by the Company with three bonus shares for every ten shares through distributable profits in 2006. Upon the completion of bonus issue, the total share capital of the Company increased to 1,383,127,200 shares from 1,063,944,000 shares, including 845,000,000 domestic shares representing 61.09% and 538,127,200 H shares representing 38.91% of the total share capital of the Company.

(II) ISSUE AND LISTING OF SHARES *(CONTINUED)*

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

On 28 February 2007, the Company issued 350,000,000 ordinary shares denominated in Renminbi ("A Shares") on Shanghai Stock Exchange ("Shanghai Exchange").Upon the completion of the issue, the total share capital of the Company increased to 1,733,127,200 shares, including 1,195,000,000 A shares representing 68.95% and 538,127,200 H shares representing 31.05% of total capital.

As at 31 December 2009, the total share capital of the Company amounted to 1,733,127,200 shares.

3. The Company has no internal employee shares.

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER

1. At the end of reporting period, the total number of shareholders was 107,659, of which 107,359 shareholders were the holders of A shares and 300 shareholders were holders of H Shares.

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER *(CONTINUED)*

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

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

Unit: share

Name of shareholder	Type of shareholders	Shareholding Percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State-owned legal person shareholder	48.23%	835,800,000	835,800,000	35,000,000 (frozen)
HKSCC NOMINEES LIMITED	Holder of foreign shares	30.40%	526,953,670	0	Unknown
Industrial Bank Co.,Ltd. — Industrial Trend Investment Hybrid Securities Investment Fund (LOF) (興業銀行股份有限公司－興業趨勢投資混合型證券投資基金)	Holders of domestic non-state owned legal person shares	0.46%	8,000,000	0	Unknown
Yao Jian Kang	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
Shenzhen Lisha Co., Ltd.	Holders of domestic non-state owned legal person shares	0.13%	2,199,214	0	Unknown
Jiang Ju Zhen	Domestic natural person shareholder	0.11%	1,827,890	0	Unknown
Ping An Insurance (Group) Company of China, Ltd. — Group level — self-owned capital (中國平安保險(集團)股份有限公司－集團本級－自有資金)	Holders of domestic non-state owned legal person shares	0.10%	1,782,038	0	Unknown
Zhou Yong	Domestic natural person shareholder	0.09%	1,600,000	0	Unknown
Qilu Securities Co., Ltd.	Holders of domestic non-state owned legal person shares	0.09%	1,500,000	0	Unknown

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER *(CONTINUED)*

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

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

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

Note 2: At the end of the reporting period, 35,000,000 shares held by the Holding Company were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding not less than 5% shares in the Company were pledged, frozen or in custody.

Note 3: The 526,953,670 H shares held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER *(CONTINUED)*

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

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

Unit: share

Name of shareholder	Number of shares not subject to trading moratorium held	Shares class
HKSCC NOMINEES LIMITED	526,953,670	Overseas listed foreign shares
Industrial Bank Co., Ltd.— Industrial Trend Investment Hybrid Securities Investment Fund (LOF)（興業銀行股份有限公司 — 興業趨勢投資混合型證券投資基金）	8,000,000	Renminbi denominated ordinary shares
Shenzhen Lisha Co., Ltd.	2,199,214	Renminbi denominated ordinary shares
Jiang Ju Zhen	1,827,890	Renminbi denominated ordinary shares
Ping An Insurance (Group) Company of China, Ltd. — Group level — self-owned capital（中國平安保險（集團）股份有限公司 — 集團本級 — 自有資金）	1,782,038	Renminbi denominated ordinary shares
Zhou Yong	1,600,000	Renminbi denominated ordinary shares
Qilu Securities Co., Ltd.	1,500,000	Renminbi denominated ordinary shares
Yin Xin	1,125,000	Renminbi denominated ordinary shares
The National Social Security Fund 602 Composition（全國社保基金六零二組合）	1,050,800	Renminbi denominated ordinary shares
China Construction Bank — Bosera Yufu Securities Investment Fund	960,401	Renminbi denominated ordinary shares

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER *(CONTINUED)*

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

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

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

3. **Particulars of Controlling Shareholder**

Chongqing Iron & Steel (Group) Company Limited, the controlling shareholders of the Company, held 835,800,000 shares of the Company, representing 48.23% of total share capital of the Company. Established on 22 June 1995, the Holding Company is a state owned company with State-owned Assets Supervision and Administration Commission of Chongqing being its sole shareholder. Its legal representative is Dong Lin with a registered capital of RMB1,579,040,000 and registered address at No.1, Building No.1, Dayan Village III, Dadukou District, Chongqing. Its principal business and products include: Assets operation, investment and property right trading within the entrusted authority, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computer and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timer products, refractory materials, chemical products (excluding dangerous chemicals).

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

4. **Relevant disclosure made according to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange**

(1) As at 31 December 2009, the Board was not aware of any person or its associates whose interests or short positions in the shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO").

(2) Pre-emptive Rights

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

(3) Public float of H shares

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

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER *(CONTINUED)*

4. Relevant disclosure made according to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange *(Continued)*

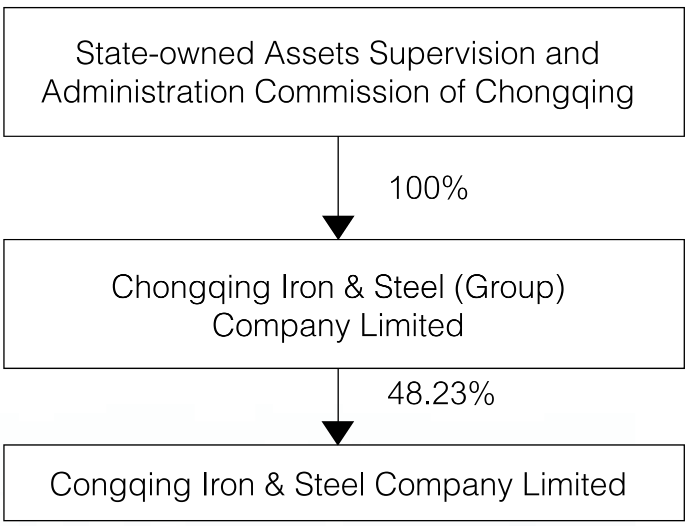
(4) Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2009, the Company did not redeem any of its issued shares, nor purchase or sell any of its listed shares.

(5) Circulating Market Capitalisation

Based on the publicly available information, as at the end of the reporting period, the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$2.91)) was HK$1.566 billion and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB5.84)) was RMB6.979 billion.

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



(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Title	Sex	Age	Tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Total remuneration received from the Company during the reporting period (RMB'000)	Whether receive remuneration and allowance from shareholder or other connected parties
Dong Lin	Chairman	M	58	From 1 June 2009 to 31 May 2011	0	0	0	Yes
Luo Fu Qin	Chairman	M	61	From 9 June 2006 to 1 June 2009	0	0	180	No
Yuan Jin Fu	Director	M	47	From 1 June 2009 to 31 May 2011	0	0	0	Yes
Chen Shan	Vice Chairman	M	56	From 1 June 2009 to 31 May 2011	0	0	249	No
Chen Hong	Director and General Manager	M	53	From 1 June 2009 to 31 May 2011	0	0	249	No
Sun Yi Jie	Director, Deputy General Manager and Chief Engineer	M	54	From 1 June 2009 to 31 May 2011	0	0	245	No
Li Ren Sheng	Director and Deputy General Manager	M	45	From 1 June 2009 to 31 May 2011	0	0	241	No
Liu Xing	Independent Director	M	53	From 1 June 2009 to 31 May 2011	0	0	60	No
Zhang Guo Lin	Independent Director	M	53	From 1 June 2009 to 31 May 2011	0	0	30	No
Liu Tian Ni	Independent Director	M	45	From 1 June 2009 to 31 May 2011	0	0	30	No
Wang Xiang Fei	Independent Director	M	58	From 9 June 2006 to 1 June 2009	0	0	30	No
Sun Yu	Independent Director	M	47	From 9 June 2006 to 1 June 2009	0	0	30	No

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Title	Sex	Age	Tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Total remuneration received from the Company during the reporting period (RMB'000)	Whether receive remuneration and allowance from shareholder or other connected parties
Zhu Jian Pai	Chairman of the Supervisory Committee	M	52	From 1 June 2009 to 31 May 2011	0	0	0	Yes
Huang You He	Supervisor	M	57	From 1 June 2009 to 31 May 2011	0	0	0	Yes
Gong Jun	Supervisor	F	37	From 1 June 2009 to 31 May 2011	0	0	0	Yes
Chen Hong	Supervisor	F	45	From 1 June 2009 to 31 May 2011	0	0	166	No
Gao Shou Lun	Supervisor	M	56	From 1 June 2009 to 31 May 2011	0	0	191	No
Xu Gang	Deputy General Manager	M	49	From 8 January 2004 to 29 July 2009	0	0	211	No
Wu Zi Sheng	Deputy General Manager	M	45	From 8 January 2004 to the present	0	0	241	No
Song Ying	Financial Controller	F	42	From 29 June 2007 to the present	0	0	206	No
You Xiao An	Secretary to the Board	M	45	From 23 January 2001 to the present	0	0	194	No

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

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

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

Directors:

Mr. Dong Lin, aged 58, 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. Mr. Dong was elected as the Director of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Directors: *(Continued)*

Mr. Luo Fu Qin, aged 61, is the Chairman of the Board, Chairman of the Strategic Committee of the Company. Mr. Luo graduated from Chongqing Construction School with a bachelor's degree specializing in water drainage, and he is a senior engineer. Mr. Luo has served as the deputy general manager of the Holding Company from September 2000 to April 2009, a Director of the Holding Company from April 2004 to April 2009. He had been the head of the Power Division and Design Management Division of the Design Department of the Holding Company, the deputy department head of the Holding Company's Safety and Environment Protection Office, head of the Holding Company's Coking Plant, head of the Holding Company's Iron Smelting Plant, head of the Holding's Company's Technology Office, head of the Holding Company's Development Liaison Office Economic Liaison Division, deputy general manager of the Holding Company and the deputy general manager of the Company. Mr. Luo resigned as the a Director of the Company upon expiration at the AGM held on 1 June 2009.

Mr. Yuan Jin Fu, aged 47, is a Director and member of the Salary and Remuneration Review Committee of the Company. He is also Deputy General Manager and the Chief Accountant of the Holding Company. Mr. Yuan obtained a bachelor degree from Economics and Management Professional University and holds the title of senior accountant. Mr. Yuan joined the Holding Company in 1981 and has been the Chief Accountant of the Holding Company since August 2002 and Deputy General Manager of the Holding Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Holding Company, and the Chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. Mr. Yuan was re-elected as a Director of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Directors: *(Continued)*

Mr. Chen Shan, aged 56, is the Vice Chairman, a member of the Strategic Committee, the Party Secretary and the Chairman of the Labour Union of the Company and general manager. Mr. Chen graduated from Chongqing University specializing in metal heating processing with a bachelor degree in engineering. He graduated from the Business Administration Faculty of Chongqing University with a MBA degree. He holds the title of senior engineer. Mr. Chen joined the Holding Company in 1982 and had been the deputy factory manager of No. 5 Factory and the head of the Operation Planning Department of the Holding Company and deputy head of Chongqing Da Du Kou District and deputy general manager and general manager of the Company. Mr. Chen was re-elected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Chen Hong, aged 53, is a Director, a member of the Strategic Committee, 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 deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant of the Holding Company, head of Raw Material Department of the Company, deputy chief engineer of the Holding Company, Chairman of the Board of the Chongqing Iron & Steel Group Industries Co., Ltd., Chairman of the Board of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd., deputy general manager and head of Sales Department of the Company. Mr. Chen was re-elected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Sun Yi Jie, aged 54, is a Director, a member of the Strategic Committee, the deputy general manager and chief engineer of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He has a bachelor degree in engineering and holds the title of senior engineer, a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". Mr. Sun joined the Holding Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company. Mr. Sun was re-elected as a Director of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Directors: *(Continued)*

Mr. Li Ren Sheng, aged 45, is a Director and the deputy general manager. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses of a bachelor's degree and is a senior engineer. He joined the Holding Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Holding Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of Sales Department of the Company. Mr. Li was re-elected as a Director of the Company at the AGM held on 1 June 2009.

Independent Directors:

Mr. Liu Xing, aged 53, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of the Salary and Remuneration Review Committee of the Company. Mr. Liu has a doctor's degree in management, and is the professor and doctor tutor and the head of Economy, Industry and Business Management Institute of Chongqing University. He is also a council member of China Accounting Society, a standing council member of the Education Branch of China Accounting Society, vice president of the Chongqing Accounting Society and a standing council member of Chongqing CPA Association. Mr. Liu engaged in teaching and research in management and engineering department of Chongqing University in 1983, and had been a researcher of accounting department of City University of Hong Kong and the visiting scholar and professor of accounting college of the Chinese University of Hong Kong. Mr. Liu had released a number of academic theses in domestic and foreign academic periodicals and obtained numerous provincial-grade awards for research achievements. He had acted as Independent Non-executive Director of Dongfeng Electronic Technology Co., Ltd., Sichuan Meifeng Chemicals Co. Ltd. and Chongqing Titanium Industry Co. Ltd of Pangang Group since 2002. He is currently the Independent Non-executive Director of Chongqing Gang Jiu Co., Ltd., Chongqing Hecheng Co., Ltd., Chongqing Huapont Pharm Co., Ltd. and Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd.. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Independent Directors: *(Continued)*

Mr. Zhang Guo Lin, aged 53, an 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. Zhang was elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

Mr. Liu Tian Ni, aged 45, an 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. Mr. Liu was elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Independent Directors: *(Continued)*

Mr. Wang Xiang Fei, aged 58, is the Independent Director and the Chairman of the Audit Committee and a member the Salary and Remuneration Review Committee of the Company. Mr. Wang graduated from the Faculty of Finance of the People's University of China in 1982 with major in finance. He has a bachelor degree in Economics and is a senior accountant. From 1983 to 2006, Mr. Wang served in China Everbright Group as director and assistant general manager, executive director of several companies listed in Hong Kong with China Everbright Group as the controlling shareholder, the chief executive of a listed company and the senior manager of several subsidiaries under the China Everbright Group. Mr. Wang has extensive experience in investment, management, finance and accounting. Currently, Mr. Wang serves as the Financial Adviser of China Sonangol International Holding Limited, Deputy Financial Controller of Sonangol Sinopec International Limited. And as the independent non-executive director of SEEC Media Group Limited, Shenzhen Rural Commercial Bank Corporation Limited, and China Citic Bank Corporation Limited. Mr. Wang resigned as an Independent Non-executive Director of the Company upon expiration at the AGM held on 1 June 2009.

Mr. Sun Yu, aged 47, is the Independent Non-executive Director, the Chairman of the Salary and Remuneration Review Committee, and a member of the Audit Committee of the Company. He is currently the director of Chongqing Bai Jun Law Firm（重慶百君律師事務所）and a first-grade lawyer. As a member of the Party Committee, Mr. Sun also acts as vice chairman of Chongqing Lawyers' Association, arbitrator of China International Economic and Trade Arbitration Commission, arbitrator of Chongqing Arbitration Commission, an part-time professor of Southwest Politics and Law University, a researcher on international investment, finance and laws in Southwest Politics and Law University, Visiting Professor of Sichuan International Studies University. Mr. Sun entered the department of law of Southwest Politics and Law University in 1979 and obtained Bachelor of Laws and Master of Laws degrees in succession. He taught at the University after graduation and was granted with the title of vice profession of jurisprudence in 1995. In 1998, Mr. Sun resigned from his university and established Chongqing Bai Jun Law Firm. With admirable accomplishments in laws, Mr. Sun has extensive experience in Practice of Law and management. Mr. Sun resigned as an Independent Non-executive Director of the Company upon expiration at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Supervisors:

Mr. Zhu Jian Pai, aged 52, is 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 secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company, the head of the workers personnel office and the head of the personnel department of the Holding Company. Mr. Zhu was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009.

Mr. Huang You He, aged 57, is the Supervisor of the Company and the head of the legal affairs office of the Holding Company. Mr. Huang obtained a professional diploma from the Economics Management Professional University and holds the title of senior economist. Mr. Huang joined the Holding Company in 1983, served as the head of the legal affairs office of the Holding Company in May 1999 and worked as deputy head of the Cadre Office, deputy head of the Workers Personnel Office and the head of the Assets Operation and Management Office and the head of Legal Regulation Office of the Holding Company. Mr. Huang was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009.

Ms. Gong Jun, aged 36, is a Supervisor of the Company and the head of the Auditing Department of the Holding Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Holding Company in 1996, she had been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department and deputy head of the Audit Department of the Holding Company. Since March 2008, she has been the head of the Audit Department of the Holding Company. Ms. Gong was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Supervisors: *(Continued)*

Ms. Chen Hong, aged 44, is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen holds a university diploma in the Logistics and Engineering College of the China People's Liberation Army. Ms. Chen joined the Holding Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of Chongqing Steel and Iron Design Institute, chief officer of Production and Operation Department and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.

Mr. Gao Shou Lun, aged 55, is a Supervisor of the Company, the secretary to the communist party committee of the medium plate plant of the Company as well as the Chairman of the Labor Union. Mr. Gao graduated from the History Department of Southwest China Normal University and was awarded a bachelor degree of History. He was also awarded a master degree of History of the Sichuan University. As a senior political engineer, Mr. Gao joined the Holding Company in 1971. During his term of office, he has served as the deputy section chief of the educational section of Qijiang Iron Mine（綦江鐵礦）and the section chief of the education theory section of promotion department of the Parent Company. He was also the deputy secretary to the communist party committee (managed tasks), Chairman of the Labor Union, secretary to the communist party committee and Chairman of the Labor Union of the power plant of the Company. He also undertook the role of manager of party committee office (secretary) of the Holding Company. Mr. Gao was re-elected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.

Senior Management:

Mr. Xu Gang, aged 48, is the deputy general manager of the Company. Mr. Xu graduated from the Faculty of Metallurgy of Chongqing University with major in iron smelting with a bachelor degree in engineering. He is currently a postgraduate student of metallurgic engineering in Chongqing University on part-time basis. He holds the title of senior engineer. Mr. Xu joined the Holding Company in 1982 and had served as deputy head and head of the Iron Smelting Plant and monitor of the Deployment Office of the Holding Company and assistant to the head and deputy head, head of the Iron Smelting Plant and chief engineer of the Company. Mr. Xu resigned as a deputy general manager of the Company on 29 July 2009.

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

Senior Management: *(Continued)*

Mr. Wu Zi Sheng, aged 44, is the deputy general manager of the Company. Mr. Wu obtained a bachelor's degree from Economics and Management Professional University and a master degree of business administration from the graduate school of business administration of Chongqing University (重慶大學工商管理研究生學院). He is currently a postgraduate student of business administration of Chongqing University on part-time basis and is a senior economist and senior management consultant. Mr. Wu joined the Holding Company in 1981 and had served as the head of factory, the secretary to the Party Committee, head of the promotion department, the head of the labour training section, the assistant to the head of the smelting plant and the assistant to the head of the labour and corporate affairs department of the industrial office of the Coking Plant of the Holding Company, the secretary to the Communist Party Committee, the Chairman of the Labour Union of the Steel Casting Company, deputy head of the personnel department, head of the human resources department, Supervisor of the Company.

Ms. Song Ying, aged 41, the chief financial officer and head (處長) of the financial and accounting office of the Company. Ms. Song graduated from Yuzhou University majored in accounting and possesses of a bachelor degree in economics; and also the faculty of business administration of Northeastern University and obtained a master degree in business administration. Being a senior accountant, Ms. Song joined the parent company in 1989 and has served as the head of the finance office of a power plant of the parent company (母公司財務處駐動力廠財務科科長), head and deputy head (responsible for work) of the accounting section of the Company's financial and accounting office (本公司財會處會計科科長、副處長(主持工作)).

Mr. You Xiao An, aged 44, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now studying a part time master degree course in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Holding Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

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

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 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 manger of the Company.

2. At the 2008 annual general meeting of the Company held on 1 June 2009, Mr. Dong Lin was elected as the Director of the fifth Board of the Company while Mr. Zhang Guo Lin and Mr. Liu Tian Ni were elected as independent 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 re-elected as the Directors of the fifth Board of the Company, while Mr.Liu Xing was re-elected as an independent Director of the fifth board of the Company; Mr. Zhu Jian Pai, Mr. Huang You He and Ms. Gong Jun were re-elected as the shareholder representative supervisors of the fifth Supervisory Committee of the Company; and Ms. Chen Hong and Mr. Gao Shou Lun were re-elected as the staff representatives supervisors 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.

5. It was approved at the 9th meeting of the fifth Board by way of written resolution on 29 July 2009 that Mr. Xu Gang resigned as Deputy General Manager of the Company for re-posting arrangement.

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration for members of the fifth session Board and Supervisory Committee of the Company was proposed by the Board and submitted to the general meeting for approval. The annual average remuneration of directors of the Company was paid at 4 to 10 times the annual average remuneration of all the employees of the Company, and the annual average remuneration of supervisors of the company was paid at 3 to 8 times the annual average remuneration of all the employees of the Company. Remuneration of the senior management is subject to the decision of the Board. The annual remuneration of the directors, supervisors and senior management of the Company is determined based on the scale of operation, economic benefits of the Company, their qualifications and experiences. The Salary and Remuneration Review Committee under the Board proposed to the Board on the remuneration package of Directors. Please refer to the above table for the remunerations of directors, supervisors and senior management of the Company for 2009.

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

In 2009, Mr. Liu Xing, an Independent Non-executive Director received remuneration of RMB60,000 from the Company; and Mr. Zhang Guo Lin, Mr. Liu Tian Ni, Mr. Wang Xiang Fei and Mr. Sun Yu, all being Independent Non-executive Directors, each received a remuneration of RMB30,000 from the Company.

In 2009, the total remunerations for directors, supervisors and other senior management receiving remunerations from the Company amounted to RMB2,553,000.

(IV) OTHER INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

As at 31 December 2009, 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, Supervisors and senior management members in the shares or underlying shares or debentures of the Company and its connected corporations(within the meaning of Part XV of the SFO), which are required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules of 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 Hengda):

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

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

Save as disclosed above, as at 31 December 2009, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its connected corporations.

For the year ended 31 December 2009, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

(IV) OTHER INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

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

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

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

2. Service Contracts of Directors and Supervisors

All directors and supervisors respectively entered into service contracts ("Service Contract") with the Company for a term of three years which commenced from 1 June 2009 and will expire on 31 May 2011.

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

3. Directors' and Supervisors' Interests in the Contracts

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

(IV) OTHER INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

4. Model Code for Securities Transactions by Directors and Supervisors

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

5. Positions in the Holding Company held by Directors, Supervisors and Senior Management

Name	Position held in shareholder company	Term of office
Dong Lin	Chairman	From February 2006 to the present
Luo Fu Qin	Director	From April 2004 to April 2009
	Deputy General Manager	From September 2000 to April 2009
Yuan Jin Fu	Deputy General Manager	From July 2008 to the present
	Chief Accountant	From August 2002 to the present
Zhu Jian Pai	Director	From February 2002 to the present
	Deputy Secretary to the Party Committee	From January 2000 to the present
Huang You He	Head of the Legal Affairs Office	From May 1999 to the present
Kong Jun	Head of Audit Department	From March 2008 to the present

(V) STAFF

As at the end of 2009, the Company had 11,962 staff, including 9,922 production staff, 187 sales staff, 957 technical and engineering staff, 97 finance staff, and 799 administrative staff. The staff with bachelor or above degrees accounted for 9.78% of the total staff. The Company has been emphasizing on the training to its staff in update of knowledge. In 2009, 25,555 attendances were received at training, and the training plan was fulfilled at a rate of 109.5%.

Education Background	Stuff number
Master's degree	108
Undergraduate	1,061
Associate degree	2,243
Secondary technical graduates and others	8,550

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

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

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

(I) CORPORATE GOVERNANCE

1. Improvement of corporate governance

During the reporting period, the Company maintained good corporate governance fundamentals and standardized operation by timely making continuous improvement in its corporate governance and operation flow according to the work arrangement of regulatory authorities and the latest applicable laws and regulations to ensure no deviation and violations in its operation. The Company committed itself to enhancing corporate governance.

The Company revised and improved the Work Regulations on the Annual Financial Report Review by Audit Committee according to the relevant requirement by CSRC. 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 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.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. Rectification of corporate governance

During the reporting period, the Company conducted review and continuous rectifications of its corporate governance according to the requirements of China Securities Regulatory Commission on further rectification of corporate governance and issues relating to connected transactions of the Company. Rectifications of all identified issues were completed during the reporting period. In addition to the completed rectification as disclosed in the Company's announcement dated 16 July 2009, the Company stated to provide monthly disclosure on steel output for previous month in September 2009, bringing an end to the rectification of issues regarding information disclosure. The Company obtained property ownership certificate for its property with an area of 45,037 square meters. in Changshou District, bringing an end to the rectification in issues regarding lack of ownership certificates.

3. The Board of Directors

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

3. The Board of Directors *(Continued)*

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

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

The members on the Board of Directors have varied industry background and have expertise in the field of corporate management, the iron & steel smelting and etc., whose profiles were set out on page 51 to 79 of this Annual Report. The Board of Directors comprises 9 directors, including 3 independent directors. The number of the independent directors accounts for one-third of the total members of the Board. The present independent non-executive directors of the Company hold profound knowledge and rich experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non-executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

3. The Board of Directors *(Continued)*

Duties performance of Independent Directors: During the reporting period, Independent Directors had performed their duties in accordance with the requirement of relevant laws, regulations and the Articles of Association of the Company, proactively attended Board meetings and general meetings, provided professional advices to the Board on proposals regarding production, operation and projects investment, issued independent opinions on the Company's significant events such as connected transactions, appointment of senior management members, thus effectively safeguarded the overall interests of the Company and the interest of investors. On 15 April 2009, Independent Directors Mr. Wang Xiang Fei, Mr. Sun Yu and Mr. Liu Xing expressed independent opinions in respect of the appointment of Mr. Chen Hong as the General Manager of the Company and were of the view that Mr. Chen Hong had the qualification and met the requirements of relevant laws, regulations and Articles of Association of the Company for the position of general manager. On 29 July 2009, Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed independent opinions in respect of Mr. Xu Gang's resignation as Deputy General Manager of the Company and were of the view that the procedure of Mr. Xu Gang's resignation as Deputy General Manager due to job change complied with relevant laws, regulations and Articles of Association of the Company. On 24 December 2009, Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed independent opinions in respect of the connected transactions under the Agreement for Trial Operation of Production Lines between the Company and the Holding Company and were of the view that the terms and conditions of Agreement for Trial Operation of Production Lines are normal commercial terms, fair and reasonable and transaction under the agreement are in the best interests of the Company and the Shareholders as a whole. During the reporting period, Independent Directors did not raise objections to proposals presented at the Board meetings or other meetings in 2009.

The Company has received the Confirmation Letters regarding their compliance with Rule 3.13 of the Listing Rules from Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni respectively. The Company is of the view that such Independent Directors maintained their independence during the reporting period.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

3. The Board of Directors *(Continued)*

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

Chairman: Mr. Dong Lin
Vice Chairman: Mr. Chen Shan
Non-executive director: Mr. Yuan Jin Fu
Executive directors: Mr. Sun Yi Jie, Mr. Chen Hong, Mr. Li Ren Sheng
Independent Non-executive directors: Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni

During the reporting period, the Board of the Company convened six meetings; the details of attendance are set out on page 46 of this Annual Report. Please refer to page 51 to 82 of this annual report for particulars of the meeting. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through Secretary to the Board. In order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

As approved by the General Meeting, the annual average remuneration of directors of the Company in their term is paid at 4 to 10 times the annual average remuneration of all the employees of the Company. The remuneration of directors is set out under the section "Directors, Supervisors and Senior Management" on page 20 to 21 of this Annual Report.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

4. Special Committees of the Board

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

(1) Audit Committee

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

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

Chairman: Mr. Liu Xing
Members: Mr. Zhang Guo Lin and Mr. Liu Tian Ni

During the reporting period, the Audit Committee convened two meetings both with full attendance. Details of the attendance and the meetings are set out on page 46 of this annual report respectively. Please refer to page 51 to 82 of this annual report for particulars of the meeting. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

4. Special Committees of the Board *(Continued)*

(2) Strategic Committee

The Strategic Committee of the Company comprises 6 directors in full compliance with relevant domestic and foreign laws, regulations and the Company's Work Regulations of Strategic Committee. The major duty of Strategic Committee is to give suggestions based on study of long-term strategies on development and significant investment decisions.

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

Chairman: Mr. Dong Lin
Members: Mr. Chen Shan, Mr. Chen Hong, Mr. Sun Yi Jie, Mr. Li Ren Sheng and Mr. Zhang Guo Lin

During the reporting period, the Strategic Committee convened one meeting with 100% attendance. Details of the attendance and meetings are set out on page 46 of this Annual Report respectively. Please refer to page 51 to 82 of this annual report for particulars of the meeting.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

4. Special Committees of the Board *(Continued)*

(3) Salary and Remuneration Review Committee

The Salary and Remuneration Review Committee comprises 4 members (including 3 independent directors) in full compliance with relevant domestic and foreign laws, regulations and the Company's Work Regulations of Salary and Remuneration Review Committee. The major duty of Salary and Remuneration Review Committee is to study benchmarks for executive directors and senior management of the Company, conduct the assessment as well as study and review remuneration policies and schemes of executive directors and managers.

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

Chairman: Mr. Zhang Guo Lin
Members: Mr. Yuan Jin Fu, Mr. Liu Xing and Mr. Liu Tian Ni

During the reporting period, the Salary and Remuneration Review Committee convened one meeting with full attendance. Details of the attendance and meetings are set out on page 46 of this Annual Report respectively. Please refer to page 51 to 82 of this annual report for particulars of the meeting.

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

5. Supervisory Committee

The Supervisory Committee shall exercise its supervisory right independently and safeguard the lawful interest of shareholders, the Company and its staff. The number and constitution of supervisors of the Company are in accordance with requirements of relevant laws and regulations as well as the Articles of Association. Supervisory Committee of the Company consists of 5 members, of which 3 are shareholder representatives and 2 are staff representatives. The shareholder representatives were elected at the general meeting and staff representatives were directly elected at the staff representative meeting.

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

Chairman: Mr. Zhu Jian Pai
Supervisors: Mr. Huang You He, Ms. Gong Jun, Ms. Chen Hong and Mr. Gao Shou Lun

During the reporting period, Supervisory Committee convened 5 meetings and attended all Board meetings as an observer, duly performing its duties. Details of the Supervisory Committee's work are set out on pages 51 to 82 "Report of the Supervisory Committee" in this Annual Report. Please refer to page 46 of this annual report for particulars of the meetings.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

5. Supervisory Committee *(Continued)*

Attendance of the Board meetings, Supervisory Committee meetings and meetings of each special committee in 2009

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

Name	Board of Directors	Audit Committee	Strategic Committee	Salary and Remuneration Review Committee	Supervisory Committee
Directors:					
Dong Lin	3/3 (100%)	—	1/1 (100%)	—	—
Luo Fu Qin	3/3 (100%)	—	—	—	—
Yuan Jin Fu	6/6 (100%)	—	—	1/1 (100%)	—
Chen Shan	6/6 (100%)	—	1/1 (100%)	—	—
Sun Yi Jie	6/6 (100%)	—	1/1 (100%)	—	—
Chen Hong	6/6 (100%)	—	—	—	—
Li Ren Sheng	6/6 (100%)	—	—	—	—
Independent directors:					
Wang Xiang Fei	3/3 (100%)	1/1 (100%)	—	—	
Sun Yu	3/3 (100%)	1/1 (100%)	—	—	
Liu Xing	6/6 (100%)	2/2 (100%)	—	1/1 (100%)	—
Zhang Guo Lin	3/3 (100%)	1/1 (100%)	1/1 (100%)	1/1 (100%)	
Liu Tian Ni	3/3 (100%)	1/1 (100%)	—	1/1 (100%)	
Supervisors:					
Zhu Jian Pai	—	—	—	—	5/5 (100%)
Huang You He	—	—	—	—	5/5 (100%)
Gong Jun	—	—	—	—	5/5 (100%)
Chen Hong	—	—	—	—	5/5 (100%)
Gao Shou Lun	—	—	—	—	5/5 (100%)

(II) INDEPENDENCE OF THE COMPANY FROM ITS HOLDING COMPANY IN PERSONNEL, ASSETS, FINANCE, ORGANISATION AND OPERATIONS

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

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

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

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

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

(III) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

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

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

The Company has established and improved various internal accounting control policies under relevant laws and regulations and set up internal control system focused on financial accounting. The Company's finance management is in compliance with relevant regulations, with internal control links including authorisation and signature effectively executed.

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

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

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

(IV) DISCLOSURE OF THE BOARD'S OPINION ON SELF-EVALUATION REPORT ON INTERNAL CONTROL OF THE COMPANY AND VERIFICATION OPINION OF AUDITORS

The full version of the Board's opinion on Self-Evaluation Report on Internal Control of the Company was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 23 April 2010.

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

(V) REPORT ON SOCIAL RESPONSIBILITY PERFORMANCE BY THE COMPANY

The full version of the Board's Report on Social Responsibility Performance was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 23 April 2010.

(VI) ESTABLISHMENT OF ACCOUNTABILITY SYSTEM FOR MATERIAL ERRORS IN ANNUAL REPORT

In accordance with the requirement by CSRC, SSE and the Chongqing Regulatory Bureau of CSRC. the Company established the Accountability System for Material Errors in Annual Report as approved at the 30th written resolution of the fifth Board meeting dated 5 February 2010 with a view to further improving the quality and transparency of the information disclosure in the annual report of the Company. The System specifically provides for the situations under which the person in charge is held accountable, the forms and types of such accountability. The Company will implement such system in a strict manner to rule out any material errors in the annual report and ensure the trueness, accuracy and completeness of the annual report.

(I) ANNUAL GENERAL MEETING

The Company convened the 2008 Annual General Meeting on 1 June 2009. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 2 June 2009.

(II) EXTRAORDINARY GENERAL MEETING

1. On 14 April 2009, the Company held the 2009 first extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 15 April 2009.

2. On 7 August 2009, the Company held the 2009 second extraordinary general meeting. Details of the announcement of the resolutions passed at the meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po, China Daily, and the websites of Shanghai Stock Exchange and the Stock Exchange on 10 August 2009.

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

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

1. Overall operation status of the Company

In 2009, to address the adverse impact from global financial crisis, the government adopted proactive fiscal policy and moderately ease monetary policy. As the stimulus package for "maintaining growth, expanding domestic demand, readjusting economic structure and improving people's livelihood" took effect, national economy bottomed out and recovered steadily, achieving a growth rate of 8.7% for the year. Driven by the economic growth, domestic steel demand has seen dramatic growth, especially in infrastructure, automobile, machinery and household appliances sectors. However, given the influence of imported steel products and overcapacity in the industry, steel price remained at low levels.

The Company took active steps in face of the aftermath of financial crisis. By seizing market opportunity, securing production and boosting sales, purchasing in economical way, enhancing quality management and developing new products, the Company prevented its results away from negative zone for the year while proactively carrying out environmental relocation. During the Reporting Period, the Company produced 1,349,700 tonnes of coke, 2,941,900 tonnes of pig iron, 3,220,400 tonnes of steel, 3,000,700 tonnes of steel products (billets), representing a decrease of 1.27%, an increase of 0.57%, a decrease of 4.09% and a decrease of 6.59% respectively as compared with the same period last year. The Company recorded operating revenue of RMB10,654,115,000, and net profit of RMB84,029,000, representing a year-on-year decrease of 35.50% and 85.96% respectively.

During the Reporting Period, the Company took active measures to address the unfavorable market conditions, secured production and promoted sales. Amid the market downturn, the Company enhanced communication with customers to properly deal with price bargain from customers. Meanwhile, the Company strengthened ties with strategic customers and local marketing, securing orders for production. Riding on the short-term rebound of the market and favorable sales conditions of steel products for construction purpose and high quality steel rods, the Company adjusted sales strategy in a timely manner to expand sales. In 2009, the Company sold 2,972,800 tonnes of steel products (billets) with a collection rate of accounts receivable amounting to 100.85%.

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

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

During the Reporting Period, the Company kept close watch on dynamics of steel market and raw material market. It formulated rational procurement strategy and implemented effective measures to reduce procurement cost of raw materials. The Company timely increased its procurement of imported iron ore and reduced proportion of domestic ore, continued to allocate the regional coals by piles （地方煤單堆單配）, and fully leveraged on local coal resources advantages. Meanwhile, it applied reasonable control on inventory level and modulated procurements of raw materials as appropriate to curb procurement cost. In addition, by optimizing transportation methods and enhancing logistics management, the Company constrained the transportation cost.

During the Reporting Period, the Company tightened acceptance inspection of raw materials, amended and improved regulations on bulk purchase of raw and ancillary materials from external suppliers. 2,155 sampling inspections were applied to raw and ancillary materials, of which 99.62% was qualified. At the same time, the Company carried out quality tackling activities for steel smelting and rolling system, which aimed for "enhancing quality control, stabilizing and improving product quality", thus effectively uplifting the product quality. During the Reporting Period, the passing rate of the Company's steel products reached 99.63%, and 96.61% of steel products reached both the international and domestic standards, representing an increase of 0.01 percentage points and 1.65 percentage points respectively as compared with the same period last year.

During the Reporting Period, the Company completed the development of Q420B high strength angle steel for iron tower, S275NL steel plate under European standards, and CG510CL steel plate for automobile spinning spoke in response to the market demand. Meanwhile, as demanded by customers, the Company carried out pilot production of specialised products, mainly including 11# I-beam for mines, 45mm Z steel plate, 12Cr1MoV steel plate and 7.50V rim steel. During the Reporting Period, the Company completed pilot production of 636,200 tonnes for new products and specialised products with a value of RMB2.209 billion.

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

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

During the Reporting Period, the Company proactively engaged in environmental relocation in compliance with requirements on energy saving and discharge reduction, industry deployment and planning from Chongqing municipal government. The Company established relevant organizations for the preparation of Environmental Relocation, executed market research and promotion of products, prepared raw materials for production, formulated production process and technology quality standards, as well as provided staff training in the new zone. During the Reporting Period, the production line of the Company's 4100mm rolling units and the holding company's iron and steel melting production line were put into operation.

2. Analysis on principle operations and operating status

(1) Analysis on revenue from principal operations

Surviving from recession caused by the financial crisis in 2008, steel market saw demand recovery as driven by expansion of domestic demand and investment in 2009. However, as production capacity of steel makers was gradually utilized and steel supply increased, stockpile remained at high levels while steel price lingered low. Accordingly, the Company's results for 2009 slumped. In the tough operating environment in 2009, the Company timely adjusted its business strategy, and shift its focus from "scale production" to "profit as top priority". Meanwhile, the Company kept in close touch with market pulse and dynamics, strictly controlled expenses and explored new income sources, and managed to achieve profit in 2009. As at 31 December 2009, the revenue from principal operations of the Company under the PRC accounting standards was RMB10,633,996,000, representing a decrease of 35.48% as compared with last year. Net profit was RMB84,029,000, representing a year-on-year decrease of 85.96%.

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

2. Analysis on principle operations and operating status *(Continued)*

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

- *Principal operation of the Company*

For the year 2009, the Company's revenue from principal operations amounted to RMB10,633,996,000, of which south-western region and other regions accounted for RMB6,052,833,000 and RMB4,581,163,000, representing a decrease of 26.30% and 44.60% respectively as compared with last year.

Region	Revenue from principal operations *(RMB'000)*	Increase/ decrease in revenue from principal operations from last year *(%)*
South-western region	6,052,833	-26.30
Other regions	4,581,163	-44.60
Total	10,633,996	-35.48

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

2. Analysis on principle operations and operating status *(Continued)*

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

- *Principal operation of the Company (Continued)*

For the year 2009, the Company's revenue from principal operations amounted to RMB10,633,996,000, of which RMB10,132,883,000 was derived from sales of steel products (billets), representing 95.29% of the total revenue, down 36.43% from last year, and RMB501,113,000 was derived from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and water, electricity and steam, which accounted for 4.71% of the total revenue, down 7.69% from last year.

Product	2009 Amount *(RMB'000)*	2009 Percentage *(%)*	2008 Amount *(RMB'000)*	2008 Percentage *(%)*	Year-on-year increase *(%)*
Steel plates	**4,302,653**	**40.46**	7,415,739	44.99	-41.98
Steel billets	**699,230**	**6.58**	1,782,887	10.82	-60.78
Steel sections	**3,253,359**	**30.59**	4,183,558	25.38	-22.23
Wire rods	**1,698,686**	**15.97**	2,164,677	13.13	-21.53
Cool-rolled plates	**178,955**	**1.69**	392,450	2.39	-54.40
Subtotal	**10,132,883**	**95.29**	15,939,311	96.71	-36.43
Others	**501,113**	**4.71**	542,872	3.29	-7.69
Total	**10,633,996**	**100.00**	16,482,183	100.00	-35.48

In 2009, the sales revenue of the Company's steel products (billets) decreased by RMB5,806,428,000 as compared with last year. The decrease was attributable to (1) lower product price: during the year, the average selling price of steel products (including cold rolled plates) was RMB3,409 per tonne, representing a drop of 31.30% from last year, which decreased sales revenue by RMB4,656,514,000; (2) less production and sales volume: the Company sold 2,972,800 tonnes of steel products (billets), representing a decrease of 239,200 tonnes from last year, which decreased sales revenue by RMB1,149,914,000.

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

2. Analysis on principle operations and operating status *(Continued)*

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

- *Principal operation of the Company (Continued)*

Sales price by products

Item	2009	2008	Year-on-year increase/ decrease	Increase/ decrease in contribution to revenue
	RMB/tonne	*RMB/tonne*	*(%)*	*(RMB'000)*
Steel plates	**3,551**	5,799	-38.77	-2,724,952
Steel billets	**3,174**	4,298	-26.15	-247,617
Steel sections	**3,353**	4,485	-25.24	-1,098,493
Wire rods	**3,240**	4,236	-23.51	-522,203
Subtotal	**3,401**	4,955	-31.36	-4,593,265
Cool-rolled plates	**3,882**	5,254	-26.11	-63,249
Total	**3,409**	4,962	-31.30	-4,656,514

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

2. Analysis on principle operations and operating status *(Continued)*

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

- *Principal operation of the Company (Continued)*

Sales volume by products

Item	2009	2008	Year-on-year increase/ decrease	Increase/ decrease in contribution to revenue
	(0'000 tonnes)	*(0'000 tonnes)*	*(%)*	*(RMB'000)*
Steel plates	**121.17**	127.88	-5.25	-389,113
Steel billets	**22.03**	41.48	-46.89	-835,961
Steel sections	**97.04**	93.27	4.04	169,085
Wire rods	**52.43**	51.10	2.60	56,339
Subtotal	**292.67**	313.73	-6.71	-999,650
Cold rolled plates	**4.61**	7.47	-38.29	-150,264
Total	**297.28**	321.20	-7.45	-1,149,914

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation

- *Operating results of the Company*

The net profit of the Company amounted to RMB84,029,000 for the year 2009, decreased by 85.96% from RMB598,298,000 in 2008.

Item	Amount for 2009 *(RMB'000)*	Amount for 2008 *(RMB'000)*	Year-on-year increase/ decrease *(%)*
Operating revenue	**10,654,115**	16,517,443	(35.50)
Operating costs	**(9,479,256)**	(13,865,367)	(31.63)
Business taxes and surcharges	**(283)**	(329)	(13.98)
Total expenses	**(1,087,606)**	(1,170,235)	(7.06)
Assets impairment loss	**(15,617)**	(872,438)	(98.21)
Investment income	**1,304**	32	3,975.00
Operating profit	**72,657**	609,106	(88.07)
Total profit	**95,028**	605,764	(84.31)
Income tax expenses	**(10,999)**	(7,466)	47.32
Net profit	**84,029**	598,298	(85.96)

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation (Continued)

- *Operating results of the Company (Continued)*

① Gross profit from principal operations amounted to RMB1,169,438,000, representing a decrease of RMB1,476,527,000 as compared with last year, mainly attributable to dropping price and sales volume of steel products.

By industry	Revenue from principal operations *(RMB'000)*	Cost of principal operations *(RMB'000)*	Gross profit margin *(%)*	Increase/ decrease in revenue from principal operations from last year *(%)*	Increase/ decrease in cost of principal operations from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Iron & Steel industry	10,132,883	9,022,847	10.95	-36.43	-32.47	-5.23
Steel plates	4,302,653	3,726,976	13.38	-41.98	-31.22	-13.55
Steel billets	699,230	637,732	8.80	-60.78	-61.25	1.10
Steel sections	3,253,359	2,944,824	9.48	-22.23	-23.37	1.33
Wire rods	1,698,686	1,510,790	11.06	-21.53	-26.27	5.72
Cold rolled plates	178,955	202,525	-13.17	-54.40	-50.01	-9.93
Others	501,113	441,711	11.85	-7.69	-7.03	-0.63
Total	10,633,996	9,464,558	11.00	-35.48	-31.60	-5.05

During the year 2009, the average selling price of the Company's steel products (billets) was RMB3,409 per tonne, representing a drop of 31.30% from the same period of last year, which decreased profit by approximately RMB4,656,514,000. However, the lower prices of raw materials including ore, coal and scrap steel lessened the drop in the profit of the Company.

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation (Continued)

- *Operating results of the Company (Continued)*

② According to relevant requirements of accounting standards, the decrease in the Company's current profit due to provision for assets impairment loss amounted to RMB15,617,000 in 2009, representing a decrease of RMB856,821,000 from last year. The decrease was mainly attributable to recovery of raw materials and steel price in China in 2009, which resulted in RMB13,158,000 of decrease in the Company's current profit due to provision for diminution in value of inventories, representing a decrease of RMB772,362,000 from same period last year.

③ The administrative expenses incurred by the Company in 2009 was RMB518,056,000, representing a decrease of RMB138,397,000 from last year, mainly attributable to 1) repair expenses booked in administrative expenses decreased by RMB82,891,000 year on year; and 2) salaries and surcharges booked in administrative expenses in 2009 decreased by RMB55,637,000 year on year.

④ Selling and marketing costs of the Company for the year 2009 amounted to RMB293,790,000, representing an increase of RMB34,851,000 as compared with last year, mainly attributable to 1) more steel products being sold on delivery to warehouse basis, which led to an increase of RMB45,077,000 in transportation charges; and 2)less steel products sold for shipbuilding, which resulted in a decrease of RMB9,922,000 in shipbuilding inspection expenses.

⑤ The finance costs of the Company in 2009 amounted to RMB275,760,000, representing an increase of RMB20,917,000 over last year, mainly attributable to a decrease of RMB16,534,000 in net foreign exchange gains in 2009.

⑥ The Company recorded investment income of RMB1,304,000 during 2009, representing an increase of RMB1,272,000 over last year, mainly attributable to RMB1,304,000 of cash dividends distributed by Xiamen Shipbuilding Industry Co., Ltd. in 2009.

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation (Continued)

- *Operating results of the Company (Continued)*

  ⑦ The income tax rate of the Company was 15% for the year 2009. The taxable income was RMB-456,612,000. RMB nil was actually paid for the year.

- *Cash flow of the Company*

  During the year 2009, net cash inflow from financing activities amounted to RMB2,187,478,000 as a result of bank borrowings and finance leasing. The net cash equivalents of the Company for the current period increased by RMB257,895,000 after deducting RMB809,882,000 of net cash outflow from operating activities due to decreased sales and RMB1,119,701,000 of net cash outflow arising from the investment projects such as hot-rolled plates project and wide-thick plates project.

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

  As at 31 December 2009, cash at bank and on hand balances of the Company were RMB1,590,937,000; balance of short-term loans amounted to RMB2,280,313,000 which were mainly used for supplementing capital demand for daily production; Long term loans of the Company (excluding current portion of long-term loans) amounted to RMB1,760,410,000, which were mainly used for wide-thick plates project and supplementing relevant capital demand. The Company analyses the structure and maturity for liabilities on a regular basis to ensure the abundance of capital. The Company conducts negotiations for finance with financial institutions to maintain certain credit facilities so as to lower the liquidity risk, while striving to diversify finance channels and improve capital structure.

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation (Continued)

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

As at 31 December 2009, the share capital structure of the Company was as follows:

Unit: RMB'000

Item	Amount	Item	Amount
Current assets	7,507,339	Current liabilities	6,815,042
Non-current assets	8,461,119	Non-current liabilities	3,597,754
Total assets	15,968,458	Shareholders' equity	5,555,662

As at 31 December 2009, the total assets of the Company amounted to RMB15,968,458,000, representing a year-on-year increase of 28.52%. The total liabilities amounted to RMB10,412,769,000 while the gearing ratio was 65.21%. Current assets amounted to RMB7,507,339,000; current liabilities amounted to RMB6,815,042,000; current ratio was 1.10.

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

Current ratio = current assets/current liabilities

- *Pledge of Assets*

No asset was pledged by the Company for bank loans as at 31 December 2009.

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

2. Analysis on principle operations and operating status *(Continued)*

(2) Analysis on operation *(Continued)*

- *Capital Commitments and Contingent Liability*

  As at 31 December 2009, capital commitments of the Company amounted to RMB3,421,939,876.30, which was mainly attributable to the construction and equipment contracts entered into for the hot-rolled plates project and wide-thick plates project which is being implemented and CCB Financial Leasing Agreement which have been signed and is being implemented.

- *Foreign Exchange Risk*

  Given that the sales of products and purchase of raw materials for production of the Company were mainly denominated in Renminbi, the Company did not have any significant foreign currency risk in respect of transactions, while the Company is mainly exposed to foreign exchange risk in respect of its deposits and loans denominated in foreign currencies. The exposure to foreign exchange risks for the Company's balance sheet items denominated in foreign currencies as at 31 December 2009 is set out in Note IX. 2(4) to the financial statements prepared under PRC GAAP.

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

2. Analysis on principle operations and operating status *(Continued)*

(3) Major suppliers and customers

Percentage in total procurement for major suppliers of the Company:

Percentage in total procurement for the largest supplier of the Company:	8.28%
Percentage in total procurement for the top five suppliers of the Company:	28.94%

Percentage in total sales for major customers of the Company:

Percentage in total sales for the largest customer of the Company:	6.14%
Percentage in total sales for the top five customers of the Company:	18.70%

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

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

3. Analysis on financial position

(1) Items of balance sheet

Unit: RMB'000

Item	At the end of 2009	At the end of 2008	Year-on-year increase/ decrease *(%)*	Percentage in total assets for the year *(%)*
Cash and bank balance	**1,590,937**	1,203,661	32.17	9.96
Bills Receivable	**1,059,242**	509,457	107.92	6.63
Inventories	**4,066,174**	3,057,732	32.98	25.46
Other current assets	**227,518**	21,005	983.16	1.42
Construction in progress	**2,908,862**	532,703	446.06	18.22
Construction material	**244,391**	1,185,619	-79.39	1.53
Intangible assets	**335,841**	251,050	33.77	2.10
Short-term loans	**2,280,313**	1,798,000	26.82	14.28
Accounts payable	**1,424,757**	602,113	136.63	8.92
Advances from customers	**951,578**	664,007	43.31	5.96
Employee compensation payable	**62,536**	39,963	56.48	0.39
Taxes Payable	**68,924**	189,227	-63.58	0.43
Interest payable	**1,200**	4,510	-73.39	0.01
Other payables	**125,616**	261,353	-51.94	0.79
Non-current liabilities due within 1 year	**1,900,118**	440,000	331.85	11.90
Long-term loans	**1,760,410**	2,324,076	-24.25	11.02
Long-term payables	**1,130,793**	—	Not applicable	7.08
Other non-current liabilities	**706,551**	456,773	54.68	4.42

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

3. Analysis on financial position *(Continued)*

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

Explanations:

(1) The increase in cash and bank balance was mainly attributable to the increase in proceeds from financing activities.

(2) The increase in bills receivable was mainly attributable to the increase in the amounts of settlement by bills in respect of the sale of goods due to sluggish steel market.

(3) The increase in net inventories was mainly attributable to the decrease of RMB 721,687,000 in provision for inventory impairment (from RMB832,937,000 as at the beginning of the year to RMB111,250,000 as at the end of the year).

(4) The increase in other current assets was mainly attributable to the increase in value-added tax recoverable.

(5) The increase in construction in progress was mainly attributable to: 1) the increase in expenditures for the hot-rolled plates project and wide-thick plates projects; and 2) the transfer from building materials to construction in progress upon installation of equipments purchased for the above two projects.

(6) The increase in intangible assets was mainly attributable to the acquired land use rights in respect of wide-thick steel plate project amounting to RMB90,000,000.

(7) The increase in short-term loans was mainly due to needs from production and operation activities.

(8) The increase in accounts payable was mainly attributable to the increase in payables for the contract work of hot rolling plate-strip project and wide-thick steel plate project.

(9) The increase in advances from customers was mainly attributable to the increase in advances from customers for steel sales.

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

3. Analysis on financial position *(Continued)*

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

Explanations: *(Continued)*

(10) The increase in employee compensation payable was mainly attributable to the deferred payment of employee pension insurance for 2009 pursuant to the Notice Regarding Temporarily Adjustment to the Contribution Rate of Social Insurances (Yu Ren She Fa No.[2009]208)（渝人社發[2009]208號《關於階段性調整企業社會保險繳費費率的通知》）.

(11) The decrease in taxes payable was mainly attributable to decrease in income taxes payable and value added tax in the end of 2009.

(12) The decrease in interest payable was mainly attributable to decrease in the Company's foreign currency borrowings with different interest periods.

(13) The decrease in other payables was mainly attributable to decrease in amounts due to associates at the end of 2009.

(14) The increase in non-current liabilities due within 1 year and decrease in long-term borrowings was mainly attributable to the increase in long-term loans due within 1 year.

(15) The increase in long-term payables was mainly attributable to the obligations under finance leases originated in 2009.

(16) The increase in other non-current liabilities was mainly attributable to deferred income as result of finance leases originated in 2009.

(2) ***Items of income statement***

(please see (2) "Operating results of the Company during the Reporting Period" of "Analysis on principle operations and operating status during the Reporting Period")

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

3. Analysis on financial position *(Continued)*

(3) Items of cash flow statement

Unit: RMB'000

Item	2009	2008	Main Reasons for the changes
Net cash flow from operating activities	**-809,882**	483,509	Mainly attributable to decrease in sales and increase in bills receivable in 2009.
Net cash flows from investing activities	**-1,119,701**	-1,216,918	No material change in this item in 2009 compared to 2008.
Net cash flows from financing activities	**2,187,478**	909,380	Mainly attributable to finance lease originated in 2009.
Net increase of cash and cash equivalents	**257,895**	175,971	The increase in net increase of cash and cash equivalents was mainly attributable to increase in net cash inflow from financing activities, partially offset by the decrease in net cash inflow from operating activities.

(II) PROSPECTS

In 2010, with a recovering global economy, a stabilized international financial market and a revival in international trade and investment, national economy is expected to maintain a relatively high-rate growth. In order to further consolidate the foundation for economic recovery, the state will continue to adopt active fiscal policies and moderately easing policies in money supply, and implement and refine a package of plans designed to "ensure growth and expand domestic demand". The rapid growth of downstream sectors such as infrastructure construction, automobile and machinery and equipment manufacturing will continue to bolster steel demand. The State's policies and measures in relation to merger and acquisition and reorganisation, phasing out of backward production capacities and industry entry criteria will facilitate a healthy development of steel industry. However, steel enterprises will still face difficulties stemming from oversupply and lack of external demand in steel industry as well as the cost pressures from the rise in prices of water, electricity, coal and iron ore.

(II) PROSPECTS *(CONTINUED)*

In 2010, the Company aspires to achieve its production and operation targets through grasping market opportunities and rationally allocating enterprise resources in active response to various adverse factors on the market. In addition, the Company will carry forward its relocation in an environmentally friendly way. In this regard, we will: (1) formulate raw material procurement strategy based on market supply and demand changes and the Company's demand, so as to ensure sufficient material for its production; (2) follow market conditions and expand product sales based on strategic customers; (3) enhance production organization and management and strengthen equipment maintenance to ensure smooth operation of the production system; (4) continue technology research and improve technical and economic indicators to refine product quality; (5) incentivize our employees and improve operational skills to facilitate the realization of planned capacity and standard at production line in new district.

(III) INVESTMENT DURING THE REPORTING PERIOD

1. Use of raised proceeds

The Company strictly complied with the requirements of laws, regulations and Chongqing Iron & Steel Company Limited Management Rules on Proceeds Management to manage and utilize the raised proceeds. As at 31 December 2009, the Company has utilized a total of RMB1,012,307,589.42 of raised proceeds (including fees in relation to the issue and underwriting). RMB130.00 of raised proceeds were used in 2009 as follows.

Item	Amount paid
Procedure fees	130.00
Total	130.00

Use of proceeds by the Company as at 31 December 2009

Unit: RMB

Total proceeds raised	1,008,000,000.00	Total utilised proceeds in the year (including fees in relation to underwriting, issuance and other fees)	130.00
		Accumulated use of raised proceeds (including fees in relation to underwriting, issuance and other fees)	1,012,307,589.42

(III) INVESTMENT DURING THE REPORTING PERIOD *(CONTINUED)*

1. Use of raised proceeds *(Continued)*

Projects undertaken	Change of project	Amount proposed to invest	Actual investment (excluding fees in relation to underwriting, issuance and other fees)	In line with schedule?	Estimated earnings	Return generated
Technological renovation project of plate-strip project	No	2,038,110,000	1,831,646,565.55	Yes	Not applicable	Not applicable
Total	—	2,038,110,000	1,831,646,565.55	—	—	—

Reason for the failure in keeping in line with the schedule and estimated return	Not applicable
Reason and procedure for the change	Not applicable
Use of outstanding proceeds	Deposited in designated bank account for further usage according to plan of usage of proceeds set out in the Prospectus

2. Use of proceeds for undertaken projects

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

During the reporting period, foundation work of equipments of the main rolling line of the hot-rolled plates project has been completed which has entered into the preparation stage for equipment installation. The majority work for installation of steel-structured plants has been completed. An accumulative expenditure of RMB1,197,342,453.42 has been incurred by the Company.

(III) INVESTMENT DURING THE REPORTING PERIOD *(CONTINUED)*

3. Projects financed by non-raised proceeds (as at 31 December 2009)

Unit: RMB

Project name	Budget	Progress	Earnings
4100mm wide-thick plates project	1,918,000,000	70%	Construction is in progress
Total	1,918,000,000	70%	—

During the reporting period, rolling and finishing production line of 4100mm wide-thick plates project are in trial production. Commissioning for certain equipment such as cooling bed, roller table, republication machine, magnetic crane in heat treatment production line are in progress, while electrical equipment is being installed for heat treatment furnace. The Company had paid approximately RMB1,598,196,942.51 for the project of 4100mm wide-thick steel plate.

(IV) REASONS AND IMPACT OF CHANGES IN ACCOUNTING POLICIES OR ESTIMATION BASIS AND CORRECTION TO MATERIAL ACCOUNTING ERRORS

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 26 to the Company's 2009 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). Changes in accounting policies during this period doesn't have any effect on items of the income statement for 2009 or items of the balance sheet as at 31 December 2009.

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 3 to the Company's 2009 Financial Statements prepared under HKFRS). The adoption of the revised standards does not have any effect on the financial statements of the reporting period.

(V) ONGOING WORK OF THE BOARD

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

(1) The 2009 first extraordinary meeting of the Board of the Company was held on 19 February 2009, the resolutions of which were published in China Securities Journal, Shanghai Securities News, Securities Times, Hong Kong Wen Wei Po and China Daily and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 20 February 2009.

(2) The fourteenth meeting of the fourth Board of the Company was held on 31 March 2009, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 1 April 2009.

(3) The 2009 second extraordinary meeting of the Board of the Company was held on 29 April 2009, at which, among others, the Company's 2009 First Quarterly Report was considered and approved.

(4) The first meeting of the fifth Board of the Company was held on 1 June 2009, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 2 June 2009.

(5) The extraordinary meeting of the fifth Board of the Company was held on 19 June 2009, at which the matters in relation to the proposal for issue of corporate bonds of the Company was considered and approved.

(6) The second meeting of the fifth Board of the Company was held on 7 August 2009, at which the Company's 2009 interim financial statements, 2009 interim report and its summary, unaudited interim financial results announcement for six months ended 30 June 2009 was considered and approved.

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

2. Certain proposals passed by way of written resolutions of the Board during the reporting period

(1) As approved by the 80th written resolution of the fourth Board of the Company on 11 May 2009, the Company invested RMB61.18 million in capacity expansion project of metallurgical limestone transportation system of Dabaopo Mine.

(2) As approved by the 1st written resolution of the fifth Board of the Company on 10 June 2009, the Company applied USD50 million and RMB600 million syndicate loan facilities from Standard Chartered Bank (China) Limited that acts as coordinating bank.

(3) As approved by the 14th written resolution of the fifth Board of the Company on 16 October 2009, the Company contributed RMB15 million to jointly establish Jiangsu Huayuan Metal Processing Company Limited, holding 5% of its share capital.

(4) As approved by the 16th written resolution of the fifth Board of the Company on 30 October 2009, the Company invested RMB299.80 million to carry out 450,000 tons per year expansion and reform project of cool-rolling sheet plant.

(5) As approved by the 17th written resolution of the fifth Board of the Company on 25 November 2009, the Company established logistics department providing logistics management and service in both new and old districts.

(6) As approved by the 18th written resolution of the fifth Board of the Company on 4 December 2009, the Company invested approximately RMB1.3 billion to construct Chongqing Iron & Steel Jingjiang Logistics Base Project.

(7) As approved by the 22nd written resolution of the fifth Board of the Company on 10 December 2009, the Company transferred a transformer with model No.SFSZQ9-40000/110 at an appraised price of RMB3,279,330.

(8) As approved by the 27th written resolution of the fifth Board of the Company on 30 December 2009, the Company established hot-rolling thin sheet plant on 1 January 2010.

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

3. Implementation of Resolutions of the General Meetings by the Board

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

(1) The Company convened 2008 AGM on 1 June 2009, at which the following final profit distribution proposal for 2008 was considered and approved to distribute to all shareholders a cash dividend of RMB1.00 (tax inclusive) for every 10 shares based on the total share capital of 1,733,127,200 shares as at the end of 2008. Such distribution proposal had been completed before 30 July 2009.

(2) The Company convened 2009 first EGM on 14 April 2009, at which the termination of issuance of bonds with warrants and the proposed issuance of corporate bonds were considered and approved. The Company's application for the proposed issuance of corporate bonds of not more than RMB2,000,000,000 was conditionally approved by the Issuance Examination Committee of CSRC on 12 August 2009.(Please refer to the relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 13 August 2009).

(3) The Company convened the 2009 second EGM on 7 August 2009, at which the following proposals were considered and approved: the proposal in relation to issue or provision of corporate communications by the Company to the holders of H Shares of the Company through the Company's website subject to the laws and regulations of the places of listing of the Company and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"); and the proposal in relation to the amendments to the Articles of Association of Chongqing Iron & Steel Company Limited. On 24 August 2009, Chongqing Foreign Trade and Economic Relations Commission approved the amendments to the Articles of Association of the Company passed at the Company's 2008 AGM held on 1 June 2009 and 2009 second EGM held on 7 August 2009 through issuance of the Yu Wai Jing Mao Fa [2009] No.208 Document.

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

4. Report on Performance of Duties of Audit Committee

The sixth meeting of the third Audit Committee was held on 30 March 2009, at which the 2008 audited financial reports prepared respectively under PRC GAAP and Hong Kong Financial Reporting Standards, the 2008 Annual Report, the 2008 Annual Results Announcement and the Summary of 2008 Annual Report were considered and approved; the Company's connected transactions for 2008 were confirmed; and the 2008 annual audit work report by KPMG was approved. The meeting also proposed to the Board to re-appoint KPMG and KPMG Huazhen as the Company's Hong Kong and domestic auditors for 2009, respectively. The report submitted to the Audit Committee by auditors was reviewed and a report regarding matters requiring management' attention was made to the Board at the meeting.

The first meeting of the fourth Audit Committee was held on 6 August 2009, at which the Company's unaudited financial report for the six months ended 30 June 2009, the 2009 Interim Report and its summary and the Announcement of 2009 Interim Results for the six months ended 30 June 2009 were considered and approved; the report submitted to the meeting by auditors was reviewed; and a report regarding matters requiring management's attention was made to the Board.

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

(1) On 27 January 2010, according to announcement (2009) No.34 issued by CSRC and Yu Zheng Jian Fa (2010) No.36 Document issued by Chongqing Securities Regulatory Bureau, the Company communicated with the certified public accountants responsible for the annual audit and concluded written opinion in respect of the composition of audit team, audit plan, risks judgement, test and appraisal methods for risks and frauds and the audit focus prior to the commencement of annual audit by the auditor;

(2) After hearing the report on financial condition and operating results for the year by the Financial Controller of the Company, the Committee carefully reviewed the preliminary financial statements prepared by the Company and issued its opinion thereon in writing on 3 March 2009 prior to the commencement of annual audit by the auditor;

(3) Upon the commencement of annual audit by the auditor, the Audit Committee communicated and exchanged opinions with the auditor in respect of issues identified during the audit and the delivery date of the audit report;

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

4. Report on Performance of Duties of Audit Committee *(Continued)*

(4) After the auditor issued the preliminary audit opinion and before the Company convenes a Board meeting to consider the annual report, the Audit Committee, based on its communication with the auditor in respect of such preliminary opinion, reviewed the Company's 2009 Financial Statements again and issued a written review opinion thereon;

(5) Upon the issue of Auditors' Report for 2009 by KPMG Huazhen, the Audit Committee held a meeting, at which it made a summary of the audit work by KPMG Huazhen; reviewed the report submitted by the auditors; and voted on the proposal regarding the Company's annual financial accounts and appointment of auditors for 2010 and approved it as a resolution.

5. Report on Performance of Duties of Salary and Remuneration Review Committee

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

The first meeting of the third Salary and remuneration Review Committee was held on 30 December 2009, at which the following resolutions were passed:

(1) The design principle of 2009 remuneration packages for Directors, Supervisors and other senior management of the Company was reasonable. However, as the Company was confronted with a number of difficulties in production and operation arising from the grim market conditions, the actual salaries paid to senior management were reduced by 15% based on their individual total remuneration from March 2009 as a way to demonstrate their confidence in, sense of responsibility for and practical attitude toward the development of the Company. With the concerted efforts of senior management and the staff, the Company achieved the operating profit goals for the period from January to December. Therefore, the reduced 15% salaries for the period from March to November were fully repaid to the senior management, which made their remunerations the same as designed. This practice is highly recognized as it not only demonstrates senior management's confidence and sense of responsibility but also is in line with long term development of the Company.

(2) The remuneration packages for Directors, Supervisors and senior management for year 2010 were approved.

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

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

6. Report on Performance of Duties of Strategic Committee

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

The first meeting of the third Strategic Committee was held on 28 October 2009, at which the proposal concerning the implementation of the expansion and renovation project with an annual capacity of 450,000 tonnes at a cold rolled thin plate plant was considered and approved.

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

According to Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies (Zheng Jian Zi [2003] No.56) by CSRC, the Independent Directors of the Company carefully reviewed the Company's decision-making procedures for guarantees and status of guarantees. They are of the view that the Company's decision-making procedures for guarantee are in line with relevant laws, regulations and the Articles of Association; as at 31 December 2009, the Company did not provide any guarantee to its controlling shareholder, other related companies in which the Company holds less than 50% equity interest, any other non-legal entity or individuals, whether on accumulative basis or in the current period.

8. Profit distribution in last three years and profit distribution proposal for 2009

(1) Profit distribution in last three years

Unit: RMB'000

Year	Cash dividend amount (tax inclusive)	Net profit in the year	Net profit margin *(%)*
2006	283,963	306,762	92.57
2007	173,313	449,244	38.58
2008	173,313	598,298	28.97

In last three years, the accumulative cash dividends accounts for 139.69% of the average annual net profit.

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

8. Profit distribution in last three years and profit distribution proposal for 2009 *(Continued)*

(2) Profit distribution proposal for 2009

As audited by domestic and overseas auditors, in 2009 the Company achieved net profit of RMB84,029,000 under PRC GAAP, or RMB84,986,000 under HKFRS. After 10% statutory capital reserve was transferred from the net profit under PRC GAAP, together with the retained profit at the end of 2008, the total distributable profit of the Company for 2009 was RMB2,083,069,000 under PRC GAAP and RMB2,120,396,000 under HKFRS. According to Article 229 of the Company' Articles of Association, the lesser of profits in the two statements will be adopted as basis when the Company distributes its profit. Therefore, the profit distributable to shareholders of the Company for 2009 is RMB2,083,069,000.

In light of the small amount of profit for 2009 of the Company due to significant decline in profitability of steel industry, and that it is necessary for the Company to reserve funds to conduct the relocation in an environment friendly way and facilitate the Company's development of production and operation, the Board considered and proposed neither to distribute profit for 2009 nor to transfer the capital reserve to share capital. The undistributed profit of the Company will mainly serve the liquidity needs for its production inthe Changshou New District.

9. Other Issues

(1) Fixed assets

For the year ended 31 December 2009, movements in the fixed assets of the Company are set out in Note IV.9 to the financial statements prepared under PRC GAAP and Note 7 to the financial statements prepared under HKFRS.

(2) Reserves

For the year ended 31 December 2009, movements in the reserves of the Company are set out in Note IV.28, Note IV.29 and Note IV.30 to the financial statements prepared under PRC GAAP, Note 16 to the financial statements prepared under HKFRS and the statement of changes in equity.

(3) Entrusted Deposits and Overdue Time Deposits

As at 31 December 2009, the Company did not have entrusted deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(V) ONGOING WORK OF THE BOARD *(CONTINUED)*

9. Other Issues *(Continued)*

(4) Management Contract

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

(5) Auditors and their Remuneration

As approved at 2008 Annual General Meeting, the Board reappointed KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively. The Auditors of the Company have audited the enclosed financial statements prepared under PRC GAAP and the financial report prepared under HKFRS. The Company paid RMB2.80 million for audit of such financial statements (including special statement pursuant to relevant laws and regulations). As at the end of the reporting period, the current auditors had provided auditing service for the Company for 3 year.

ACKNOWLEDGEMENTS

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

For and on behalf of the Board
Dong Lin
Chairman

Chongqing, PRC
22 April 2010

Report Of The Supervisory Committee

In 2009, the Supervisory Committee of the Company performed their supervision duties with due diligence and good faith in compliance with the provisions of the Company Law of the PRC and relevant laws and regulations and the Articles of Association of the Company so as to safeguard the lawful interests of the shareholders and the Company and improve the standard operation of the Company.

(I) MEETINGS HELD BY THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee convened five meetings, which are set out as follows:

1. The ninth meeting of the fourth Supervisory Committee was convened on 30 March 2009, at which 2008 Work Report of the Supervisory Committee, 2008 Annual Report, annual results announcement and annual report summary, 2008 audited financial reports, profit distribution proposal for 2008, the proposed provision for asset impairment for 2008, self-assessment report on the internal control of the Company by the Board, special report on the deposit and use of the proceeds raised by the Company and the proposal of candidates for supervisors of the fifth Supervisory Committee were considered and approved.

2. The tenth meeting of the fourth Supervisory Committee was convened on 28 April 2009, at which 2009 First Quarterly Report was considered and approved.

3. The first meeting of the fifth Supervisory Committee was convened on 1 June 2009, at which the Chairmen of the fifth Supervisory Committee was elected.

4. The second meeting of the fifth Supervisory Committee was convened on 2 June 2009, at which the Company's 2009 unaudited interim financial report and 2009 interim report and its summary were considered and approved.

5. The third meeting of the fifth Supervisory Committee was convened on 27 October 2009, at which the 2009 Third Quarterly Report was considered and approved.

(II) SUPERVISION ON SIGNIFICANT EVENTS OF THE COMPANY BY AND INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

1. Legality of the Company's operation

During the reporting period, the Supervisory Committee diligently performed their supervision duties by attending general meetings and Boarding meetings, paying close attention to the Company's special campaign on corporate governance and internal control system as well as assessing Directors' performance of duties. The Supervisory Committee was of the view that the Board worked in strict compliance with the laws and regulations and the Articles of Association of the Company by making reasonable and effective decisions through legal procedures; the Company further pushed forward its special campaign on corporate governance and made true and accurate self-assessment report on its internal controls; the Directors and other senior executives diligently performed their duties in good faith and no actions in violation of laws, regulations or the Articles of Association of the Company or against the interests of the Company and its shareholders were found.

2. Inspection of the Company's Financial Status

The Supervisory Committee reviewed the Company's daily production, operation and financial status on a timely basis according to the monthly financial analysis reports. It also earnestly reviewed the quarterly, interim and annual reports of the Company and heard the financial officer's explanations in respect of the preparation of the financial reports. The Supervisory Committee was of the view that the Company's financial statements were explicitly prepared under relevant rules and regulations, giving a true and objective picture of the Company's financial status and operating results. The comments included in the auditors' opinion issued by external auditor in respect of the Company's 2009 financial report are objective and fair.

3. Acquisition and disposal of assets by the Company

During the reporting period, there was no acquisition or disposal of assets by the Company and no actions that were against the interests of the Company and its shareholders or incurring loss to the assets of the Company were identified.

4. Connected transactions of the Company

During the reporting period, all connected transactions of the Company were objectively and fairly priced on the basis of market prices and were conducted in strict compliance with relevant laws and regulations, without detriment to the interests of the Company and its minority shareholders.

ACKNOWLEDGEMENTS

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

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

Chongqing, the PRC,
21 April 2010

(I) DURING THE REPORTING PERIOD, THE COMPANY DID NOT INVOLVE IN ANY MATERIAL LITIGATION OR ARBITRATION.

(II) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HOLD EQUITY INTERESTS IN OTHER LISTED COMPANIES OR HAVE EQUITY INVESTMENT IN FINANCIAL INSTITUTIONS SUCH AS COMMERCIAL BANKS

(III) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE EVENTS CONCERNING ASSETS ACQUISITION, ASSETS DISPOSAL OR BUSINESS COMBINATION.

(IV) CONTRACTS WITH HOLDING COMPANY

1. Service and Supply Agreement

The Service and Supply Agreement entered into by the Company and the Holding Company on 20 October 2005 expired on 31 December 2007. To ensure the continuous supply of service, raw materials, factory premises and welfare service between the Company and the Holding Company, the Company entered into the Service and Supply Agreement (the "New Service and Supply Agreement") from 2008 to 2010 with the Holding Company on 22 January 2008. The term of the Service and Supply Agreement was three years from 1 January 2008 to 31 December 2010.The New Service and Supply Agreement contains substantially the same terms as the Original Service and Supply Agreement: the Holding Company agreed to continue to supply or to procure its subsidiaries to supply certain equipments and materials and provide certain welfare and support services to the Company; the Company agreed to continue to supply certain materials and provide certain services to the Parent Group; the Company and the Parent Group will allow each other to use and occupy their respective factory premises. The fees payable in respect of such services are determined by reference to market prices or profit markup above the cost/depreciation or prices prescribed by the relevant Chongqing governmental departments (as applicable).

(IV) CONTRACTS WITH HOLDING COMPANY *(CONTINUED)*

2. Lease Agreements

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

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

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

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

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

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

On 10 February 2009 and 23 February 2009, the Company entered into land lease agreements with the Holding Company to renew the leases of land with areas of 337,473 square meters and 9,151 square meters respectively. The lease term is three years from 1 January 2009 to 31 December 2011, and the rental is priced at RMB5.75 per square meter for 2009 and RMB6.33 per square meter for 2010 and 2011 respectively.

(IV) CONTRACTS WITH HOLDING COMPANY *(CONTINUED)*

3. Transformer Transfer Agreement

On 10 December 2009, the Company entered into an agreement with the Holding Company to transfer an adapted SFSZQ9-40000/110 transformer at the appraised price of RMB3,279,330 as stated in the Asset Valuation Report-Chong Kang Ping Bao Zi (2009) No.113（重康評報字（2009）第113號）issued by Chongqing Huakang Appraisal Co. Ltd.

4. Agreement for Trial Operation of Production Lines

According to the Agreement for Trial Operation of Production Lines dated 24 December 2009 entered into between the Company and the Holding Company ("Agreement for Trial Operation of Production Lines"), pursuant to which the Company agreed to conduct trial operation on steel smelting production lines and relevant auxiliary public facilities of the Holding Company newly built in Jiangnan Town, Changshou District, Chongqing, PRC. The term of the entrusted trial operation is tentatively set for 6 months from the date the agreement takes effect. If the trial production completes earlier, the term of entrusted operation will end on the actual date of completing the trial production. During the trial production period, the Holding Company shall pay trial operation management fee of RMB1,000,000 per month to the Company.

(V) MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

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

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

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;

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

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

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

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

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

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

	Year ending 31 December 2008 *RMB*	Year ending 31 December 2009 *RMB*	**Year ending 31 December 2010** ***RMB***
Parent Group product cap (including products (such as oxygen, equipment and spare parts etc.) and raw materials (such as pig iron, iron ore, ferroalloy, scrap steel, refractory materials, and ancillary products (including dolomite, limestone) etc.))	2,635,000,000	2,970,500,000	**3,328,400,000**
Parent Group service cap (including transportation services, environmental services, technical services (such as construction service, property, plant and equipment project monitoring service, software development service and labour service etc.)	413,400,000	532,200,000	**545,000,000**
Parent Group (as lessor) Lease Caps (lease of the Holding Company's factory premises)	1,000,000	1,200,000	**1,500,000**
Welfare Caps	120,000,000	130,000,000	**140,000,000**

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

2. Related Party transactions constituted by the Land Lease Agreements

Pursuant to the land lease agreement dated 14 August 1997 and its supplemental lease agreement ("First Land Lease"), the land lease agreement dated 8 December 2002 and its supplemental lease agreement ("Second Land Lease"), the renewed land lease agreements respectively dated 10 February 2009 and 23 February 2009 (the "Renewed Land Lease") entered into between the Company and its Holding Company, the Company leased from the Holding Company lands with area of 2,559,973 square meters, 216,430 square meters, 337,473 square meters and 9,151 square meters respectively, with respective term of 20 years, 15 years, 3 years and 3 years. The leases are renewable upon maturity.

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

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

Pursuant to the Renewed Land Lease, the yearly rent for lease of the Holding Company's land use right by the Company is RMB5.75 per square meter for 2009 and RMB6.33 per square meter for 2010 and 2011.

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

3. Related Party transactions of the Company during the year ended 31 December 2009

Details of the major related party transactions entered into by the Company during the year ended 31 December 2009 are set out in Note V.4 to the financial statements prepared under PRC GAAP and Note 32 to the financial statements prepared under HKFRS.

Related party	Products sold to related party		Products purchased from related party	
	Amount *(RMB'000)*	Percentage in similar transactions *(%)*	Amount *(RMB'000)*	Percentage in similar transactions *(%)*
Chongqing Iron & Steel Group Mining Company Limited	6,778	1.31	750,904	10.62
Chongqing Iron & Steel Group Iron Company Limited	—	—	493,479	80.49
Chongqing Iron & Steel Group Construction and Engineering Company Limited	29,692	0.28	138,354	9.53
Chongqing Chaoyang Gas Company Limited	178,247	34.57	254,635	84.84
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	12,241	2.37	25,828	4.85
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	17,436	16.84
Chongqing Si Gang Steel Company Limited	202,842	2.00	—	—
Chongqing Iron & Steel Group San Feng Industrial Company	—	—	27,569	3.31
Chongqing Iron & Steel Group Design and Research Institute	—	—	16,507	1.14
Chongqing Iron & Steel Group Steel Pipe Company Limited	193,560	1.91	—	—

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

3. Related Party transactions of the Company during the year ended 31 December 2009 *(Continued)*

Related party	Products sold to related party		Products purchased from related party	
	Amount *(RMB'000)*	Percentage in similar transactions *(%)*	Amount *(RMB'000)*	Percentage in similar transactions *(%)*
Chongqing San Gang Steel Company Limited	200,118	1.97	—	—
Chongqing Iron & Steel Group Industrial Company Limited	152,247	1.43	37,710	0.77
Chongqing Wuxia Mining Company Limited (重慶巫峽礦業股份有限公司)	—	—	82,816	3.83
Chongqing Iron & Steel (Group) Company Limited	40,025	0.37	—	—
Others	22,460	—	41,129	—
Total	1,038,210	—	1,886,367	—

In addition, during the reporting period, the amount of related party transactions in respect to the Company's provision of labour service to and receipt of labour services from the Holding Company and its subsidiaries amounted to RMB2,874,000 and RMB209,275,000, respectively, and the land rental and advance paid on behalf of the Holding Company was RMB17,957,000 and RMB59,050,000 respectively.

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

The independent directors of the Company have reviewed the above continuing related party transactions and confirmed that they were carried out: (1) in the usual and ordinary course of business of the Company; (2) on normal business terms or terms no less favorable than those available to or from independent third parties; and (3) on terms set out in agreements governing the relevant transactions which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Related party transactions and balance all arose from normal business activities of products purchase and sale and had no adverse impact on the Company's production and operation. Relevant details are set out in Note V.4 and Note V.5 to the financial statements prepared under PRC GAAP and Note 32 to the financial statements prepared under HKFRS.

Unit: RMB'000

Related party	Capital provided to related party (sales)		Capital provided by related party (purchase)	
	Amount	Balance	Amount	Balance
Chongqing Iron & Steel Group Mining Company Limited	6,778	—	750,904	1,385
Chongqing Iron & Steel Group Iron Company Limited	—	—	493,479	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	29,692	1,000	138,354	16,175
Chongqing Chaoyang Gas Company Limited	178,247	—	254,635	—
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	12,241	—	25,828	—
Chongqing Iron & Steel Group Electronic Company Limited	—	—	—	981
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	17,436	—
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	—	7,369	—	—
Chongqing Si Gang Steel Company Limited	202,842	77,939	—	—
Chongqing Iron & Steel Group Design and Research Institute	—	—	16,507	7,395

(V) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Related party	Capital provided to related party (sales)		Capital provided by related party (purchase)	
	Amount	Balance	Amount	Balance
Chongqing Iron & Steel Group San Feng Industrial Company	—	5,661	27,569	—
Chongqing Iron & Steel Group Steel Pipe Company Limited	193,560	68,963	—	—
Chongqing San Gang Steel Company Limited	200,118	61,229	—	—
Chongqing Iron & Steel Group Yingsite Mould Company Limited	—	2,756	—	—
Chongqing Iron & Steel (Group) Company Limited	40,025	—	—	27,838
Chongqing Iron & Steel Group Industrial Company Limited	152,247	—	37,710	6,176
Chongqing Wuxia Mining Company Limited（重慶巫峽礦業股份有限公司）	—	—	82,816	9,675
Others	22,460	142	41,129	1,090
Total	1,038,210	225,059	1,886,367	70,715

(VI) EMPLOYEE SOCIAL SECURITY AND BENEFITS

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

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

(VII) INCOME TAX

In April 2003, the Company obtained the “Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited” (Yu Guo Shui Han [2003] No. 57) issued by the State Administration of Taxation of Chongqing on 17 February 2003 and the “Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited” (Da Dukou Guo Shui Han [2003] No. 8) issued by the State Administration of Taxation of Da Dukou District, Chongqing on 21 February 2003. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and its income tax rate is reduced to 15% for the period from 2001 to 2010. Enterprise Income Tax Law of the PRC (“new PRC EIT law”) has been approved by the 5th Session of the 10th National People’s Congress on 16 March 2007, and came into effect on 1 January 2008. According to the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Guo Fa [2007] No.39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the development of China’s western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010.

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

The applicable income tax rate for the Company was 15% (2008: 15%) during the year.

(VIII) SPECIAL STATEMENT OF AUDITORS ON THE CAPITAL APPROPRIATION BY COMPANY'S CONTROLLING SHAREHOLDER AND RELATED PARTIES

According to the requirements from relevant notices of CSRC, domestic auditors KPMG Huazhen reviewed the capital appropriation of Company, Chongqing Iron & Steel (Group) Company Limited (controlling shareholder of the Company) and other related parties; and stated that: as at 31 December 2009, the capital transactions between the Company and its controlling shareholder and other related parties mainly arose from connected transactions constituted in ordinary operation activities between the Company and its related parties. Save for the above capital transactions arose from connected transactions in ordinary operation activities, no violation of Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies was found in the Company.

(IX) PERFORMANCE OF UNDERTAKINGS OF SHAREHOLDERS HOLDING 5% OR MORE OF SHARE CAPITAL OF THE COMPANY

In the Company's "Prospectus of Initial Public Offering of Shares (A Shares)", the controlling shareholder of the Company undertook that: within 36 months from the listing date of the Company's A shares, it 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 shareholder of the Company has not violated the above undertakings.

(X) ISSUANCE OF CORPORATE BONDS

At 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 formal written application for Issuance of Corporate Bonds was submitted to the CSRC on 20 April 2009 which was conditional approved by the Issuance Examination Committee of the CSRC on 12 August 2009.

(XI) DURING THE REPORTING PERIOD, THE COMPANY HAS NOT INVOLVED IN ANY MATERIAL CUSTODY, CONTRACTING OR LEASING OF ASSETS FOR OTHER PARTIES OR OF ITS ASSETS BY OTHER PARTIES, NOR HAS IT ENTRUSTED ANY PARTY WITH CASH ASSET MANAGEMENT.

(XII) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, THE BOARD AND DIRECTORS OF THE COMPANY HAS BEEN A SUBJECT OF INSPECTION, ADMINISTRATIVE PUNISHMENT, REPRIMAND BY ANNOUNCEMENT BY CSRC OR PUBLIC CENSURE BY STOCK EXCHANGES; AND NONE OF THE DIRECTORS AND MANAGEMENT MEMBERS HAS BEEN A SUBJECT OF JUDICIAL ENFORCEMENT MEASURES.

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2009

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement on unusual fluctuations in stock trading	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

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2009 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
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
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

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2009 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
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 representative	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
Corrective measures for issues such as related party transactions	Lin 2009-015	16 July 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of 9th written resolution of the fifth Board	Lin 2009-016	29 July 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2009 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement of resolutions passed at 2009 second extraordinary general meeting	Lin 2009-017	7 August 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Board of Directors	Lin 2009-018	13 August 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for August 2009	Lin 2009-019	4 September 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Board of Directors	Lin 2009-020	23 September 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement in relation to finance leases	Lin 2009-021	29 September 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for September 2009	Lin 2009-022	9 October 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2009 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Steel output bulletin for October 2009	Lin 2009-023	3 November 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for November 2009	Lin 2009-024	3 December 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of connected transactions	Lin 2009-025	24 December 2009	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

KPMG-BH (2010) AR No.0004

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

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Chongqing Iron and Steel Company Limited (the "Company") set out on pages 103 to 165, which comprise the balance sheet as at 31 December 2009, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2009 and of the Company's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

22 April 2010

Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**7,951,111**	6,704,129
Land use right	8	**335,841**	251,050
Available-for-sale financial asset	9	**5,000**	5,000
Deferred income tax assets	10	**118,387**	129,386
Trade and other receivables	12	**50,780**	42,750
Total non-current assets		**8,461,119**	7,132,315
Current assets			
Inventories	11	**4,066,174**	3,057,732
Prepaid taxation		**1,854**	—
Trade and other receivables	12	**1,848,374**	1,031,260
Restricted cash	13	**185,989**	56,608
Cash and cash equivalents	14	**1,404,948**	1,147,053
Total current assets		**7,507,339**	5,292,653
Total assets		**15,968,458**	12,424,968
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	15	**1,733,127**	1,733,127
Other reserves	16	**1,685,412**	1,677,009
Retained earnings			
— Proposed final dividend	27	**—**	173,313
— Others		**2,120,396**	2,043,813
Total equity		**5,538,935**	5,627,262

The notes on pages 109 to 165 form part of these financial statements.

Balance Sheet (Continued)

At 31 December 2009
(Expressed in Renminbi)

	Note	**2009** **RMB'000**	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	17	**520,000**	440,000
Borrowings	18	**1,760,410**	2,324,076
Deferred income	19	**203,278**	34,457
Obligation under finance leases	20	**1,130,793**	—
Total non-current liabilities		**3,614,481**	2,798,533
Current liabilities			
Trade and other payables	17	**2,634,611**	1,682,089
Borrowings	18	**4,104,005**	2,238,000
Obligation under finance leases	20	**76,426**	—
Current taxation		**—**	79,084
Total current liabilities		**6,815,042**	3,999,173
Total liabilities		**10,429,523**	6,797,706
Total equity and liabilities		**15,968,458**	12,424,968
Net current assets		**692,297**	1,293,480
Total assets less current liabilities		**9,153,416**	8,425,795

Approved and authorised for issue by the board of directors on 22 April 2010.

Dong Lin	*Chairman*
Chen Shan	*Director*

The notes on pages 109 to 165 form part of these financial statements.

Statement of Comprehensive Income

For The Year Ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Sales	21	**10,633,996**	16,482,183
Cost of goods sold	23	**(9,464,841)**	(13,836,547)
Gross profit		**1,169,155**	2,645,636
Selling and marketing costs	23	**(293,790)**	(258,939)
Administrative expenses	23	**(533,673)**	(1,528,891)
Other net gains	22	**31,427**	7,824
Operation profit		**373,119**	865,630
Finance costs	25	**(277,134)**	(259,328)
Profit before income tax		**95,985**	606,302
Income tax expense	26	**(10,999)**	(7,466)
Profit for the year		**84,986**	598,836
Other comprehensive income for the year (after taxation and reclassification adjustments)		**—**	—
Total comprehensive income for the year		**84,986**	598,836

The notes on pages 109 to 165 form part of these financial statements.

Statement of Comprehensive Income (Continued)

For The Year Ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Profit/total comprehensive income attributable to equity shareholders of the Company		**84,986**	598,836
Dividends	27	**—**	173,313
Earnings per share for profit attributable to the Company's shareholders during the year			
— Basic and diluted	28	**RMB 0.05**	RMB 0.35

Approved and authorised for issue by the board of directors on 22 April 2010.

Dong Lin *Chairman*

Chen Shan *Director*

The notes on pages 109 to 165 form part of these financial statements.

Statement of Changes in Equity

For The Year Ended 31 December 2009
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company					
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital surplus *RMB'000*	Statutory common reserve *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
1 January 2008		1,733,127	894,259	216,071	506,849	1,851,433	5,201,739
Total comprehensive income for the year		—	—	—	—	598,836	598,836
Dividends relating to 2007	27	—	—	—	—	(173,313)	(173,313)
Appropriation		—	—	—	59,830	(59,830)	—
31 December 2008		1,733,127	894,259	216,071	566,679	2,217,126	5,627,262
1 January 2009		1,733,127	894,259	216,071	566,679	2,217,126	5,627,262
Total comprehensive income for the year		—	—	—	—	84,986	84,986
Dividends relating to 2008	27	—	—	—	—	(173,313)	(173,313)
Appropriation		—	—	—	8,403	(8,403)	—
31 December 2009		1,733,127	894,259	216,071	575,082	2,120,396	5,538,935

Approved and authorised for issue by the board of directors on 22 April 2010.

Dong Lin *Chairman*

Chen Shan *Director*

The notes on pages 109 to 165 form part of these financial statements.

Cash Flow Statement

For The Year Ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Cash generated from operations	29	**(728,944)**	537,459
Income tax paid		**(80,938)**	(53,950)
Net cash (used in)/generated from operating activities		**(809,882)**	483,509
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,133,474)**	(1,234,501)
Payment for purchase of held-to-maturity securities		**—**	(50,000)
Proceeds from sale of property, plant and equipment	29(a)	**1,241**	7,429
Proceeds from sale of held-to-maturity securities		**—**	50,000
Interest received		**11,228**	10,122
Dividends received from investments in securities		**1,304**	32
Net cash used in investing activities		**(1,119,701)**	(1,216,918)
Financing activities			
Proceeds from finance leases		**1,379,000**	—
Proceeds from new bank loans		**4,600,603**	3,820,428
Repayments of bank loans		**(3,298,264)**	(2,436,600)
Other borrowing cost paid		**(320,548)**	(301,135)
Dividends paid to equity shareholders of the Company		**(173,313)**	(173,313)
Net cash generated from financing activities		**2,187,478**	909,380
Net increase in cash and cash equivalents		**257,895**	175,971
Cash and cash equivalents at 1 January		**1,147,053**	971,082
Cash and cash equivalents at 31 December	14	**1,404,948**	1,147,053

Approved and authorised for issue by the board of directors on 22 April 2010.

Dong Lin *Chairman*

Chen Shan *Director*

The notes on pages 109 to 165 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Chongqing Iron and Steel Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") in August 1997 as part of the restructuring ("Restructuring") of a state-owned enterprise known as Chongqing Iron and Steel Company (Group) Limited (the "Holding Company"). Pursuant to the Restructuring, the principal iron and steel business undertakings and one of the subsidiaries of the Holding Company, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), were taken over by the Company, whereupon the Company issued 650,000,000 state-owned shares of RMB1 each to the Holding Company. The 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 has declared dividends of bonus shares of 319,183,200 shares. In February 2007, the Company has issued 350,000,000 ordinary A shares. The A shares of the Company have been listed on the Stock Exchange of Shanghai on 28 February 2007. As at 31 December 2007, the total number of shares of the Company has increased to 1,733,127,200.

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

Under the requirements of energy saving and emission reduction, industrial layout and planning of Chongqing Municipal Government, the Holding Company is required to carry out environmental relocation of its principal operations from Dadukou District of Chongqing City to Yanjia Industry Zone, Jiangnan Town, Changshou District of Chongqing City ("Changshou New Zone"). The Company is also subject to the relocation plan according to the requirement of Chongqing Municipal Government. Considering that the Company will commence the overall relocation with reference to the standard arrangement of Chongqing Municipal Government, the Company may cease the normal operation of part of its fixed assets, the Holding Company in an attempt to ensure steady production and operation of the Company, undertakes to use self-owned funds or part of the assets from the steel and iron project at Changshou New Zone as a compensation for the loss from fixed assets arising from the relocation of the Company. As at 31 December 2009, the preparation work for the Holding Company's environmental relocation as well as that of the Company is in progress. The Company's 4100 mm wide-thick steel plate production line has commenced trial operation.

1 ORGANISATION AND PRINCIPAL ACTIVITIES *(CONTINUED)*

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 35).

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation of the financial statements

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(d) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(e) Property, plant and equipment

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Property, plant and equipment *(Continued)*

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

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

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

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment 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.

(f) Land use right

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Impairment of non-financial assets

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

(h) Financial assets

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Financial assets *(Continued)*

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

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

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

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

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

(i) Inventories

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Trade and other receivables

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

(k) Interim financial reporting and impairment

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

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

(l) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Share capital

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

(n) Trade and other payables

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

(o) Borrowings

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

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

(p) Deferred income tax

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Pension obligations

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

(r) Provisions

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

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

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

(s) Revenue recognition

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Revenue recognition *(Continued)*

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

(i) Sale of goods

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

(ii) Provision of services

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

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Operating lease (as the lessor)

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

(t) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Leased assets *(Continued)*

(i) Classification of assets leased to the Company

Assets that are held by Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, with the following exception:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Company, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that received in relation to assets are recorded as deferred income, and recognised evenly in profit or loss over the asset's useful lives.

(v) Dividend distribution

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

(w) Borrowing costs

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

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

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

(i) Non-current assets held for sale

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

(i) Non-current assets held for sale (Continued)

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

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

(ii) Discontinued operations

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(y) Related parties

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

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

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

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

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs 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:

— HKFRS 8, Operating segments

— HKAS 1 (revised 2007), Presentation of financial statements

— Amendments to HKFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments

— Improvements to HKFRSs (2008)

— HKAS 23 (revised 2007), Borrowing costs

3 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 and interpretations 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 financial report. The impact of the remainder of these developments on the 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 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.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(a) Credit risk *(Continued)*

The Company requires prepayment by cash or bills from most of its customers prior to delivery. As for trade and other receivables, the limit on sales credit is determined by the Company's credit assessment on customers. In the normal course, the Company does not obtain collateral from its customers, and has made adequate bad debt provision for trade and other receivables with limited possibility of retrieval. The ageing analysis and provision for impairment of trade and other receivables are set out in Note 12.

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

(b) Liquidity risk

Failure of the Company to perform its financial obligations at maturity date is identified as liquidity risk. The Company's liquidity management was to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to reputation of the Company. Analysis on liability structure and maturity was carried out on regular basis by the Company to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Company held negotiation with financial institutions for enough banking facilities.

The Company's banking facility was granted by certain financial institutions in the PRC. As at 31 December 2009, it had an undrawn standby credit of RMB 2,010,687,000 (Note 18). Drawn borrowing facilities were recorded in non-current borrowings, and current borrowings respectively. The maturity analysis of borrowings is disclosed in Note 18.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(b) Liquidity risk *(Continued)*

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The information disclosed in the table are based on the amounts of contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Company can be required to pay.

	Carrying amount	Total contractual undiscounted cash flow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009					
Trade and other payables	**3,056,693**	**3,027,068**	**2,399,922**	**313,329**	**313,817**
Bank borrowings	**5,864,415**	**6,135,709**	**4,284,859**	**798,538**	**1,052,312**
	8,921,108	**9,162,777**	**6,684,781**	**1,111,867**	**1,366,129**
At 31 December 2008					
Trade and other payables	2,122,089	2,145,617	1,682,088	258,414	205,115
Bank borrowings	4,562,076	4,887,269	2,460,499	1,951,160	475,610
	6,684,165	7,032,886	4,142,587	2,209,574	680,725

As shown in the above analysis, bank loans of the Company amounting to RMB 4,284,859,000 are due to be repaid during 2010. The short-term liquidity risk inherent in this contractual maturity date has been addressed after the balance sheet date by refinancing RMB 2,010,687,000 of the loans, as disclosed in Note 18.

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(c) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest risk respectively. The Company adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Company has achieved an appropriate mix of fixed and floating rate exposure consistent with the Company's policy. Interest rates for borrowings are set out in Note 17, 18 and 20.

As at 31 December 2009, it is estimated that a general increase of 100 basis points with all other variables held constant, would decrease the Company's net profit by RMB 42,377,000 (2008: RMB 30,550,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied to all financial instruments of the Company. Percentage of change was made on reasonable estimate of interest rate change between balance sheet date and next such date. The analysis is performed on the same basis for 2008.

(d) Foreign currency risk

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

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

(Expressed in RMB'000)

	2009		2008	
	USD	***HKD***	*USD*	*HKD*
Cash at bank	**6,469**	**54**	1,209	42
Bank borrowings	**(907,415)**	**—**	(410,076)	—
	(900,946)	**54**	(408,867)	42

(Expressed in Renminbi unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(d) Foreign currency risk *(Continued)*

Major foreign exchange rates applied by the Company:

	Average rate		Reporting date mid-spot rate	
	2009	2008	**2009**	2008
USD	**6.8314**	7.0696	**6.8282**	6.8346
HKD	**0.8812**	0.9092	**0.8805**	0.8819

A 5% strengthening of the Renminbi against the US dollar and HK dollar at 31 December 2009 would increase the Company's profit after tax by approximately RMB 38,288,000 (2008: RMB 17,375,000).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Company's exposure to currency risk for all financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

(e) Price risk

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

(f) Fair value estimation

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

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

4 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(f) Fair value estimation *(Continued)*

The Company's unlisted available-for sale equity securities without public quotation do not have a significant impact on the financial condition and operating result of the Company.

The carrying amounts of all financial instruments are not materially different from their fair values as at 31 December 2009.

5 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Note 4(f) contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of trade and other receivables

As described in Note 2(j), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(b) Estimated impairment of property, plants and equipment

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

5 CRITICAL ACCOUNTING ESTIMATES *(CONTINUED)*

(c) Depreciation

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

(d) Provision for impairment of inventories

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

6 SEGMENT REPORTING

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.

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Transportation vehicles and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008					
Cost	2,301,464	5,882,729	26,517	147,608	8,358,318
Accumulated depreciation and impairment	(808,370)	(2,135,539)	(17,131)	—	(2,961,040)
Net book amount	1,493,094	3,747,190	9,386	147,608	5,397,278
Year ended 31 December 2008					
Opening net book amount	1,493,094	3,747,190	9,386	147,608	5,397,278
Additions	8,915	1,949	1,989	1,711,638	1,724,491
Transfers	40,866	95,045	5,013	(140,924)	—
Disposals *(Note 29(a))*	(2,070)	(8,912)	(562)	—	(11,544)
Depreciation charge *(Note 23 and Note 22)*	(54,590)	(257,293)	(2,317)	—	(314,200)
Impairment loss *(Note 23)*	(5,569)	(86,327)	—	—	(91,896)
Closing net book amount	1,480,646	3,491,652	13,509	1,718,322	6,704,129
At 31 December 2008					
Cost	2,331,032	5,848,067	26,657	1,718,322	9,924,078
Accumulated depreciation and impairment	(850,386)	(2,356,415)	(13,148)	—	(3,219,949)
Net book amount	1,480,646	3,491,652	13,509	1,718,322	6,704,129

7 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Transportation vehicles and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2009					
Opening net book amount	1,480,646	3,491,652	13,509	1,718,322	6,704,129
Additions	—	—	—	1,545,047	1,545,047
Transfers	5,213	98,870	6,033	(110,116)	—
Disposals *(Note 29(a))*	—	(126)	(16)	—	(142)
Depreciation charge *(Note 23 and Note 22)*	(53,905)	(241,003)	(3,015)	—	(297,923)
Impairment loss *(Note 23)*	—	—	—	—	—
Closing net book amount	1,431,954	3,349,393	16,511	3,153,253	7,951,111
At 31 December 2009					
Cost	2,330,409	5,882,493	32,280	3,153,253	11,398,435
Accumulated depreciation and impairment	(898,455)	(2,533,100)	(15,769)	—	(3,447,324)
Net book amount	1,431,954	3,349,393	16,511	3,153,253	7,951,111

(a) As at 31 December 2009, the Company was in the process of obtaining ownership certificates of certain buildings with carrying amount of RMB 252,760,000 (2008: RMB 296,380,000).

(b) As at 31 December 2009, property, plant and equipment with gross carrying amount of RMB 28,444,000 (2008: RMB 25,580,000) was fully depreciated but still in use.

(c) Depreciation expense of RMB 288,851,000 (2008: RMB 306,113,000) has been charged in cost of goods sold, RMB 1,400,000 (2008: RMB 1,336,000) in selling and marketing costs, RMB 7,233,000 (2008: RMB 6,205,000) in administrative expenses (Note 23) and RMB 439,000 (2008: RMB 546,000) in other net gains (Note 22).

(d) The Company has not provided any impairment loss in 2009 (2008: RMB 91,896,000) (Note 23).

7 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(e) On 28 September 2009, the Company entered into a sales and lease back arrangement with Jianxin Financial Leasing Ltd. ("Jianxin") in relation to certain machinery equipment of the 4100 mm steel plate production line ("the Equipment"). The Equipment were awaiting commissioning has a carrying amount of RMB 1,230,672,000 and were sold to Jianxin at a consideration of RMB 1,400,000,000. The Company then leased back the Equipment for 60 months, from 29 September 2009 to 29 September 2014. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB 1,400,000,000, and the lease rate is one basis point (0.01%) below the interest rate for a 3-5 year loan designated in RMB quoted by the People's Bank of China. According to the asset transfer and leasing agreements, if no default occurs during the lease term, the ownership of the Equipment shall be automatically transferred to the Company, the lessee. As at 31 December 2009, the carrying amount of the Equipment was RMB 1,230,672,000.

8 LAND USE RIGHT

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

:

	2009	2008
	Rmb'000	*Rmb'000*
At 1 January	**251,050**	25,820
Additions	**90,000**	230,053
Amortisation *(Note 23)*	**(5,209)**	(4,823)
At 31 December	**335,841**	251,050

As at 31 December 2009, the Company was in the process of obtaining ownership certificates of certain land use right with cost of RMB 90,000,000 (2008: Nil).

9 AVAILABLE-FOR-SALE FINANCIAL ASSET

	2009 **Rmb'000**	2008 *Rmb'000*
Unlisted shares, at cost	**5,000**	5,000

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

There were no disposal or impairment provisions on available-for-sale financial asset in 2009.

10 DEFERRED INCOME TAX ASSETS

Deferred income tax assets were calculated in full on temporary differences under the liability method using tax rate of 15% (2008: 15%) (Note 26(a)).

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

	2009 **Rmb'000**	2008 *Rmb'000*
At 1 January	**129,386**	7,329
Charged to profit or loss *(Note 26)*	**(10,999)**	122,057
At 31 December	**118,387**	129,386

10 DEFERRED INCOME TAX ASSETS *(CONTINUED)*

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

	At 1 January *RMB'000*	Charged/ (Credited) to profit or loss *RMB'000*	At 31 December *RMB'000*
Deferred income tax assets:			
Year ended 31 December 2009			
— Provisions for impairments of receivables and inventories	**121,213**	**(109,577)**	**11,636**
— Provision for impairment of property, plant and equipment	**8,173**	**(97)**	**8,076**
— Unused tax loss	**—**	**68,492**	**68,492**
— Unrealised profit of sale and leaseback	**—**	**25,399**	**25,399**
— Amortisation of interest expenses under finance lease	**—**	**4,784**	**4,784**
	129,386	**(10,999)**	**118,387**
Year ended 31 December 2008			
— Provisions for impairments of receivables and inventories	3,051	118,162	121,213
— Provision for impairment of property, plant and equipment	4,278	3,895	8,173
	7,329	122,057	129,386

10 DEFERRED INCOME TAX ASSETS *(CONTINUED)*

(b) The components of deferred income tax assets during the year are as follows: *(Continued)*

The above deferred income tax assets are not tax deductible until approved by the local tax authority.

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2009, the Company has not recognised deferred income tax assets of approximately RMB 23,953,000 (2008: RMB 27,931,000) in respect of provisions for impairments for receivables, inventories and property, plant and equipment that are not tax deductible.

11 INVENTORIES

	2009 ***Rmb'000***	2008 *Rmb'000*
Raw materials	**2,153,423**	2,015,941
Work in progress	**893,386**	536,078
Finished goods	**288,850**	186,949
Reusable materials	**730,515**	318,764
	4,066,174	3,057,732

During the year ended 31 December 2009, the Company recognised a write-down of inventories of RMB 13,158,000 (2008: recognised a write-down of RMB 785,520,000). The amount recognised has been included in administrative expenses in profit or loss (Note 23).

Since the 4100mm steel plate production line is still in the commissioning stage, the production technology is not mature and the production yield is low. The cost of the finished goods from the trial production exceeded their net realisable value and the write down of inventories of RMB 35,526,000 has been capitalised in construction-in-progress.

The cost of inventory recognised as expenses and included in cost of goods sold amounted to RMB 7,958,652,000 (2008: RMB 12,803,456,000).

12 TRADE AND OTHER RECEIVABLES

	2009	2008
	Rmb'000	*Rmb'000*
Notes receivable	**953,519**	411,614
Accounts receivable *(Note (a))*	**230,346**	246,485
Trade receivables	**1,183,865**	658,099
Less: provision for impairment of trade receivables *(Note (b))*	**(144,740)**	(144,562)
Trade receivables - net	**1,039,125**	513,537
Receivables from fellow subsidiaries of the Holding Company *(Note (c) and Note 32(d))*	**225,059**	216,034
Less: provision for impairment of receivables from fellow subsidiaries of the Holding Company	**(10,079)**	(10,079)
Receivables from fellow subsidiaries of the Holding Company — net	**214,980**	205,955
Prepayments and deposits	**392,685**	309,093
Other receivables	**259,082**	52,143
Less: provision for impairment of other receivables *(Note (d))*	**(6,718)**	(6,718)
Other receivables - net	**252,364**	45,425
	1,899,154	1,074,010
Less non-current portion: prepayment to a supplier	**(50,780)**	(42,750)
Current portion	**1,848,374**	1,031,260

12 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

	2009 **Rmb'000**	2008 *Rmb'000*
Trade receivables	**1,039,125**	513,537
Receivables from fellow subsidiaries of the Holding Company	**214,980**	205,955
Prepayments and deposits	**392,685**	309,093
Other receivables	**252,364**	45,425
	1,899,154	1,074,010

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

	2009 **Rmb'000**	2008 *Rmb'000*
Between 1 and 2 years	**28,440**	10,800
Between 2 and 5 years	**22,340**	31,950
	50,780	42,750

(a) The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a one-month credit period. The ageing analysis of accounts receivables as at 31 December 2009 is as follows:

	2009 **Rmb'000**	2008 *Rmb'000*
Within 3 months	**82,234**	99,529
Between 3 months and 1 year	**2,766**	767
Between 1 and 2 years	**602**	1,800
Between 2 and 3 years	**585**	629
Over 3 years	**144,159**	143,760
	230,346	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.

12 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

	2009	2008
	Rmb'000	*Rmb'000*
At 1 January	**144,562**	144,880
Impairment loss recognised	**2,459**	256
Reversal of impairment of trade receivables	**—**	(234)
Receivables written off during the year as uncollectible	**(2,281)**	(340)
At 31 December	**144,740**	144,562

The amount recognised and reversed has been included in administrative expenses in profit or loss (Note 23).

(c) The ageing analysis of receivables from fellow subsidiaries of the Holding Company as at 31 December 2009 is as follows:

	2009	2008
	Rmb'000	*Rmb'000*
Within 3 months	**99,744**	160,756
Between 3 months and 1 year	**110,087**	37,938
Between 1 and 2 years	**3**	47
Between 2 and 3 years	**9**	1,514
Over 3 years	**15,216**	15,779
	225,059	216,034

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

	2009	2008
	Rmb'000	*Rmb'000*
At 1 January	**6,718**	11,718
Reversal of impairment of other receivables	**—**	(5,000)
At 31 December	**6,718**	6,718

12 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

During the year ended 31 December 2005, the Company had received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to certain debts owed by the Chongqing Special Steel (Group) Limited Company ("CSSG", a former subsidiary of the Holding Company which ceased to have shareholding relationship with the Holding Company since June 2003) and the Holding Company to their creditors amounting to RMB 18,340,000 and RMB 18,200,000 respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate RMB 36,540,000 dividends to be distributed to the Holding Company ("the Dividend"). The Courts seized RMB 4,528,000 and RMB 1,059,000 from the Company's bank accounts in 2005 and 2006 respectively.

In November 2006, as the Holding Company settled its debts amounting to RMB 18,200,000, the Courts withdrew those verdicts and enforcement orders against the Holding Company, and accordingly the Company was not required to assist the execution of the verdicts.

As at the date of these financial statements are approved for issue, the case relating to the debts of RMB 18,340,000 owed by CSSG has not been finalized. Based on the advice from the Company's legal counsellor, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Holding Company or the Company, and accordingly the Company has no obligation to assist the execution of the order against CSSG. The Company has appealed to the Courts and sought assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress. The State Supreme Court of the PRC issued "The Notice of Exemption for Obligation of Chongqing Iron and Steel Company (Group) Limited related to the cases Of CSSG's Residual Debts (Fa (Zhi) Ming Chuan (2007)" ("the Notice") to The Supreme Court of Sichuan Province on 25 May 2007. According to the Notice, since the cases of CSSG's residual debts were still in the process of coordinating, the Supreme Court of Sichuan Province should suspend the execution of these cases until receive final comments from the State Supreme Court of the PRC.

As the recoverability of the bank deposits under seizure (recorded as other receivable) is uncertain, management of the Company made a full provision of RMB 5,587,000 in prior years.

13 RESTRICTED CASH

	2009 Rmb'000	2008 Rmb'000
Restricted cash deposits for letters of credit	**185,989**	56,608

14 CASH AND CASH EQUIVALENTS

	2009 Rmb'000	2008 Rmb'000
Cash in hand	**675**	373
Cash and short-term bank deposits	**1,404,273**	1,146,680
	1,404,948	1,147,053

The effective interest rate on short-term bank deposits was 0.36% (2008: 0.72%).

15 SHARE CAPITAL

Registered, issued and fully paid:	Number of shares '000	A shares subject to trading restrictions RMB'000	A shares RMB'000	H shares RMB'000	Total RMB'000
At 1 January 2008/ 31 December 2008 (nominal value of RMB1.00 each)	1,733,127	845,000	350,000	538,127	1,733,127
At 1 January 2009/ 31 December 2009 (nominal value of RMB1.00 each)	1,733,127	845,000	350,000	538,127	1,733,127

As approved by China Securities Regulatory Commission on 29 January 2007, the Company issued 350,000,000 ordinary A shares denominated in Renminbi on 6 February 2007 which were traded on 28 February 2007 at the Stock Exchange of Shanghai, with a face value of RMB 1.00 each.

15 SHARE CAPITAL *(CONTINUED)*

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.

On 6 May 2009, the People's Court of Sichuan Neijiang City, Shizhong District informed the Holding Company that it had accepted the applications of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Construction Engineering Company that the Holding Company would be subject to execution for CSSG's external debt. In accordance with the related verdict, Shanghai Golden Gavel Commodity Auction Co., Ltd. was engaged to auction 9,200,000 restricted shares of the Company held by the Holding Company. Vendee Yao Jiankang bought 5,000,000 shares and vendee Shanghai Zhenghai Asset Management Co., Ltd. bought 4,200,000 shares. The vendees completed the share transfer procedures on 12 May 2009.

According to the "Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund" (Cai Qi No. 94[2009]), jointly issued by the Ministry of Finance ("MOF"), State-owned Assets Supervision and Administration Commission ("SASAC"), China Securities Regulatory Commission ("CSRC") and National Council for Social Security Fund ("NCSSF") on 19 June 2009, "an incorporated company at the time of initial public offering, based on 10% of the actual shares issued, shall transfer some of the state-owned shares, to NCSSF." Furthermore, according to the requirements of the No. 63 Announcement, also jointly issued by the MOF, SASAC, CSRC and NCSSF on 19 June 2009, "shares to be transferred should be frozen from the date of the announcement". 35,000,000 shares of the Company held by the Holding Company have therefore been frozen by the China Securities Depository and Clearing Corporation, Ltd. As at the date of approval of the financial statements, these shares remained frozen. The relevant authorities have yet to issue any instruction for the transfer of shares from the Holding Company to NCSSF.

On 1 March 2010, the 845,000,000 non-circulating shares, held by the Holding Company at the time of the Company's listing on the A-share market, have been released, and 810,000,000 of these shares can be traded in the market.

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

16 OTHER RESERVES

	Share premium RMB'000	Capital surplus RMB'000	Statutory common reserve RMB'000	Total RMB'000
At 1 January 2008	894,259	216,071	506,849	1,617,179
Transfer from retained earnings *(Note (a))*	—	—	59,830	59,830
At 31 December 2008	894,259	216,071	566,679	1,677,009
At 1 January 2009	**894,259**	**216,071**	**566,679**	**1,677,009**
Transfer from retained earnings *(Note (a))*	**—**	**—**	**8,403**	**8,403**
At 31 December 2009	**894,259**	**216,071**	**575,082**	**1,685,412**

(a) According to the Company's Articles of Association, the Company is required to appropriate 10% of its net profit as stated in the statutory accounts prepared under the CAS to statutory common reserve until the reserve reaches 50% of the registered capital. The appropriation to this reserve must be made before the distribution of dividend to shareholders. For 2009, the Company appropriated 10% (2008: 10%) of the net profit as reported in the PRC statutory accounts to the statutory common reserve, totalling RMB 8,403,000 (2008: RMB 59,830,000).

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

17 TRADE AND OTHER PAYABLES

	2009 **Rmb'000**	2008 *Rmb'000*
Trade payables *(Note (a))*	**1,424,757**	602,113
Advances from customers	**1,406,727**	1,104,007
Amounts due to the Holding Company and its subsidiaries *(Note 32(d))*	**135,566**	207,580
Value added tax and other tax payables	**68,924**	110,143
Salaries payable	**62,536**	39,963
Deposits from customers	**8,056**	6,411
Other payables	**48,045**	51,872
	3,154,611	2,122,089
Less non-current portion:		
— Advances from a customer *(Note (b))*	**(520,000)**	(440,000)
Current portion	**2,634,611**	1,682,089

(a) The ageing analysis of trade payables as at 31 December 2009 is as follows:

	2009 **Rmb'000**	2008 *Rmb'000*
Within 6 months	**1,346,548**	494,650
Between 6 months and 1 year	**14,787**	32,340
Between 1 and 2 years	**15,710**	26,945
Between 2 and 3 years	**7,432**	21,179
Over 3 years	**40,280**	26,999
	1,424,757	602,113

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

	2009 **Rmb'000**	2008 *Rmb'000*
Between 1 and 2 years	**270,000**	240,000
Between 2 and 5 years	**250,000**	200,000
	520,000	440,000

The original effective interest rates on non-current advance from a customer received in 2009 are 5.40% to 7.19% (2008: 5.72% to 7.19%).

18 BORROWINGS

	2009 **Rmb'000**	2008 *Rmb'000*
Non-current		
Unsecured bank borrowings *(Note (a))*	**1,760,410**	2,324,076
Current		
Unsecured bank borrowings *(Note (a))*	**4,104,005**	2,238,000
Total borrowings	**5,864,415**	4,562,076

(a) Unsecured bank borrowings of RMB 5,235,415,000 (2008: RMB 3,423,076,000) are guaranteed by the Holding Company (Note 32(a)).

(b) The maturity of borrowings is as follows:

	2009 **Rmb'000**	2008 *Rmb'000*
Within 1 year	**4,104,005**	2,238,000
Between 1 and 2 years	**729,000**	1,864,076
Between 2 and 5 years	**1,031,410**	460,000
	5,864,415	4,562,076

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

	2009		2008	
	RMB	**USD**	*RMB*	*USD*
Bank borrowings	**5.04% to 5.40%**	**1.45% to 3.48%**	5.31% to 7.92%	2.50% to 5.29%

18 BORROWINGS *(CONTINUED)*

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

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**1,760,410**	2,324,076	**1,759,257**	2,347,631

(e) The fair values are based on cash flows discounted using rates based on the borrowings rates of 3.48% to 5.40% (2008: 2.00% to 5.31%). The carrying amounts of current borrowings approximate their fair value. The carrying amounts of the borrowings are denominated in the following currencies:

	2009	2008
	Rmb'000	*Rmb'000*
RMB	**4,957,000**	4,152,000
USD	**907,415**	410,076
	5,864,415	4,562,076

(f) As at 31 December 2009, the Company has the following undrawn borrowing facilities:

	2009	2008
	Rmb'000	*Rmb'000*
Variable rate		
— expiring within one year	**2,010,687**	1,497,000

The facilities expiring within one year are annual facilities subject to review at various dates during 2010.

19 DEFERRED INCOME

The movement of deferred income is as follows:

	2009 **Rmb'000**	2008 Rmb'000
At 1 January	**34,457**	35,145
Additions		
—Government grants *(Note(a))*	**1,435**	200
—Unrealised income of sale and leaseback transactions *(Note(b))*	**169,328**	—
Credited to the statement of comprehensive income	**(1,942)**	(888)
At 31 December	**203,278**	34,457

(a) The Company was exempted from repayment of loans of RMB 18,760,000 in 2006 and received government grants in cash of RMB 18,575,000 from 2005 to 2009 relating to the construction of environmental protection equipment and facilities. These waivers of loans and government grants are recorded as deferred income and are to be recognised as income on a straight-line basis over the expected lives of the related assets after the completion of the construction.

(b) In relation to the sale and lease back arrangement with Jianxin (Note 7(e)), the excess of sale proceeds over the carrying amount amounting RMB 169,328,000 is deferred and will be amortised as an adjustment of depreciation according to the depreciation percentage when the construction in progress are completed and are capable of operating in the manner intended by management.

20 OBLIGATION UNDER FINANCE LEASES

As at 31 December 2009, the Company had obligations under finance leases (Note 7(e)) repayable as follows:

	2009		2008	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**76,426**	**81,618**	—	—
Between 1 and 2 years	**131,444**	**158,618**	—	—
Between 2 and 3 years	**323,602**	**428,611**	—	—
Over 3 years	**675,747**	**1,023,066**	—	—
	1,130,793	**1,610,295**	—	—
	1,207,219	**1,691,913**	—	—
Less: total future interest expense		**(484,694)**		
Present value of lease obligations		**1,207,219**		—

The obligation under finance leases are guaranteed by the Holding Company (Note 32(a)).

21 SALES

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

	2009	2008
	Rmb'000	*Rmb'000*
Steel products	**10,132,883**	15,939,311
By-products	**501,113**	542,872
	10,633,996	16,482,183

The Company's customers are all based in the PRC and there was no individual customer with whom transactions have exceeded 10% of the Company's sales for the year ended 31 December 2009.

22 OTHER NET GAINS

	2009	2008
	Rmb'000	*Rmb'000*
Profit on sale of by-products, net	**3,002**	3,642
Operating lease rental income	**2,593**	2,591
Utility installation service income	**105**	224
Interest income *(Note 29)*	**11,228**	10,122
Depreciation *(Note 7(c))*	**(439)**	(546)
Loss on disposals of property, plant and equipment *(Note 29(a))*	**1,099**	(4,115)
Bank charges	**(10,652)**	(1,391)
Others	**24,491**	(2,703)
	31,427	7,824

23 EXPENSE BY NATURE

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

	2009 Rmb'000	2008 Rmb'000
Depreciation *(Note 7(c))*	**297,484**	313,654
Amortisation *(Note 8)*	**5,209**	4,823
Written-back of impairment of receivables *(Note 12)*	**2,459**	(4,978)
Provision for impairment of property, plant and equipment *(Note 7(d))*	**—**	91,896
Staff costs *(Note 24)*	**659,939**	883,914
Changes in inventories of finished goods and work in progress	**(334,203)**	(94,041)
Raw materials and consumables used	**8,279,697**	12,111,977
Write-down of inventories *(Note 11)*	**13,158**	785,520
Auditors' remuneration		
— audit services	**2,800**	3,680
— other services	**—**	2,800
Maintenance expenses	**277,629**	361,111
Rental for land use rights *(Note 32(b))*	**17,957**	17,957
Transportation expenses	**169,318**	124,240
Plate inspection fees	**65,864**	75,786

24 EMPLOYEE BENEFIT EXPENSE

	2009 Rmb'000	2008 Rmb'000
Salaries	**415,310**	585,745
Retirement benefit costs - defined contribution plans	**96,939**	106,131
Other social welfare costs	**147,690**	192,038
	659,939	883,914

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

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

24 EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2009 is set out below:

Name of director and supervisor		Fees	Basic salaries, housing allowances and other allowances	Bonuses	Pension	2009 Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Director:						
Mr. Dong Lin	(i)(iv)	—	—	—	—	**—**
Mr. Luo Fu Qin	(ii)	—	32	142	6	**180**
Mr. Yuan Jin Fu	(iv)	—	—	—	—	**—**
Mr. Chen Shan		—	29	202	18	**249**
Mr. Sun Yi Jie		—	29	198	18	**245**
Mr. Chen Hong		—	29	202	18	**249**
Mr. Li Ren Sheng		—	27	196	18	**241**
Mr. Wang Xiang Fei		30	—	—	—	**30**
Mr. Sun Yu	(iii)	30	—	—	—	**30**
Mr. Liu Xing	(iii)	60	—	—	—	**60**
Mr. Liu Tian Ni	(i)	30	—	—	—	**30**
Mr. Zhang Guo Lin	(i)	30	—	—	—	**30**
Supervisor:						
Mr. Zhu Jian Pai	(iv)	—	—	—	—	**—**
Mr. Huang You He	(iv)	—	—	—	—	**—**
Ms. Gong Jun	(iv)	—	—	—	—	**—**
Ms. Chen Hong		—	25	123	18	**166**
Mr. Gao Shou Lun		—	26	147	18	**191**
		180	197	1,210	114	**1,701**

24 EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

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

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

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

(Expressed in Renminbi unless otherwise indicated)

24 EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

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

(i) Newly appointed on 1 June 2009.

(ii) Retired on 1 June 2009.

(iii) Ceased to be the Independent Directors of the Company upon the expiration of the fourth session of the Board.

(iv) According to the agreements dated 1 June 2009, the emoluments of Mr. Dong Lin, Mr. Yuan Jin Fu, Mr. Zhu Jian Pai, Mr. Huang You He and Ms. Gong Jun were born and paid by the Holding Company.

(b) The emoluments fell within the following band:

	Number of directors and supervisors	
	2009	2008
Emoluments band		
Nil - HKD 1,000,000	**14**	14

No directors and supervisors waived their emoluments and no emoluments were paid or payable by the Company to any directors and supervisors as inducement to join or as compensation for loss of office in respect of the year ended 31 December 2009 (2008: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the years ended 31 December 2009 and 2008 were directors or supervisors and their emoluments are reflected in the analysis presented above.

25 FINANCE COSTS

	2009 Rmb'000	2008 Rmb'000
Interest expense on bank borrowings wholly repayable within 5 years	**282,889**	303,303
Interest expense on trade and other payables	**81,950**	24,730
Net foreign exchange gains	**(566)**	(17,100)
Less: capitalised interest expense	**(87,139)**	(51,605)
	277,134	259,328

The borrowing costs have been capitalised at a rate of 5.45% per annum (2008: 7.16%).

26 INCOME TAX EXPENSE

	2009 Rmb'000	2008 Rmb'000
Current PRC income tax	**—**	129,523
Deferred income tax assets *(Note 10)*	**10,999**	(122,057)
	10,999	7,466

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

	2009 Rmb'000	2008 Rmb'000
Profit before taxation	**95,985**	606,302
Calculated at income tax rate of 15% *(Note (a))*	**14,398**	90,945
Unrecognised temporary differences	**(3,978)**	1,274
Expenses not deductible for/income not subject to taxation	**579**	1,461
Reduction in Enterprise Income Tax for purchase of domestic manufactured equipment *(Note (b))*	**—**	(86,214)
	10,999	7,466

26 INCOME TAX EXPENSE *(CONTINUED)*

(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.

(b) The Company purchased certain domestic manufactured equipment between 2004 and 2007. In accordance with Cai Shui Zi [2000] No. 49 the Notice concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the Ministry of Finance and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company's enterprise income tax.

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

26 INCOME TAX EXPENSE *(CONTINUED)*

(b) *(Continued)*

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

(c) In relation to the sale and lease back arrangement with Jianxin (Note 7(e)), the Company applied with the State Administration of Taxation of Chongqing on 25 November 2009, for exemption from Value Added Tax for the sale and lease back arrangement. As at the date of approval of the financial statements, the Company has not received any formal written approval from the State Administration of Taxation of Chongqing. If the approval from the tax authority is not available, this would not have any impact on the net profit of the year 2009. It would however result in an increase in current liability of RMB 174,736,000 and a decrease of non-current liabilities of the same amount.

(d) No Hong Kong Profits Tax has been provided as the Company had no taxable profits in Hong Kong for the year (2008: Nil).

27 DIVIDENDS

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

During the Annual General Meeting of shareholders on 1 June 2009, it was resolved to declare dividend in respect of 2008 of RMB 0.10 per share, totalling RMB 173,313,000 (2008: RMB 173,313,000). The allocation basis of the dividends being distributed to the shareholders was based on the number of shares in issue of 1,733,127,000 as at 31 December 2008.

During the Board of Directors' meeting on 22 April 2010, the directors of the Company resolved to declare no dividend in respect of 2009.

	2009	2008
	Rmb'000	*Rmb'000*
Final, proposed	—	173,313

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company of RMB 84,986,000 (2008: RMB 598,836,000) by the weighted average number of ordinary shares in issue during the year of 1,733,127,000 shares (2008: 1,733,127,000 shares).

Diluted earnings per share equals to basic earnings per share as there are no potential dilutive shares outstanding as at 31 December 2009 (2008: Nil).

29 CASH GENERATED FROM OPERATIONS

	2009	2008
	Rmb'000	*Rmb'000*
Operating activities		
Profit for the year	**84,986**	598,836
Adjustments for:		
Income tax expense *(Note 26)*	**10,999**	7,466
Depreciation and amortisation *(Note 7 and 8)*	**303,132**	319,023
Provision for impairment of property, plant and equipment *(Note 7(d))*	**—**	91,896
Provision for impairment of receivables *(Note 12)*	**2,459**	(4,978)
Written-down of inventories *(Note 11)*	**13,158**	785,520
(Gain)/loss on disposals of property, plant and equipment *(Note (a))*	**(1,099)**	4,115
Finance costs	**227,646**	259,328
Interest income *(Note 22)*	**(11,228)**	(10,122)
Investment income	**(1,304)**	(32)
Operating changes in working capital:		
Inventories	**(1,057,125)**	(1,183,007)
Trade and other receivables	**(808,141)**	27,533
Restricted cash	**(129,381)**	66,189
Trade and other payables	**636,954**	(424,308)
Cash (used in) / generated from operations	**(728,944)**	537,459

29 CASH GENERATED FROM OPERATIONS *(CONTINUED)*

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

	2009 *Rmb'000*	2008 *Rmb'000*
Net book amount *(Note 7)*	**142**	11,544
Gain/(loss) on disposals of property, plant and equipment *(Note 22)*	**1,099**	(4,115)
Proceeds from disposals of property, plant and equipment	**1,241**	7,429

30 CONTINGENT LIABILITIES

As at 31 December 2009, other than the pending litigation as disclosed in Note 12(d), the Company had no material contingent liabilities.

31 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	2009 *Rmb'000*	2008 *Rmb'000*
Investment contracts entered into but not performed or performed partially	**15,000**	—
Significant construction contracts entered into under performance or preparation of performance	**1,636,235**	2,758,627
Significant construction contracts entered into under authorization but without performance	**78,792**	30
Finance leases contracts entered into under performance or preparation of performance	**1,691,913**	—
	3,406,940	2,758,657

31 COMMITMENTS *(CONTINUED)*

(a) Capital commitments for property, plant and equipment *(Continued)*

(1) The Fifth Board of Directors meeting, on 9 October 2009, passed the Fourteenth Resolution on Investment in Construction of Jiangsu Hua Yuan Metal Processing Co., Ltd. The Company plans to invest in the Jiangsu Hua Yuan Metal Processing Co., Ltd. with Run Zhou Steel Engineering Co., Ltd. of Jiangsu Province Jingjiang Economic Development Zone, Jiangsu New Yangzijiang Shipbuilding Co., Ltd. and JINYANG INVESTMENTS PTE.LTD. The subscribed capital contribution of the Company amounts RMB 15,000,000 with a 5% holding share of the new company.

(2) On 4 December 2009, the fifth Board of Directors meeting passed the resolution on "Investment in the Construction of Chongqing Steel's Jingjiang Logistics Base". The Company plans to invest in the construction of the logistics base in the Xingang Park of the Economic Development Zone of Jingjiang City, Jiangsu province, and together with China Changjiang National Shipping (Group) Corporation, Chongqing Shipping (Group) Co., Ltd., Jiangsu New Yangzijiang Shipbuilding Co., Ltd., Jingjiang New Century Investment Co., Ltd., and Jingjiang Tianjiao Material Co., Ltd. to set up a new company, San Feng Jingjiang Port Logistics Company Limited (tentative name). The Company would be the controlling shareholder, holding a 51% share of the new company.

As at 31 December 2009, details of the amount of capital contribution have not been determined. According to the "Sponsors Agreement of San Feng Jingjiang Port Logistics Company Limited" entered among the sponsors subsequent to the year-end date, the Company would subscribe capital of RMB 153,000,000. The Company has fully paid the subscribed amount in January and March 2010.

(b) Operating lease commitments

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

	2009	2008
	Rmb'000	*Rmb'000*
Not later than 1 year	**19,769**	17,904
Later than 1 year and not later than 5 years	**72,493**	68,130
Later than 5 years	**45,694**	63,857
	137,956	149,891

32 MATERIAL RELATED PARTY TRANSACTIONS

The Company is controlled by the Holding Company (incorporated in the PRC), a state-owned enterprise which owns 48% of the Company's shares. The directors of the Company considered the Holding Company to be immediate and the ultimate holding company.

The following transactions were carried out with related parties:

(a) As at 31 December 2009 the Company's bank borrowings of RMB 5,235,415,000 (2008: RMB 3,423,076,000) are guaranteed by the Holding Company (Note 18(a)).

All liabilities under the lease agreement between the Company and Jianxin are guaranteed by the Holding Company (Note 7(e)). The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

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

	2009	2008
	Rmb'000	*Rmb'000*
Income		
Sales to fellow subsidiaries of the Holding Company *(Note (i))*	**1,038,210**	1,345,870
Fees received for supporting services *(Note (ii))*	**1,907**	2,110
Fees received for lease rental *(Note (iii))*	**967**	1,122
Expenditure		
Fees paid for supporting services *(Note (iv))*	**208,606**	229,535
Fees paid for lease rental *(Note (v))*	**669**	775
Purchase of raw materials and spare parts *(Note (vi))*	**1,722,193**	2,278,775
Purchase of property, plant and equipment *(Note (vii))*	**164,174**	206,232
Rental for land use rights *(Note 23 and Note (viii))*	**17,957**	17,957
Social welfare services *(Note (ix))*	**59,050**	119,882
Advance payment for land use right cost *(Note (x))*	**—**	31,000
Commissioning gains/losses settlement *(Note(xi))*	**10,433**	—

32 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 during the year: *(Continued)*

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

(ii) Fees received for supporting services mainly represent fees charged to the fellow subsidiaries for internal railway transportation services at prices determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries.

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

(iv) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by the fellow subsidiaries. These services were charged at prices determined by reference to market price or a profit mark-up above the cost of providing such services as agreed between the Company and the fellow subsidiaries, or prices prescribed by the relevant Chongqing government departments.

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

(vi) Purchase of raw materials and spare parts was made at prices determined by reference to market price or a profit mark-up above the cost of providing such products as agreed between the Company and the fellow subsidiaries, or the prices offered by suppliers of such spare parts.

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

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

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

(x) As at 31 December 2008, the advance payment for land use right cost refers to advances paid on the Company's behalf to the Wansheng District Land and Resources Bureau by Chongqing Iron & Steel Group Mining Company Limited ("Mining Company"). No handling fee was charged by the Mining Company.

32 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 during the year: *(Continued)*

(xi) According to the Agreement for Trail Operation of Production Lines dated 24 December 2009 between the Holding Company and the Company in relation to the former's steel smelting production line and the latter's 4100 mm steel plate and 1780 mm hot rolled sheet production line, the gains or losses arising from the trail operation period shall be computed monthly and allocated between the two parties based on the proportions of respective asset values. The Holding Company shall pay / receive the Company the losses / gains arising from the operations. The agreement is temporarily set for 6 months commencing from the date of the agreement becoming effective. If the trail operation completes earlier, the agreement will terminate on the actual date the trial operation completes. During the trail production period, the Holding Company shall pay trial operation management fee of RMB 1,000,000 per month to the Company. As at 31 December 2009, the steel smelting production line and the 4100 mm steel plate production line have commenced trail operation.

(c) Key management compensation

	2009 **Rmb'000**	2008 *Rmb'000*
Salaries and other short-term employee benefits *(Note 24)*	**1,701**	2,774

32 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

		2009 Rmb'000	2008 Rmb'000
Receivables due from related parties			
— Fellow subsidiaries of the Holding Company *(Note 12)*		**225,059**	216,034
Trade and other payables due to related parties			
— Holding Company *(Note 17)*	(i)	**91,817**	176,863
— Fellow subsidiaries of the Holding Company *(Note 17)*		**43,749**	30,717
		135,566	207,580

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

(i) The Company deals with the Holding Company to settle payments to the Holding Company's subsidiaries. No handling fee was charged by the Holding Company.

(e) 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

— bank deposits and bank borrowings

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.

33 EVENTS AFTER THE BALANCE SHEET DATE

(1) On 13 April 2010, the fifth Board of Directors meeting passed the 33rd written resolution on two lease agreements with Minsheng Financial Leasing Co., Ltd. ("Minsheng"). The first lease agreement is a sale and lease back arrangement in relation to certain equipment of the 2700 mm Rolling Mill Production Line Relocation and Construction Project (the "2700 mm Project") with a financing amount of RMB 510,000,000. The second lease agreement has a financing amount of RMB 440,000,000 whereby the Company will select the supplier and equipment to meet the requirements of the 2700 mm Project, and Minsheng would purchase the equipment direct from the supplier and lease to the Company.

(2) The Agreement for Trail Operation of Production Lines (Note 32(b)(xi)) dated 24 December 2009 between the Company and the Holding Company was terminated on 31 March 2010 by the two parties and replaced by the Agreement for Authorised Use of Assets (the "Agreement").

Pursuant to the Agreement dated 19 April 2010 between the Company and the Holding Company, the Company is authorised to use the operation comprises steel smelting production lines and relevant auxiliary public facilities of the Holding Company in Jiangnan Town, Changshou District, Chongqing with an investment amount of approximately RMB 3,990,097,300 (the "Assets"). The term of the Agreement commences from 1 April 2010 to 31 March 2011 (tentatively for one year). The Holding Company shall not charge the Company any sum for the Company's authorized use of the Assets. The Holding Company agreed to provide the design of the relevant production lines and facilities, all the technical information of installation and the relevant facilities and coordinate installation, construction, technical support and services of the facilities' suppliers for the Company's use. The Company shall be responsible for the management of production and bear the profits and losses arising out of the use of such Assets.

34 COMPARATIVE FIGURES

The comparative figures of 2008 represent figures for the year from 1 January 2008 to 31 December 2008.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

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

KPMG-A(2010)AR No.0440

All Shareholders of Chongqing Iron and Steel Company Limited:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited (the Company), which comprise the balance sheet as at 31 December 2009, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

KPMG-A(2010)AR No.0440

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and the results of operations and the cash flows of the Company for the year then ended.

KPMG Huazhen

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

Gong Wei Li

Beijing, the People's Repblic of China

Lin Jian Kun

22 April 2010

Balance Sheet

At 31 December 2009
(Expressed in RMB)

Unit: RMB'000

Item	Note	2009	2008
Current assets			
Cash at bank and on hand	IV.1	**1,590,937**	1,203,661
Bills receivable	IV.2	**1,059,242**	509,457
Accounts receivable	IV.3	**194,863**	210,035
Prepayments	IV.4	**341,905**	266,343
Other receivables	IV.5	**26,700**	24,420
Inventories	IV.6	**4,066,174**	3,057,732
Other current assets	IV.7	**227,518**	21,005
Total current assets		**7,507,339**	5,292,653
Non-current assets			
Long-term equity Investments	IV.8	**5,000**	5,000
Fixed assets	IV.9	**4,797,858**	4,985,807
Construction in progress	IV.10	**2,908,862**	532,703
Construction materials	IV.11	**244,391**	1,185,619
Intangible assets	IV.12	**335,841**	251,050
Deferred tax assets	IV.13	**118,387**	129,386
Other non-current assets	IV.14	**50,780**	42,750
Total non-current assets		**8,461,119**	7,132,315
Total assets		**15,968,458**	12,424,968

The notes on pages 175 to 277 form part of these financial statements.

Balance Sheet (Continued)

At 31 December 2009
(Expressed in RMB)

Unit: RMB'000

Item	*Note*	**2008**	2007
Current liabilities			
Short-term loans	IV.17	**2,280,313**	1,798,000
Accounts payable	IV.18	**1,424,757**	602,113
Advance from customers	IV.19	**951,578**	664,007
Employee benefits payable	IV.20	**62,536**	39,963
Taxes payable	IV.21	**68,924**	189,227
Interest payable		**1,200**	4,510
Other payables	IV.22	**125,616**	261,353
Non-current liabilities due within one year	IV.23	**1,900,118**	440,000
Total current liabilities		**6,815,042**	3,999,173
Non-current liabilities			
Long-term loans	IV.24	**1,760,410**	2,324,076
Long term payables	IV.25	**1,130,793**	—
Other non-current liabilities	IV.26	**706,551**	456,773
Total non-current liabilities		**3,597,754**	2,780,849
Total liabilities		**10,412,796**	6,780,022

The notes on pages 175 to 277 form part of these financial statements.

Balance Sheet (Continued)

At 31 December 2009
(Expressed in RMB)

Unit: RMB'000

Item	Note	2009	2008
Shareholders' equity			
Share capital	IV.27	**1,733,127**	1,733,127
Capital reserve	IV.28	**1,164,384**	1,164,384
Surplus reserve	IV.29	**575,082**	566,679
Retained earnings	IV.30	**2,083,069**	2,180,756
Total equity		**5,555,662**	5,644,946
Total liabilities and shareholders' equity		**15,968,458**	12,424,968

These financial statements have been approved by the Board of Directors of the Company on 22 April 2010.

Legal Representative: *Chief Financial Officer:*

Chief Accountant: *(Company stamp)*

The notes on pages 175 to 277 form part of these financial statements.

Income statement

At 31 December 2009
(Expressed in RMB)

Unit: RMB'000

Item	Note	2009	2008
I. Operating income	IV.31	**10,654,115**	16,517,443
Less: Operating costs	IV.31	**9,479,256**	13,865,367
Business taxes and surcharges	IV.32	**283**	329
Selling and distribution expenses		**293,790**	258,939
General and administrative expenses		**518,056**	656,453
Financial expenses	IV.33	**275,760**	254,843
Impairment loss	IV.35	**15,617**	872,438
Add: Investment income (Losses denoted with "-")	IV.34	**1,304**	32
II. Operating profit (Losses denoted with "-")		**72,657**	609,106
Add: Non-operating income	IV.36	**23,134**	5,614
Less: Non-operating expenses	IV.37	**763**	8,956
Including: Losses from disposal of non-current assets		**10**	6,290
III. Profit before income tax (Losses denoted with "-")		**95,028**	605,764
Less: Income tax expenses	IV.38	**10,999**	7,466
IV. Net profit for the year (Net loss denoted with "-")		**84,029**	598,298
V. Earnings per share:			
Basic earnings per share *(RMB)*	IV.39	**0.05**	0.35
Diluted earnings per share *(RMB)*	IV.39	**0.05**	0.35
VI. Other comprehensive income for the year		**—**	—
VII. Total comprehensive income for the year		**84,029**	598,298

These financial statements have been approved by the Board of Directors of the Company on 22 April 2010.

Legal Representative: *Chief Financial Officer:*

Chief Accountant: *(Company stamp)*

The notes on pages 175 to 277 form part of these financial statements.

Cash flow statement

At 31 December 2009
(Expressed in RMB)

Unit: RMB'000

Item	Note	2009	2008
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**12,763,221**	19,814,449
Refund of taxes		**7,410**	—
Other cash received relating to operation activities	IV.41(1)	**15,065**	69,479
Subtotal of cash inflows		**12,785,696**	19,883,928
Cash paid for goods and services		**12,596,880**	17,630,433
Cash paid to and for employees		**637,366**	865,698
Cash paid for all types of taxes		**349,926**	827,925
Other cash paid relating to operating activities	IV.41(2)	**11,406**	76,363
Subtotal of cash outflows		**13,595,578**	19,400,419
Net cash (outflow)/inflow from operating activities	IV.42(1)	**-809,882**	483,509
II. Cash flows from investing activities:			
Cash received from disposal of investments		**—**	50,000
Cash received from return on investments		**1,304**	32
Net cash received from disposal of fixed Assets, intangible assets and other non-current assets		**1,241**	7,429
Other cash received relating to investing activities	IV.41(3)	**11,228**	10,122
Subtotal of cash inflows		**13,773**	67,583
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**1,133,474**	1,234,501
Cash paid for acquisition of investments		**—**	50,000
Subtotal of cash outflows		**1,133,474**	1,284,501
Net cash outflow from investing activities		**-1,119,701**	-1,216,918

The notes on pages 175 to 277 form part of these financial statements.

At 31 December 2009
(Expressed in RMB)

Unit:RMB'000

Item	Note	2009	2008
III. Cash flows from financing activities:			
Cash received from borrowings		**4,600,603**	3,820,428
Cash received from sale and lease back financial lease		**1,379,000**	—
Subtotal of cash inflows		**5,979,603**	3,820,428
Cash repayments of borrowings		**3,298,264**	2,436,600
Cash paid for dividends, profit distribution or interest		**493,861**	474,448
Subtotal of cash outflows		**3,792,125**	2,911,048
Net cash inflow from financing activities		**2,187,478**	909,380
IV. Net increase in cash and cash equivalents	IV.42(1)	**257,895**	175,971
Add: cash and cash equivalents at the beginning of the year		**1,147,053**	971,082
V. Cash and cash equivalents at the end of the year	IV.42(2)	**1,404,948**	1,147,053

These financial statements have been approved by the Board of Directors of the Company on 22 April 2010.

Legal Representative: *Chief Financial Officer:*

Chief Accountant: *(Company stamp)*

The notes on pages 175 to 277 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2009
(Expressed in RMB)

Unit: RMB'000

		2009					2008				
Item	*Notes*	**Share capital**	**Capital reserve**	**Surplus reserve**	**Retained earnings**	**Total**	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
I. Balance at 1 January 2009		**1,733,127**	**1,164,384**	**566,679**	**2,180,756**	**5,644,946**	1,733,127	1,164,384	506,849	1,815,601	5,219,961
II. Changes in equity for the year (Decrease denoted with "-")											
(I) Net profit for the year		**—**	**—**	**—**	**84,029**	**84,029**	—	—	—	598,298	598,298
(II) Other comprehensive income		**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Sub-total of (I) & (II)		**—**	**—**	**—**	**84,029**	**84,029**	—	—	—	598,298	598,298
(III) Appropriation of profits	IV.30										
1. Appropriation for surplus reserve		**—**	**—**	**8,403**	**-8,403**	**—**	—	—	59,830	-59,830	—
2. Distributions to shareholders		**—**	**—**	**—**	**-173,313**	**-173,313**	—	—	—	-173,313	-173,313
III. Balance at 31 December 2009		**1,733,127**	**1,164,384**	**575,082**	**2,083,069**	**5,555,662**	1,733,127	1,164,384	566,679	2,180,756	5,644,946

These financial statements have been approved by the Board of Directors of the Company on 22 April 2010.

Legal Representative: *Chief Financial Officer:*

Chief Accountant: *(Company stamp)*

The notes on pages 175 to 277 form part of these financial statements.

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 RMB 999,538,500. The legality of the valuation was reviewed and confirmed by the circular (Guo Zi Ping [1997] No. 706) issued by the State-owned Assets Supervision and Administration Bureau on 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 RMB 1, were listed on the Hong Kong Stock Exchange on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company's total shares capital were 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 overseas listed H shares.

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

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

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

I. COMPANY STATUS *(CONTINUED)*

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

According to stipulations in Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund (Cai Qi No. 94[2009]), issued by the Ministry of Finance, State-owned Assets Supervision and Administration Commission, China Securities Regulatory Commission and National Council for Social Security Fund on 19 June 2009, "an incorporated company shall transfer some state-owned shares (10 % of the shares actually issued) to the National Council for Social Security Fund at the time of initial public offering"; the No. 63 Announcement, also issued by the MOF, SASAC, CSRC and NCSSF, states "shares to be transferred should be frozen from the date of the announcement". The 35,000,000 shares of the Company held by the Parent Group have been frozen by China Securities Depository and Clearing Corporation, Ltd. As at the date of approval of the financial statements, Parent Group had not received any share transfer requirements from the related authorities, therefore these shares are still frozen. The 845,000,000 conditional shares, held by Parent Group at the time of the Company's listing on the A-share market, have been released since 1 March 2010, while 810,000,000 of their shares will be traded on the market.

Under the requirements of energy saving and emission reduction, industrial layout and planning of Chongqing Municipal Government, the Parent Group will need to launch environmental relocation to relocate its principal operations from Dadukou District of Chongqing city to Yanjia Industry Zone, Jiangnan Town, Changshou District of Chongqing City ("Changshou New Zone"). The Company is also part of the relocation plan according to the requirement of Chongqing Municipal Government. Considering that the Company will commence the overall relocation with reference to the standard arrangement of Chongqing Municipal Government, which may cease the normal operation of part of the fixed assets of the Company, the Parent Group, in an attempt to ensure steady production and operation of the Company, undertakes to use self-owned funds or part of the assets from the steel and iron project at Changshou New Zone as a compensation for the loss from fixed assets arising from the relocation of the Share Company. As at 31 December 2009, the preparation work for environmental relocation as well as that of the Company is in progress and the Company's 4100mm wide-thick steel plate production line has conducted trial operation.

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. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS

1 Basis of preparation

The financial statements have been prepared on the basis of going concern.

2 Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises-Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the financial position, and results of operations and the cash flows of the Company.

These financial statements 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 2010.

3 Accounting period

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

4 Functional currency and presentation currency

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

5 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.

6 Foreign currency transactions

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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

6 Foreign currency transactions *(continued)*

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 II.13). 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.

7 Financial instruments

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

(1) Classification, 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 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:

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(1) ***Classification, recognition and measurement of financial assets and financial liabilities*** *(continued)*

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

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

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

— Receivables

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

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

— Held-to-maturity investments

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

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(1) Classification, recognition and measurement of financial assets and financial liabilities (continued)

— Available-for-sale financial assets

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

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

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note II.17(3)).

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(1) Classification, 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 II.16).

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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(2) 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 and discounted cash flow analysis. The Company calibrates the valuation technique and tests it for validity periodically.

(3) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Company's contractual rights to the cash flows from the financial asset expire or if the Company transfers substantially all the risks and rewards of ownership of the financial asset to another party.

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

— carrying amount of the financial asset transferred

— the sum of the consideration received from the transfer and any cumulative gains or loss that 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(4) 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. For the calculation method of impairment of receivables, refer to Note II.8. The impairment of other financial assets are measured as follows:

— Held-to-maturity investment

Held-to-maturity investments are assessed for impairment on an individual basis. An impairment loss in respect of 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.

If, after an impairment loss has been recognised on 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

7 Financial instruments *(continued)*

(4) Impairment of financial assets (Continued)

— 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.

(5) 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

8 Impairment of receivables

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 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, 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.

(1) Receivables due from the related parties are assessed for impairment on an individual basis

(2) Receovables due from the third parties which are individually significant are assessed for impairment both on an individual basis and on a collective group basis.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

8 Impairment of receivables *(Continued)*

Criteria of provision for accounts receivable that are individually significant	An impairment loss in respect of a receivable 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.
Method of provision for accounts receivable that are individually significant	Impairment is assessed on an individual basis. Then the receivables with no provision made on an individual basis should be included in a group based on their credit risk characteristics to assess the impairment (see below note (4)).

(3) The receivables with no provision made on an individual basis shall be included in a group with other accounts receivable (including receivables mentioned in above note (2) which will be brought into a group for assessment) based on their credit risk characteristics to assess the impairment (see below note (4)).

(4) Method of provisioning for accounts receivable that are grouped based on their credit risk characteristics:

For other receivables, the Company determines the provisions for doubtful debts for receivable groups (accounts receivable not individually significant and accounts receivable with significant individual amount, but no provision after an individual impairment test) based on the actual loss rate of a group of accounts receivables with similar credit risk characteristics (account age) in prior years:

Ageing	Provision ratio
4 - 12 months (inclusive)	5%
1 - 2 years (inclusive)	25%
2- 3 years (inclusive)	50%
Over 3 years	100%

(5) The other receivables are assessed for impairment on an individual basis.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

9 Inventories

(1) Classification

Inventories include raw material, work in process, semi-finished goods, finished goods and reuseable materials. 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.

(2) Cost of inventories

Cost of inventories is calculated using the weighted average method.

(3) The underlying factors in the determination of net realizable value of inventories and the basis of provision for decline in value of 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. 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.

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 necessary to make the sale. The net realizable value of inventories is determined based on objective evidence that has direct influence on it, such as the market selling price of finished or similar goods, information on production cost and related information provided by the sales department. The net realisable value of materials held for use in the production of inventories is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the quantity of inventory held to satisfy sales or service contracts is based on the contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by the Group, the net realisable value of the excess portion of inventories shall be based on general selling prices.

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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

9 Inventories *(Continued)*

(4) Inventory system

The Company maintains a perpetual inventory system.

(5) Amortisation of reusable material including low-value consumables and packaging materials

Reusable materials including low-value consumables and packaging 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.

10 Long-term equity investment

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

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

10 Long-term equity investment *(continued)*

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. Cash dividends or profit distributions declared by subsidiaries and attributed to the Company shall be recognised as investment income, except those that have been declared but unpaid at the time of acquisition and therefore included in the price paid or consideration.

For other long-term equity investments, the carrying amount is required to be tested for impairment at the balance sheet date. If there is objective evidence that the investments may be impaired, the impairment shall be assessed on an individual basis. The impairment loss is measured as the amount by which the carrying amount of the investment exceeds 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. The other long-term equity investments are stated at cost less impairment losses in the balance sheet.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

11 Fixed assets

(1) Recognition

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.

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 is measured in accordance with the policy set out in Note II.12.

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.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

11 Fixed assets *(Continued)*

(2) Depreciation

Fixed assets are depreciated using the straight-line method over their estimated useful lives.

The depreciation period and residual value rate of each class of fixed assets are as follows:

Classification	Depreciation period *(years)*	Residual value rate *(%)*	Depreciation rate *(%)*
Plant and buildings	40 years	3%	2.43%
Machinery and equipment	8~20 years	3%	4.85%~12.13%
Motor vehicles	8 years	3%	12.13%

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

(3) For the method of impairment testing and measuring, refer to Note II.15.

(4) Recognition and measurement of fixed assets acquired under finance leases

For the recognition and measurement of fixed assets acquired under finance leases, refer to the accounting policy set out in Note II.21 (3).

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

11 Fixed assets *(continued)*

(5) Disposal

The carrying amount of a fixed asset shall be derecognised:

— on disposal; or

— when no future economic benefits are expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset 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.

12 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note II.13), and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is included in construction in progress before it is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note II.15).

For the recognition and measurement of construction in process acquired under finance leases, refer to the accounting policy set out in Note II.21 (3).

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

13 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

14 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Notes II.15). 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:

Item	Amortisation period *(years)*
Land use right	50 years
Trademark	10 years

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

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

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Company intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note II.15). Other development expenditures are recognised as expenses in the period in which they are incurred.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

15 Impairment of assets other than inventories, financial assets and other long-term investments

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

— Fixed assets

— Construction in progress

— Intangible assets

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

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 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 Company also considers how management monitors the Company's operations and how management makes decisions about continuing or disposing of the company's assets.

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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

15 Impairment of assets other than inventories, financial assets and other long-term investments *(continued)*

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

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

16 Provisions

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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

17 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.

(1) 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.

(2) 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

17 Revenue recognition *(Continued)*

(3) Interest income

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

18 Employee benefits

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

(1) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Company has joined a basic pension insurance arranged by local Labour and Social Security Bureaus for the employees. The company makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organization. The contributions are charged to profit or loss or cost of assets 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 organised for employees by its Parent Group.

(2) Housing fund and other social insurance

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Company has joined housing fund and other defined social security contributions for employees, such as 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

18 Employee benefits *(Continued)*

(2) Housing fund and other social insurance (Continued)

The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance, unemployment 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 retirement benefits, housing fund and other social insurances mentioned above.

19 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

20 Deferred tax assets and liabilities

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 carried 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.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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 intend to settle the current tax liabilities and assets on a net basis, or to realise 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

21 Operating and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(1) Operating lease charges

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

(2) 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 II.11(2). Impairment losses are provided for in accordance with the accounting policy described in Note II.15. 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

21 Operating and finance leases *(Continued)*

(3) Assets acquired under finance leases

When the Company acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair values and the present value of the minimum lease payments, each determined at the inception of the lease. The minimum lease payments are recorded as long-term payables. The difference between the value of the leased assets and the minimum lease payments is recognised as unrecognised finance charges. Initial direct costs that are attributable to a finance lease incurred by the Company are added to the amounts recognised for the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes II.11(2) and II.15, respectively.

If there is a reasonable certainty that the Company will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognised finance charge under finance lease is amortised using an effective interest method over the lease term. The amortisation is accounted for in accordance with policies of borrowing costs (see Note II.13).

At the balance sheet date, long-term payables arising from finance leases, net of the unrecognised finance charges, are presented into long-term payables and non-current liabilities due within one year, respectively in the balance sheet.

22 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

23 Related parties

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

(a) the Company's parent

(b) the Company's subsidiaries

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

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

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

(f) joint ventures of the Company

(g) associates of the Company

(h) principal individual investors and close family members of such individuals

(i) key management personnel of the Company and close family members of such individuals

(j) key management personnel of the Company's Parent

(k) close family members of key management personnel of the Company's parent

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

23 Related parties *(Continued)*

Besides the related parties stated above, determined in accordance with the requirements of CAS, 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 that 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, supervisors for listed companies and their close family members.

(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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

24 Segment reporting

The Company determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments. An operating segment is a component of the Company:

— that may earn revenue and incur expenses in daily business activities

— whose operating results are regularly reviewed by the Company's management to allocate its resources and assess its performance

— for which discrete financial information on financial positions, operating results and cash flow is available

Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

— the nature of their products and services

— the nature of their production processes

— the type or class of customers for their products and services

— the methods used to distribute their products or provide their services

— the influence brought by law, administrative regulations on production of products and provision of services

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

25 Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Note IX.2 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(1) Impairment of receivables

As described in Note II.8, 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.

(2) Impairment of other assets excluding inventories, financial assets and other long-term equity investments

As described in Note II.15, other assets excluding inventories, financial assets and other long-term equity investments 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 net selling price and it's 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.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

25 Significant accounting estimates and judgments *(Continued)*

(3) Depreciation and amortisation

As described in Note II.11 and 14, 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.

26 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". "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. And certain comparative figures have been adjusted to conform to current period's presentation.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

26 Changes in Accounting Policies *(Continued)*

(1) Description of and reasons for changes in accounting policies (Continued)

— Segment Reporting

No. 3 Explanatory Guidance revised ASBE 35-segment reporting. According to 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 business segments and geographical 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 adjustment to the presentation of the income statement, the above changes of accounting policies have no impact on the relevant accounts of the income statement for the year ended 31 December 2009 and the balance sheet at 31 December 2009.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

III. TAXATION

1 Main types of taxes and corresponding rates

Tax Name	Tax basis	Tax rate
Value-added Tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	17%
Business tax	Based on taxable revenue	5%
Enterprise income tax	Based on taxable profits	15%

2 Tax preferencial and approval notice

(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 Fifth Session of the tenth 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.

III. TAXATION *(CONTINUED)*

2 Tax preferencial and approval notice *(Continued)*

(b) The Company purchased certain domestic manufactured equipment between 2004 and 2007. In accordance with Cai Shui Zi [2000] No. 49 the Notice concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the Ministry of Finance and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilised to reduce the Company's enterprise income tax.

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

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

III. TAXATION *(CONTINUED)*

3 Other explanations

(a) On 28 September 2009, the Company signed both a transfer contract and a lease agreement with Jianxin Financial Leasing Ltd. ("Jianxin") to transfer some machinery equipments awaiting the commissioning of the 4100mm steel plate production line ("the equipments") to Jianxin and then lease them from Jianxin by way of sale and leaseback. These equipments, with a carrying amount of RMB 1,230,672,000, were sold for a consideration of RMB1,400,000,000.

The Company submitted "The Finance Lease Situation Report" to the State Administration of Taxation of Chongqing on 25 November 2009, applying to be immune from VAT for the sale and leaseback transaction. Till the financial statements approval date, the Company has not yet received any formal reply to exempt the company from VAT. As the equipments have not been ready for intended use, they were included in construction in progress as at 31 December 2009. If the Company couldn't get approval from the tax authority, there would be no impact on net profit of Year 2009. However, it would result in an increase in current liability of RMB174,736,000 and a decrease of non-current liabilities of the same amount.

(b) The Company has adopted Detailed Rules for the Implementation of the Provisional Regulation on Value-added Tax of the People's Republic of China since 1 January 2009, and thus is entitled to deduct the full amount of input tax for fixed assets.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES

1 Cash at bank and on hand

Unit: RMB'000

Item	2009 Original currency	2009 Exchange rate	2009 RMB/RMB equivalents	2008 Original currency	2008 Exchange rate	2008 RMB/RMB equivalents
Cash on hand						
— RMB	675	1.0000	675	373	1.0000	373
Deposits with banks						
— RMB	1,394,940	1.0000	1,394,940	1,124,589	1.0000	1,124,589
— US Dollars	947	6.8282	6,469	26	6.8346	175
— HK Dollars	61	0.8805	54	48	0.8819	42
Other monetary fund						
— RMB	188,757	1.0000	188,757	77,448	1.0000	77,448
— US Dollars	6	6.8282	42	151	6.8346	1,034
Total			1,590,937			1,203,661

Other cash and cash equivalents include

Unit: RMB'000

Item	2009	2008
Restricted		
— Guarantees for letter of credit	**185,989**	56,608
Unrestricted		
— Cash in transit	**2,810**	21,874
Total	**188,799**	78,482

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

2 Bills receivable

All bills receivables held by the Company are bank acceptances due within one year.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of bills receivable. Bills receivable due from related parties are set out in Notes V.5(1).

At year end, no bill was transferred to accounts receivable due to the drawer's failure to honour agreement and the Company have no bills receivable for collateral or discounted.

At the end of year, the top five outstanding endorsed bills but not due:

Unit: RMB'000

Issuer	Issuing date	Due date	Amount	Notes
Ningbo Bao Yi Trade Co., Ltd	23/10/2009	23/04/2010	18,170	06255343
Ningbo Bao Yi Trade Co., Ltd	31/07/2009	31/01/2010	15,000	00878813
Asian Star Anchor Chain Co., Ltd. Jiangsu	30/10/2009	30/04/2010	13,400	03005577
Ningbo Bao Yi Trade Co., Ltd	23/09/2009	23/03/2010	12,000	06255322
Ningbo Bao Yi Trade Co., Ltd	30/10/2009	30/04/2010	12,000	06255351

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

3 Accounts receivable

(1) Accounts receivable by category:

Unit: RMB'000

		2009			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	Amount	Percentage	Amount	Percentage
Individually significant accounts receivable	(2)	159,207	46%	—	—
Individually insignificant but with a material portfolio credit risk accounts receivable	(2)	148,112	42%	144,740	98%
Other immaterial accounts receivable		42,363	12%	10,079	24%
Including:					
1. Insignificant but tested for impairment individually	(2)	15,929	4%	10,079	63%
2. Individually insignificant but with a immaterial portfolio credit risk		26,434	8%	—	—
Total		349,682	100%	154,819	44%

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

3 Accounts receivable *(Continued)*

(1) Accounts receivable by category:*(Continued)*

Unit: RMB'000

		2008			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	Amount	Percentage	Amount	Percentage
Individually significant accounts receivable	(2)	158,636	44%	—	—
Individually insignificant but with a material portfolio credit risk accounts receivable	(2)	146,956	40%	144,562	98%
Other immaterial accounts receivable		59,084	16%	10,079	17%
Among:					
1. Insignificant but tested for impairment individually	(2)	20,349	6%	10,079	50%
2. Individually insignificant but with a immaterial portfolio credit risk		38,735	10%	—	—
Total		364,676	100%	154,641	42%

(2) 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. Accounts receivable due from related parties are set out in Note V.5(2).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

3 Accounts receivable *(Continued)*

(3) Provision for bad and doubtful debts for individually significant or insignificant but tested for impairment individually accounts receivable at the end of the year:

Unit: RMB'000

Contents of accounts receivable	Gross carrying amount	Provision for bad and doubtful debts	Rate of provision
1. Individually significant	159,207	—	—
2. Insignificant but tested for impairment individually	15,929	10,079	63%
Total	175,136	10,079	—

As at 31 December 2009, the Company's amounts due from related parties with ageing over 3 years mainly include the amount of RMB 10,079,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to unsatisfied financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that there was unlikely to recover the amount. Therefore, a provision of RMB 2,710,000 was made for bad debts in full in 2005. Due to cession of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company's management considered that there was unlikely to recover the amount. Therefore, a provision of RMB 7,369,000 was made for bad debts in full in 2006.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

3 Accounts receivable *(Continued)*

(3) Provision for bad and doubtful debts for individually significant or insignificant but tested for impairment individually accounts receivable at the end of the year: *(Continued)*

Accounts receivable which are individually insignificant but with a material portfolio credit risk:

Unit: RMB'000

	2009			2008		
	Gross carrying amount			Gross carrying amount		
Ageing	Amount	Percentage	Provision for bad and doubtful debts	Amount	Percentage	Provision for bad and doubtful debts
4 to 12 months (inclusive)	**2,766**	**1%**	**137**	767	1%	37
1 to 2 years (inclusive)	**602**	**1%**	**151**	1,800	1%	450
2 to 3 years (inclusive)	**585**	**1%**	**293**	629	1%	315
Over 3 years	**144,159**	**97%**	**144,159**	143,760	97%	143,760
Total	**148,112**	**100%**	**144,740**	146,956	100%	144,562

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

3 Accounts receivable *(Continued)*

(4) Accounts receivable written-off during the year:

In 2009, the Company wrote off uncollectible accounts and bad debt provisions totalling RMB 2,281,000 (2008: RMB 340,000).

Unit: RMB'000

Debtor	Nature of accounts receivable	Amount of write-off	Reason for Write-off	Accounts receivable associated with related party transactions *(Y/N)*
Chongqing Xinteng Metallurgical Burden Materials Co., Ltd	Sales	2,281	Insolvency of the debtor	Y

(5) Accounts receivable due from the five biggest debtors of the Company:

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable
1. Chongqing Si Gang Steel Co., Ltd	Related party	52,761	within three months (inclusive)	15%
Chongqing Si Gang Steel Co., Ltd	Related party	10,347	four to twelve months (inclusive)	3%
2. Guangzhou Wenchong Shipyard Co., Ltd	The third party	30,244	within three months (inclusive)	9%
3. CSSC Guangzhou huangpu shipbuilding Co., Ltd	The third party	25,557	within three months (inclusive)	7%
4. Chongqing Iron & Steel Group steel Pipe Co.,Ltd	Related party	20,767	within three months (inclusive)	6%
5. Chongqing San Gang Steel Co., Ltd	Related party	19,531	within three months (inclusive)	6%
Total		159,207		46%

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

4 Prepayment

(1) The prepayments by category:

Unit: RMB'000

Item	2009	2008
Material prepayments	**272,094**	135,995
Prepayments for construction and equipment	**39,642**	29,348
Prepaid land premiums	**30,169**	101,000
Total	**341,905**	266,343

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

(3) The prepayments by ageing:

Unit: RMB'000

	2009		2008	
Ageing	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	**267,352**	**78%**	157,745	59%
1 and 2 years (inclusive)	**51,559**	**15%**	102,074	38%
2 and 3 years (inclusive)	**22,496**	**6%**	6,117	2%
Over 3 years	**498**	**1%**	407	1%
Total	**341,905**	**100%**	266,343	100%

The ageing is counted starting from the date prepayments is recognised. Payments whose age over one year are the prepayments for construction land for Jingxing Dolomite Expansion Phase II paid to Chongqing Wangsheng District Bureau of Land and Resource.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

4 Prepayment

(4) Prepayment due from the five biggest debtors :

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Percentage of total prepayment	Recognition date	Reason for unsettlement
1. Chongqing Energy Investment Group (Yong Rong Mining Industry)	The third party	53,588	15%	2009	Goods not arrived
2. Chongqing Wansheng District Bureau of Land and Resources	The third party	30,169	9%	2008	Land remise fund not paid
3. Guanchi Coal Mining Company Limited in Xuanhan County of Sichuan	The third party	29,853	9%	2009	Goods not arrived
4. Chongqing Hu An Industry &Trade Co., Ltd	The third party	27,000	8%	2009	Goods not arrived
5. Chongqing Tian Fu Coal Industry Co., Ltd	The third party	22,440	7%	2009	Goods not arrived
Total		163,050	48%		

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

5 Other receivables

(1) Other receivables by category:

Unit: RMB'000

		2009			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	Amount	Percentage	Amount	Percentage
Individually significant other receivables	(3)	16,727	50%	6,718	40%
Other immaterial other receivables		16,691	50%	—	—
Including:					
— Insignificant but tested for impairment individually		16,691	50%	—	—
Total		33,418	100%	6,718	20%

Unit: RMB'000

		2008			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	Amount	Percentage	Amount	Percentage
Individually significant other receivables	(3)	14,460	46%	6,718	46%
Other immaterial other receivables		16,678	54%	—	—
Including:					
— Insignificant but tested for impairment individually		16,678	54%	—	—
Total		31,138	100%	6,718	22%

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of other receivables.

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

5 Other receivables *(Continued)*

(3) For other receivables, provision for bad and doubtful debts is made on the basis of individual evaluation.

During the year ended 31 December 2005, the Company had received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to debts owed by Chongqing Special Steel (Group) Limited Company ("CSSG", a former subsidiary of the Parent Group which ceased to have shareholding relationship with the Parent Group since June 2003) and the Parent Group to their creditors amounting to RMB 18,340,000 and RMB 18,200,000, respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate RMB 36,540,000 dividend to be distributed to the Parent Group ("the Dividend"). The Courts had withdraw RMB 4,528,000 and RMB 1,059,000 from the Company's bank accounts in 2005 and 2006 respectively, totalling RMB 5,587,000.

In November 2006, as the Parent Group settled its debts amounting to RMB 18,200,000, the Courts withdrew those verdicts and enforcement orders against the Parent Group, and accordingly the Company was not required to assist the execution of the verdicts.

As at the date of the financial statements are approved for issue, the case relating to the debts owed by CSSG has not been finalised. Based on the advice from the Company's legal counsel, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Parent Group or the Company, and accordingly the Company has no obligation to assist the execution of the verdicts. The Company has made objections to the Courts and seek assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress. On 25 May 2007, Supreme People's Court issued the Notice on Termination of Civil Responsibility Bore by the Parent Group in respect of Cases regarding Historical Debt of Chongqing Special Steel (Fa (Zhi) Ming Chuang (2007)) (the "Notice") to the Sichuan Supreme People's Court. It is stated in the Notice that, as the cases regarding historical debt of Chongqing Special Steel are been coordination and handled, Supreme People's Court requests the Sichuan Supreme People's Court to terminate the execution procedure for such cases, which will be handled upon relevant advices are given by Supreme People's Court.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

5 Other receivables *(Continued)*

Although the above objection is still in process, management of the Company is of view that the recoverability of the withdrawn bank deposits (recorded as other receivable) is uncertain, thus a total of full impairment provision of RMB 5,587,000 was recorded for the years ended 31 December 2005 and 2006.

(4) Other receivables due from the five biggest debtors

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Ageing	Percentage of total other receivable
1. Deduction by Neijiang People's Court	The third party	5,587	Over 3 years	17%
2. Tax Bureau of Changshou District, Chongqing	The third party	4,119	With 1 year (inclusive)	12%
3. Da Du Kou station of Chengdu Railway Bureau	The third party	3,823	With 1 year (inclusive)	12%
4. Guangzhou Jianhe Transporation Co., Ltd	The third party	2,067	With 1 year (inclusive)	6%
5. Sichuan Da County Mining Industry Co., Ltd	The third party	1,131	Over 3 years	3%
Total		16,727	50%	

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

6 Inventories

(1) Inventories by category:

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	2,612,088	8,249,671	8,705,990	2,155,769
Work in progress	658,484	10,375,553	10,110,896	923,141
Finished goods	237,547	10,304,475	10,234,929	307,093
Reusable materials	382,550	715,120	306,249	791,421
Sub-total	3,890,669	29,644,819	29,358,064	4,177,424
Less: Provision for domination in value	832,937	50,344	772,031	111,250
Total	3,057,732	29,594,475	28,586,033	4,066,174

(2) Provision for diminution in value of inventories

Unit: RMB'000

Inventories category	Balance at the beginning of the year	Provision made for the year	Reductions during the year		Balance at the end of the year
			Reversal	Write-off	
Raw materials	596,147	2,346	—	596,147	2,346
Work in progress	122,406	29,755	—	122,406	29,755
Finished goods	50,598	18,243	1,660	48,938	18,243
Reusable materials	63,786	—	—	2,880	60,906
Total	832,937	50,344	1,660	770,371	111,250

Since the 4100mm steel plate production line is still in the commissioning stage, production technology is not mature and the finished product rate is low. Also, the decline-in-value provision amounting to RMB35,526,000 for the unit cost difference of the finished products in excess of the net realisable value has been capitalised and recognised in construction-in-progress.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

7 Other current asset

Other current asset is deductible input VAT and prepaid EIT.

Unit: RMB'000

Item	2009	2008
Deductible input VAT	**225,664**	21,005
Prepaid EIT	**1,854**	—
Total	**227,518**	21,005

8 Long-term equity investments

Unit: RMB'000

Item	2009	2008
Other long-term equity investments	**5,000**	5,000
Less: provision for impairment	**—**	—
Total	**5,000**	5,000

Long-term equity investment refers to the Company's investment in Xiamen Shipbuilding Industry Co., Ltd.("Xiamen Shipbuilding"). Xiamen Shipbuilding is a non-listed company. With an initial investment of RMB 5,000,000, the Company has held a 2% equity interest in it since March 2002. The Company does not control, jointly control, nor has significant influence over it. As at 2009, the Company received cash dividends distributed by Xiamen shipbuilding, totaling RMB 1,304,000.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

9 Fixed assets

(1) Fixed assets

Unit: RMB'000

Item	Plant and buildings	Machinery and equipment	Motor vehicles	Total
Cost				
Balance at the beginning of the year	2,331,032	5,848,067	26,657	8,205,756
Transfer from Construction in progress	28,622	311,742	6,033	346,397
Additions during the year	—	—	—	—
Disposals during the year	—	2,227	410	2,637
Transfer out for improvement	29,245	275,089	—	304,334
Balance at the end of the year	2,330,409	5,882,493	32,280	8,245,182
Less: Accumulated depreciation				
Balance at the beginning of the year	845,699	2,306,671	13,093	3,165,463
Charge for the year	53,905	241,003	3,015	297,923
Written off on disposals	—	1,453	394	1,847
Transfer out for improvement	5,836	62,217	—	68,053
Balance at the end of the year	893,768	2,484,004	15,714	3,393,486
Less: Provision for impairment				
Balance at the beginning of the year	4,687	49,744	55	54,486
Charge for the year	—	—	—	—
Written off on disposal	—	648	—	648
Balance at the end of the year	4,687	49,096	55	53,838
Carrying amounts				
At the end of the year	1,431,954	3,349,393	16,511	4,797,858
At the beginning of the year	1,480,646	3,491,652	13,509	4,985,807

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

9 Fixed assets *(continued)*

(2) Fixed assets to be disposed and other idle fixed assets

Details of fixed assets to be disposed and other idle fixed assets as at 31 December 2009 are as follows:

Unit: RMB'000

Item	Book value	Accumulated depreciation	Impairment for provision	Net book value	Estimated disposal cost	Estimated disposal time
Plant and buildings	13,762	8,664	4,687	411	—	2010-2011
Machinery and equipment	259,520	202,649	49,096	7,775	14	2010-2011
Motor vehicles	225	164	55	6	—	2010-2011
Total	273,507	211,477	53,838	8,192	14	

(3) Carrying amounts of fixed assets leased out under operating lease

Unit: RMB'000

Item	2009	2008
Plant and buildings	**12,537**	13,193
Machinery and equipment	**62**	52
Total	**12,599**	13,245

(4) Fixed assets with pending certificates of ownership

As at 31 December 2009, the Company was in the process of obtaining ownership certificates of certain plants and buildings with carrying amount of RMB 218,663,000 and cost of RMB 252,760,000 (2008: carrying amount of RMB 296,380,000 and cost of RMB 332,292,000).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

10 Construction in progress

(1) Construction in progress

Unit: RMB'000

Item	2009			2008		
	Cost	Provision for impairment	Carrying amount	Cost	Provision for impairment	Carrying amount
Construction in progress	2,908,862	—	2,908,862	532,703	—	532,703

The carrying amount of construction in progress of the Company at the end of the year included capitalised borrowing cost of RMB 144,336,000 (2008: RMB 57,472,000). The interest rate per annum, at which the borrowing costs were capitalised for the current year by the Company were 5.45% (2008: 7.16%).

(2) The Company's major constructions in progress as at 31 December 2009

Unit: RMB'000

Projects	Budget	Beginning balance	Additions	Improvement transfer-in	Transfer to fixed asset	Ending balance	Percentage of input to budget	Projects progress	Accumulated capitalised interest	Including: capitalised interest for this year	Rate for capitalise interest for the year	Sources of funds
1780mm hot-rolled plates	1,400,000	215,806	779,058	—	—	994,864	71%	48%	36,149	18,355	5.45%	Fund raised/ self-financing
4100mm wide-thick plates	1,918,000	249,748	1,626,761	—	—	1,876,509	98%	70%	108,159	68,784	5.45%	Bank loans/ self-financing
limestone transportation system	61,180	—	9,507	—	—	9,507	16%	16%	—	—	—	Bank loans/ self-financing
gas turbine improvement	21,600	—	18,319	122,949	141,268	—	85%	100%	—	—	—	Bank loans/ self-financing
Others		67,149	52,630	113,332	205,129	27,982			28	—	—	
Total		532,703	2,486,275	236,281	346,397	2,908,862			144,336	87,139	—	

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

10 Construction in progress *(Continued)*

(3) Construction in process under finance lease

On 28 September 2009, the Company signed a transfer contract with Jianxin to transfer some machinery equipment awaiting the commissioning of the 4100mm steel plate production line ("the equipment"), with a carrying amount of RMB 1,230,672,000, to Jianxin at a consideration of RMB1,400,000,000. The Company signed a leasing contract with Jianxin on the same day; the lease term is from 29 September 2009 to 29 September 2014, or 60 months. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB1, 400,000,000, the lease rate is one basic point (0.01%) lower than the interest rate for a 3-5 year loan designated in RMB quoted by the PBOC. According to the asset transfer contract and leasing agreement, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the leaser, the Company.

As at 31 December 2009, the carrying amount of the equipment was RMB 1,230,672,000.

11 Construction materials

Unit: RMB'000

Item	Balance at the end of the year	Balance at the beginning of the year
Construction materials for large equipment	**242,977**	927,808
Construction materials for special equipment	**1,414**	257,811
Total	**244,391**	1,185,619

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

12 Intangible assets

Unit: RMB'000

Item	Land use rights	Trademark	Total
Cost			
Balance at the beginning of the year	257,718	6,478	264,196
Additions for the year	90,000	—	90,000
Balance at the end of the year	347,718	6,478	354,196
Less: Accumulated amortisation			
Balance at the beginning of the year	6,668	6,478	13,146
Charge for the year	5,209	—	5,209
Balance at the end of the year	11,877	6,478	18,355
Carrying amounts			
At the beginning of the year	335,841	—	335,841
At the end of the year	251,050	—	251,050

The amount of trademark was invested by the Parent Group when the Company was restructured. Its original amount was determined based on the appraisal value issued by the independent valuer Zhongzi Assets Assessment Co., Ltd. certified by the state-owned assets administration department at the time of the Company's restructuring.

As at 31 December 2009, the Company was in the process of obtaining ownership certificates of certain intangible asset with carrying amount of RMB 90,000,000 (2008: Nil).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

13 Deferred tax assets

(1) Recognised deferred tax assets

Unit: RMB'000

Item	2009 Deductible temporary differences	2009 Deferred tax assets	2008 Deductible temporary differences	2008 Deferred tax assets
Provision for impairment against assets	**131,412**	**19,712**	862,575	129,386
Unrealised income of sale and leaseback transactions	**169,328**	**25,399**	—	—
Amortisation of finance costs	**31,896**	**4,784**	—	—
Deductible tax losses	**456,612**	**68,492**	—	—
Sub-total	**789,248**	**118,387**	862,575	129,386

According to the regulation of the new taxation law "The State Council concerning the implementation of enterprise income tax preferential policies of transition notice" (Guofa [2007] No. 39), issued by the State Council on 2 December 2007 the applicable tax rate for the Company is still 15% from 1 January 2008 to 31 December 2010. In consideration of expected way of compensation or calculation of the deferred tax assets, by referring to the regulation of the taxation law, the Company, as at 31 December 2009, computed the book value of the deferred tax asset by adopting the applicable tax rate of 15% in respect of calculating the repossessing of the assets or discharging of the liabilities in the future.

(2) Unrecognised deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. As at 31 December 2009, the Company has not recognised deferred tax assets, in respect of impairment provision against assets, amounting to RMB 23,953,000 (2008: RMB 27,931,000).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

14 Other non-current assets

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

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of other non-current assets.

15 Details of provisions for impairment

Unit: RMB'000

Item	*Notes*	Balance at the beginning of the year	Charge for the year	Decrease in the year		Balance at the end of the year
				Reversal	Write-off	
Provision for bad and doubtful debts of accounts receivables	IV.3	154,641	2,459	—	2,281	154,819
Provision for bad and doubtful debts of other receivables	IV.5	6,718	—	—	—	6,718
Provision for diminution in values of inventories	IV.6	832,937	50,344	1,660	770,371	111,250
Provision for impairment against fixed assets	IV.9	54,486	—	—	648	53,838
Total		1,048,782	52,803	1,660	773,300	326,625

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

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

16 Restricted assets

As at 31 December 2009, the restricted assets were as follow:

Unit: RMB'000

Item	Balance of the beginning of the year	Charge for the year	Decrease during the year	Balance at the end of the year
Cash at bank-Restricted cash deposits for letters of credit	56,608	460,355	330,974	185,989

17 Short-term loans

Unit: RMB'000

	2009				
Item	Annual interest rate	Principal	Currency	Exchange rate	RMB
Bank loans					
Loan with guarantee					
— Loan with guarantee denominated in USD	1.45%~1.60%	22,892	USD	6.8282	156,313
— Loan with guarantee denominated in RMB	5.04%~5.31%	2,124,000	RMB	1.0000	2,124,000
Total					2,280,313

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

17 Short-term loans

Unit: RMB'000

	2008				
Item	Annual interest rate	Principal	Currency	Exchange rate	RMB
Bank loans					
Loan on credit	5.58%~7.47%	175,000	RMB	1.0000	175,000
Loan with guarantee	5.31%~7.47%	1,623,000	RMB	1.0000	1,623,000
Total					1,798,000

The guaranteed loans are guaranteed by the Parent Group (Note V.4(3)).

No amount due to shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of short-term loans.

18 Accounts payable

(1) The accounts payable by category:

Unit: RMB'000

Item	2009	2008
Material accounts payable	**713,894**	455,644
Accounts payable for construction and equipment	**710,863**	146,469
Total	**1,424,757**	602,113

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

18 Accounts payable *(continued)*

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

(3) Ageing analysis of accounts payable:

Unit: RMB'000

Item	2009 Amount	2009 Percentage	2008 Amount	2008 Percentage
Within 1 year (inclusive)	**1,361,335**	**95%**	526,990	88%
1 year-2 years (inclusive)	**15,710**	**1%**	26,945	4%
2 year-3 years (inclusive)	**7,432**	**1%**	21,179	4%
Over 3 years	**40,280**	**3%**	26,999	4%
Total	**1,424,757**	**100%**	602,113	100%

As at 31 December 2009, payables aged over three years mainly represented payables for construction equipment and other procurement payables of which construction payables mainly represents project quality deposit. Other procurement payables have not yet settled because of the quality of the goods. As at the date of approval of the financial statements, the above payables remained unsettled.

19 Advances from customers

Advances are payments prepaid by clients of the Company. As at 31 December 2009, the ageing of advances from customers is within one year.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of advances from customers. Accounts receivable due from related parties are set out in Notes V.5(4).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

20 Employee benefits payable

Unit: RMB'000

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Salaries, bonus, allowances	21,817	415,310	413,841	23,286
Staff welfare fees	—	10,741	10,741	—
Social insurances				
Including:				
1. Medical insurance premium	—	54,257	54,257	—
2. Pension insurance premium	—	96,939	67,990	28,949
3. Unemployment insurance premium	12,699	296	10,115	2,880
4. Work injury insurance premium	—	3,812	3,812	—
5. Maternity insurance premium	—	2,857	2,857	—
Housing fund	—	37,907	37,907	—
Others	5,447	37,820	35,846	7,421
Total	39,963	659,939	637,366	62,536

21 Tax payable

Unit: RMB'000

Item	2009	2008
VAT	**67,598**	105,840
Business tax	**71**	30
EIT	**—**	79,084
Others	**1,255**	4,273
Total	**68,924**	189,227

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

22 Other payables

(1) Other payables by category:

Unit: RMB'000

Item	2009	2008
Payables to related parties (Note V.5(3))	**70,715**	207,580
Others	**54,901**	53,773
Total	**125,616**	261,353

(2) Except for the payables shown in Note V.5(3)(a), no amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other payables.

23 Non-current liabilities due within one year

(1) Non-current liabilities due within one year by category are as follows:

Unit: RMB'000

Item	2009	2008
Long-term loans due within one year	**1,823,692**	440,000
Long-term payables due within one year *(Note IV.25)*	**76,426**	—
Total	**1,900,118**	440,000

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

23 Non-current liabilities due within one year *(Continued)*

(2) Long-term loans due within one year

Unit: RMB'000

	2009				
Item	Annual interest rate	Principal	Currency	Exchange rate	RMB
Bank loans					
Credit loans	5.40%	529,000	RMB	1.0000	529,000
Guaranteed loans					
— Guaranteed loans denominated in USD	1.98%	60,000	USD	6.8282	409,692
— Guaranteed loans denominated in RMB	5.29%~5.40%	885,000	RMB	1.0000	885,000
Total					1,823,692

Unit: RMB'000

	2008				
Item	Annual interest rate	Principal	Currency	Exchange rate	RMB
Bank loans					
Loan on credit	7.02%~7.92%	395,000	RMB	1.0000	395,000
Loan with guarantee					
— Loan with guarantee denominated in RMB	5.40%~7.29%	45,000	RMB	1.0000	45,000
Total					440,000

Loan with guarantee was guaranteed by the Parent Group (Note V.4(3)).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

23 Non-current liabilities due within one year *(Continued)*

(3) No amount due to the shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of long-term loans due within one year.

(4) As at 31 December 2009, Long-term loans due within one year due from the five biggest debtors

Unit: RMB'000

Debtor	Loan starting date	Loan ending date	Currency	Exchange rate *(%)*	2009 Amount in foreign currency *(USD)*	Amount in original currency *(RMB)*
1. HSBC Bank(China) Company Limited Chongqing Branch	29/01/2008	17/09/2010	RMB	5.29%	—	300,000
2. HSBC Bank(China) Company Limited Chongqing Branch	29/01/2008	17/09/2010	USD	1.98%	21,000	143,392
3. HSBC Bank(China) Company Limited Chongqing Branch	04/01/2008	17/09/2010	RMB	5.29%	—	140,000
4. HSBC Bank(China) Company Limited Chongqing Branch	08/11/2007	17/09/2010	USD	1.98%	14,000	95,595
5. HSBC Bank(China) Company Limited Chongqing Branch	21/12/2007	17/09/2010	USD	1.98%	14,000	95,595
Total					49,000	774,582

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

24 Long-term loans

(1) Long-term loans by category

Unit: RMB'000

	2009				
Item	**Annual interest rate**	**Principal**	**Currency**	**Exchange rate**	**RMB**
Bank loans					
Loan on credit	5.40%	100,000	RMB	1.0000	100,000
Loan with guarantee					
— Loan with guarantee denominated in USD	3.48%	50,000	USD	6.8282	341,410
— Loan with guarantee denominated in RMB	5.13%~5.40%	1,319,000	RMB	1.0000	1,319,000
Total					1,760,410

Unit: RMB'000

	2008				
Item	**Annual interest rate**	**Principal**	**Currency**	**Exchange rate**	**RMB**
Bank loans					
Loan on credit	7.02%~7.56%	569,000	RMB	1.0000	569,000
Loan with guarantee					
— Loan with guarantee denominated in USD	2.50%~5.29%	60,000	USD	6.8346	410,076
— Loan with guarantee denominated in RMB	5.56%~7.74%	1,345,000	RMB	1.0000	1,345,000
Total					2,324,076

Loan with guarantee were guaranteed by the Parent Group (Note V.4(3)).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

24 Long-term loans *(continued)*

(2) No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of long-term loans.

(3) As at 31 December 2009, Long-term loans due to the five biggest debtors of the Company

Unit: RMB'000

Debtor	Loan starting date	Loan ending date	Currency	Exchange rate *(%)*	2009 Amount in foreign currency *(USD)*	2009 Amount in original currency *(RMB)*
1. Standard Chartered Bank(China) Company Limited Chongqing Branch	10/09/2009	12/06/2012	RMB	5.29%	—	300,000
2. Standard Chartered Bank(China) Company Limited Chongqing Branch	10/12/2009	12/06/2012	RMB	5.29%	—	300,000
3. Standard Chartered Bank(China) Company Limited Chongqing Branch	21/08/2009	12/06/2012	USD	3.48%	15,000	102,423
4. Standard Chartered Bank(China) Company Limited Chongqing Branch	22/09/2009	12/06/2012	USD	3.48%	15,000	102,423
5. Industrial Bank Chongqing Jiulongpo Branch	28/11/2008	27/11/2011	RMB	5.40%	—	100,000
Total					30,000	904,846

25 Long-term payables

Unit: RMB'000

Item	2009	2008
Obligations under finance leases -Jianxin	**1,207,219**	—
Less: Due within one year *(Note IV.23)*	**76,426**	—
Total	**1,130,793**	—

As at 31 December 2009, the Company's unrecognised finance charges amounted to RMB 484,694,000 .

The long-term payables were guaranteed by the Parent Group (Note V.4(3)).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

26 Other non-current liabilities

Unit: RMB'000

Item	*Notes*	**2009**	2008
Other financial liabilities	(1)	**520,000**	440,000
Deferred income-government grants	(2)	**17,223**	16,773
Deferred income-unrealised income of sale and leaseback transactions	(3)	**169,328**	—
Total		**706,551**	456,773

(1) According to relevant agreement, the Company received a few advances from customer totaling RMB 1,300,000,000 in 2006, 2008 and 2009. Such amounts were settled on monthly basis during the period form April 2007 to December 2013. The customer was entitled to a certain amount of discount in selling prices every month. Such long term advance was recognised as financial liabilities, and subsequently measured on the basis of the post-amortisation costs by adopting the effective interest rate method. In 2009, the effective interest rate was 5.40~7.19% (2008: 5.72~7.19%); interest expense for financial liabilities has been recognised at RMB 50,054,000 (2008: RMB 24,731,000).

(2) The Company received government grants of RMB 18,575,000 from 2005 to 2009 relating to the construction of environmental protection equipment and facilities. These government grants were recognised as deferred income and evenly amortised over the estimated useful life of relevant assets. The amortisation amount in 2009 accounted to RMB 985,000 (2008: RMB 350,000).

(3) In the sale and lease back transactions of machineries under installation with Jianxin (Note IV.10(3)), which results in a finance lease, the excess of sale proceeds over the carrying amount which amounts RMB 169,328,000 is deferred and would be amortised as an adjustment of depreciation according to the depreciation percentage after the Construction in Progress transfers to Property, Plant and Equipment.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

27 Share capital

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share subject to trading restrictions				
— State-owned shares	845,000	—	9,200	835,800
— Other legal person holding shares	—	4,200	—	4,200
— The nature person holding shares	—	5,000	—	5,000
Shares not subject to trading restrictions				
—RMB-denominated ordinary share				
- 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	9,200	9,200	1,733,127

On 6 May 2009, the People's Court of Sichuan Neijiang City, Shizhong District informed the Parent Group that it had accepted the applications of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Constructon Engineering Company holding that the executor for Special Steel's external debt would be the Parent Group. In accordance with the order, the Shanghai Golden Gavel Commodity Auction Co., Ltd. was engaged to auction 9.2 million restricted shares of the Company, held by Parent Group, which had been frozen in compliance with law. Vendee Yao Jiankang bought 5 million shares and vendee Shanghai Zhenghai Asset Management Co., Ltd. bought 4.2 million shares. These vendees completed the related stock ownership transfer procedures on 12 May 2009.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

28 Capital reserve

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premiums	894,257	—	—	894,257
Transfer from items under previous standards	270,127	—	—	270,127
Total	1,164,384	—	—	1,164,384

29 Surplus reserve

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	566,679	8,403	—	575,082

30 Retained earnings

Unit: RMB'000

Item	*Note*	Amounts	Appropriation rate
Balance at the beginning of the year		2,180,756	—
Add: Net profit for the year attributable to shareholders of the Company		84,029	—
Less: Statutory surplus reserve	(1)	8,403	10% of net profit
Dividends payable of ordinary shares	(2)	173,313	RMB 0.1 per share
Balance at end of the year		2,083,069	—

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

30 Retained earnings *(continued)*

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 retained earnings before the date of issuance of A share in 2007 after the completion of issuance of A share in 2007. As at 31 December 2009, the Company's retained earnings amounted to RMB 2,083,069,000, which shall be shared on a pro rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

(1) Appropriation to surplus reserves

In accordance with the Articles of Association, the Company made appropriations to the following surplus reserve for 2009:

Statutory surplus reserve	10%

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the BOD, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital. In 2009, the Company appropriated 10% of the net profit to statutory surplus reserve, totalling RMB 8,403,000 (2008: RMB 59,830,000).

The amount appropriated to discretionary surplus reverse is proposed by the BOD and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. The Company did not appropriate any profit to the discretionary surplus reserve in 2009.

(2) Distribution of ordinary share dividends

On 24 July 2009, a final dividend of RMB 0.1 per share for the year 2008, totalling RMB 173,313,000, as approved at the Annual General Meeting held on 1 June 2009. The distribution base was the 1,733,127,000 shares issued as at 31 December 2008.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

31 Operating income, operating costs

(1) Operating income, operating costs

Unit: RMB'000

Item	2009	2008
Operating income from principal activities	**10,633,996**	16,482,183
Other operating income	**20,119**	35,260
Operating income	**10,654,115**	16,517,443
Operating costs from principal activities:	**9,464,558**	13,836,218
Other operating costs	**14,698**	29,149
Operating costs	**9,479,256**	13,865,367

(2) Principal activities (by product)

Unit: RMB'000

	2009		2008	
Product	**Operating income from principal activities**	**Operating cost from principal activities**	Operating income from principal activities	Operating cost from principal activities
Steel plates	**4,302,653**	**3,726,976**	7,415,739	5,418,500
Steel billets	**699,230**	**637,732**	1,782,887	1,645,644
Steel sections	**3,253,359**	**2,944,824**	4,183,558	3,842,707
Wire rods	**1,698,686**	**1,510,790**	2,164,677	2,049,082
Cool-rolled sheets	**178,955**	**202,525**	392,450	405,152
Others	**501,113**	**441,711**	542,872	475,133
Subtotal	**10,633,996**	**9,464,558**	16,482,183	13,836,218

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

31 Operating income, operating costs *(continued)*

(3) The Company's operating income from the top five customers

Unit: RMB'000

Name of customer	Operating income	Percentage of total operating income
1. Guangzhou Shipyard International Co., Ltd	652,873	6%
2. Guizhou Wire Rope Incorporated Company	546,819	5%
3. Ningbo Bao Yi Trade Co., Ltd	291,515	3%
4. Jiangsu New Yangzijiang Shipbuilding Co., Ltd	282,854	3%
5. CSSC Guangzhou huangpu shipbuilding Co., Ltd	214,952	2%
Total	1,989,013	19%

32 Business taxes and surcharges

Unit: RMB'000

Item	2009	2008
Business tax	**283**	329

33 Financial expenses

Unit: RMB'000

Item	2009	2008
Interest expenses from loans and payables	**364,839**	328,033
Less: Borrowing costs capitalised	**87,139**	51,605
Net Interest expenses	**277,700**	276,428
Interest income from deposits and receivables	**-11,228**	-10,122
Exchange gains	**-566**	-17,100
Other financial expenses	**9,854**	5,637
Total	**275,760**	254,843

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

34 Investment income

Investment income by item

Unit: RMB'000

Item	2009	2008
Income from long-term equity investments under cost method *(Note IV.8)*	**1,304**	—
Investment income from settling held-to-maturity investments	**—**	32
Total	**1,304**	32

35 Impairments losses

Unit: RMB'000

Item	2009	2008
I. Loss for bad and doubtful debts	**2,459**	-4,978
II. Loss for diminution in value of inventories	**13,158**	785,520
III. Loss for impairment against fixed assets	**—**	91,896
Total	**15,617**	872,438

36 Non-operating Income

(1) Non-operating income by item is as follows:

Unit: RMB'000

Item	*Notes*	2009	2008
Gains on disposal of fixed assets		**1,109**	2,175
Government grants	(2)	**11,076**	650
Received tax return		**7,410**	—
Others		**3,539**	2,789
Total		**23,134**	5,614

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

36 Non-operating Income *(continued)*

(2) Details of government grants

Unit: RMB'000

Item	2009	2008	*Notes*
Social insurance fund to financial bureau	6,375	—	Subsidies to enterprises having difficulty stabilizing positions approved by the Chongqing Human Resource and Social Security Bureau, in line with the Notice on Further Enhancing Work regarding Position Stabilisation Subsidies and Post-Job Training Subsidies (Yu Ren She Fa No.120[2009])
Compensation for special facilities	3,716	—	Compensation for Post-flood special facilities for the Three Gorges Project approved by Dadukou District Three Gorges Project Office, in line with the Notice on the Investment Plan for Compensation for Post-flood Special Facilities for the Three Gorges Project (Du Yi No.18[2009])
Award for clean production	—	300	Award for clean production allocated by the Chongqing Environment Protection Bureau
Special appropriation for environmental protection	985	350	Note IV.26(2)
Total	11,076	650	

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

37 Non-operating expenses

Unit: RMB'000

Item	2009	2008
Losses on disposal of fixed assets	**10**	6,290
Donation expenses	**200**	1,610
Others	**553**	1,056
Total	**763**	8,956

38 Income tax

Unit: RMB'000

Item	*Notes*	2009	2008
Current tax expenses for the period based on tax law and corresponding regulations		**—**	129,523
Deferred taxation adjustments	(1)	**10,999**	-122,057
Total		**10,999**	7,466

(1) The analysis of deferred tax adjustments is set out below:

Unit: RMB'000

Item	2009	2008
Origination and reversal of temporary differences	**79,491**	-122,057
Recognition of previously unrecognised tax losses	**-68,492**	—
Total	**10,999**	-122,057

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

38 Income tax

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Unit: RMB'000

Item	2009	2008
Profit before taxation	95,028	605,764
Expected income tax expenses at a tax rate of 15%	14,254	90,865
Add: unrecognised temporary differences	-3,978	1,274
non-deductible expenses	919	1,541
Residential enterprise dividends income	-196	—
Reduction in income tax for purchase of domestic manufactured equipment	—	-86,214
Income tax expenses	10,999	7,466

39 Calculation of basic earnings per share and diluted earnings per share

(1) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit or loss of the Company attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding:

	2009	2008
Net profit of the Company attributable to ordinary shareholders *(RMB'000)*	**84,029**	598,298
Weighted average number of ordinary shares outstanding *('000 shares)*	**1,733,127**	1,733,127
Basic earnings per share	**0.05**	0.35

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit or loss of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2009, there was no issuance of dilutive potential ordinary shares in 2009 (2008: Nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

40 Supplement to income statement

Expenses are analysed by their nature as follows:

Unit: RMB'000

Item	2009	2008
Operating income	**10,654,115**	16,517,443
Less: Changes in inventories of finished goods and work in progress	**-334,203**	-94,041
Raw materials and consumables used	**8,290,806**	12,136,029
Employee benefits expenses	**659,939**	883,914
Depreciation and amortisation expenses	**303,132**	319,023
Impairment losses	**15,617**	872,438
Financial expenses	**275,760**	254,843
Others	**1,348,036**	1,539,473
Profit before income tax	**95,028**	605,764

41 Notes to cash flow statement

(1) Other cash received relating to operating activities

Unit: RMB'000

Item	Amount
Government grants	11,526
Others	3,539
Total	15,065

(2) Other cash paid relating to operating activities

Unit: RMB'000

Item	Amount
Bank charges	10,652
Others	754
Total	11,406

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

41 Notes to cash flow statement *(continued)*

(3) Other cash received relating to investing activities

Unit: RMB'000

Item	Amount
Interest income on deposits of bank	11,228

42 Supplement to cash flow statement

(1) Supplemental information to cash flow statement

Unit: RMB'000

Supplemental Information	2009	2008
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	**84,029**	598,298
Add: Impairment Provisions for fixed assets	**15,617**	872,438
Depreciation of fixed assets	**297,923**	314,200
Amortisation of intangible assets	**5,209**	4,823
losses on disposal of fixed assets (gains denoted with '-')	**-1,099**	4,115
Financial expenses (income denoted with '-')	**216,418**	224,476
Investment losses (gain denoted with '-')	**-1,304**	-32
Decrease in deferred tax assets (increase denoted with '-')	**10,999**	-122,057
Decrease in gross inventories (increase denoted with '-')	**-1,057,125**	-1,183,007
Decrease in operating receivables (increase denoted with '-')	**-809,995**	27,533
Increase in operating payables (decrease denoted with '-')	**558,827**	-323,467
Decrease in restricted cash (increase denoted with '-')	**-129,381**	66,189
Net cash flow from operating activities	**-809,882**	483,509
2. Change in cash and cash equivalents:		
Cash at the end of the year	**1,404,948**	1,147,053
Less: Cash at the beginning of the year	**1,147,053**	971,082
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents	**257,895**	175,971

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. FINANCIAL STATEMENT NOTES *(CONTINUED)*

42 Supplement to cash flow statement

(2) Cash and cash equivalents

Unit: RMB'000

Item	2009	2008
Cash and cash equivalents	**1,404,948**	1,147,053
Including: Cash on hand	**675**	373
Bank deposits available on demand	**1,401,463**	1,124,806
Other monetary fund available on demand	**2,810**	21,874
Cash equivalents	**—**	—
Closing balance of cash and cash equivalents	**1,404,948**	1,147,053

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1 Information on the parent of the Company is listed as follows

Parent Company name	Organization code	Registered place	Business nature	Registered capital RMB'000	Share-holding 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,rolling and the by-products of iron and steel mining, milling, machinery, electronic, transportation by automobile, construction, refractory materials	1,650,706	48%	48%

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

1 Information on the parent of the Company is listed as follows *(continued)*

(1) Registered capital and changes therein

Unit: RMB'000

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Parent Group	1,579,044	71,662	—	1,650,706

On 11 December 2007, as approved by the circular (Yu Guo Zi Chan (2007) No. 175) issued by the State-owned Assets Supervision and Administration Commission of Chongqing, equity rights of RMB 52,642,450 in Chongqing Donghua Special Steel Company (representing 87.97% of the registered capital with total amount of RMB 59,842,450) Limited held by the Chongqing Energy Investment (Group) Co., Ltd. was transferred to Chongqing Iron & Steel (Group) Company Limited as capital investment with the reference date on 31 October 2007. After the transfer, the equity rights in Chongqing Donghua Special Steel Company Limited held by Chongqing Iron & Steel (Group) Company Limited amounted to RMB 59,842,450, representing 100% of the registered capital.

As at 26 December 2008, according to the Yu Cai Qi No.688 [2008] Notice on Allocating 2008 Operating Budgets for State-owned Capital in Enterprises at the Municipal Level, issued by the Finance Bureau of Chongqing, the Chongqing State-owned Assets Supervision and Administration Commission allocated RMB 19,020,000 to Chongqing Iron & Steel Group as capital investment.

In 2009, Parent Group completed the registration change of property rights and industry and commerce procedures regarding the above share transfer, and obtained a renewed business licence, No. 5000001801028, on 7 August 2009.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

1 Information on the parent of the Company is listed as follows *(continued)*

(2) Shares of the Company held by the Parent Group and changes therein

Unit: RMB'000

	2009		2008	
	Amount	**Percentage**	Amount	Percentage
Parent Group	**835,800**	**48%**	845,000	49%

On 6 May 2009, the People's Court of Sichuan Neijiang City, Shizhong District informed the Parent Group that it had accepted the applications of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Construction Engineering Company holding that the executor for Special Steel's external debt would be the Parent Group. In accordance with the order, the Shanghai Golden Gavel Commodity Auction Co., Ltd. was engaged to auction 9.2 million restricted shares of the Company, held by the Parent Group, which had been frozen in compliance with law. Vendee Yao Jiankang bought 5 million shares and vendee Shanghai Zhenghai Asset Management Co., Ltd. bought 4.2 million shares. These vendees completed the related stock ownership transfer procedures on 12 May 2009.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

2 Transactions with its key management personnel

Unit: RMB'000

Remuneration of key management personnel	*Notes*	**2009**	2008
Luo Fu Qin		**180**	275
Dong Lin	(1) (3)	**—**	—
Yuan Jin Fu	(1) (3)	**—**	275
Chen Shan	(1)	**249**	272
Sun Yi Jie	(1)	**245**	262
Chen Hong	(1)	**249**	262
Li Ren Sheng		**241**	258
Wang Xiang Fei		**30**	60
Sun Yu		**30**	60
Liu Xing	(1)	**60**	60
Liu Tian Ni	(1)	**30**	—
Zhang Guo Lin	(1)	**30**	—
Zhu Jian Pai	(1) (3)	**—**	275
Huang You He	(1) (3)	**—**	190
Gong Jun	(1) (3)	**—**	160
Chen Hong	(2)	**166**	171
Gao Shou Lun	(2)	**191**	194
Xu Gang		**211**	261
Wu Zi Sheng		**241**	260
Song Ying		**206**	203
You Xiao An		**194**	198

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

2 Transactions with its key management personnel *(continued)*

(1) On 1 June 2009, the Company convened the 2008 Annual Shareholders' Meeting. Mr. Dong Lin, Yuan Jinfu, Chen Shan, Sun Yijie, Li Rensheng were elected the Company's directors (Mr. Dong Lin and Chen Shan are chairman and vice chairman, respectively, of the Fifth BOD); Messrs Liu Xing, Liu Tianni, Zhang Guolin were elected the independent directors of the Company; Messrs Zhu Jianpai, Huang Youhe, and Ms. Gong Jun were elected supervisors of the Company.

(2) On 1 June 2009, the Company held the thirty-ninth meeting of the Second Employee Representative Congress. Mrs Chen Hong and Mr. Gao Shoulun were elected the employee supervisors of the fifth board of supervisors.

(3) According to the new agreements signed at 2009, emoluments of Mr. Dong Lin, Mr. Yuan Jin Fu, Mr. Zhu Jian Pai, Mr. Huang You He and Ms. Gong Jun were paid by the Parent Group.

3 Related parties in which the Company has no control

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	20280613-3	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	62190279-5	Under the same parent company
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	20328958-8	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	20299347-7	Under the same parent company
Chongqing Iron & Steel Group Transportation Company Limited	20299344-2	Under the same parent company
Chongqing Iron & Steel Group Electronic Company Limited	50427800-6	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	20288942-6	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	20299276-5	Under the same parent company

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

3 Related parties in which the Company has no control *(continued)*

Name of related party	Organization code	Relationship with the Company
Chongqing Xinteng Metallurgical Burden Materials Company Limited	70944633-3	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	20287686-0	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	20355285-X	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	20343945-1	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	20305150-2	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Company Limited	20298850-4	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	00928742-3	Under the same parent company
Chongqing San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the same parent company
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construction Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company
Chongqing Iron & Steel Group Industrial Company Limited	20298762-4	Under the same parent company

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

3 Related parties in which the Company has no control *(continued)*

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Group San FengScience & technology Company Limited	66359560-7	Under the same parent company
Chongqing Luneng Environment Industry Company Limited	20332595-6	Under the same parent company
Chongqing Donghua Special Steel Company Limited	75622782-X	Under the same parent company
Chongqing Iron &Steel Research Institute	45038430-4	Under the same parent company
Chongqing Iron &Steel Group TV	20298426-3	Under the same parent company
Chongqing Wuxia Mining Industry Incorporated Company	67612426-5	Under the same parent company
Chongqing Hongfa Real Estate Development Company	20288082-7	Under the same parent company
Chongqing Sanfeng Metallurgy Equipment Manufacturing Company Limited	76593447-0	Under the same parent company
Chongqing Keding Anti-corrosion Engineering Company Limited.	74745593-5	Under the same parent company
Chongqing Ang Yang Automatic Instrument Company Limited	76887616-5	Under the same parent company
Chongqing Huanya Construction Materials Company Limited	70936427-4	Under the same parent company
Chongqing Sanfeng Logistics Company Limited	76269301-8	Under the same parent company
Chongqing Sanfeng Software Company Limited	70938458-2	Under the same parent company
Chongqing Digidie Auto Body Company Limited	78424189-9	Under the same parent company jointly control
Chongqing Xin Gang Chang Long Logistics Company Limited	66641868-1	Under the same parent company jointly control

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4 Related-party transactions

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

Unit: RMB'000

		2009		2008	
	Purchase of products	Transaction amount	Percentage in the total amount of similar transactions %	Transaction amount	Percentage in the total amount of similar transactions %
Chongqing Iron & Steel Group Mining Company Limited	Ore and ancillary products	**750,904**	**10.62%**	1,107,844	14.47%
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	**493,479**	**80.49%**	739,881	57.73%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and construction in progress	**138,354**	**9.53%**	203,285	5.98%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Gas for industrial use	**254,635**	**84.84%**	249,441	91.99%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**82,816**	**3.83%**	—	—
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**17,436**	**16.84%**	24,017	19.38%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and construction in progress	**16,507**	**1.14%**	2,842	0.08%
Chongqing Iron&Steel Group SanFeng Industrial Company Limited	Spare parts and gas for industrial use	**27,569**	**3.31%**	17,418	0.95%
Chongqing Iron & Steel Group Industrial Company Limited	Ore and ancillary products	**37,710**	**0.77%**	21,588	0.28%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts	**25,828**	**4.85%**	57,154	3.20%
Others		**41,129**		61,537	
Total		**1,886,367**		2,485,007	

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

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4 Related-party transactions *(continued)*

(1) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Company from related parties: *(continued)*

The price of raw materials and spare parts purchased from related parties were determined with reference to the price for similar transactions between such related and other third parties, sum of costs and profit premium or the bidding price of suppliers.

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

(2) Sales of products to related parties by the Company is summarised as follows:

Unit: RMB'000

		2009		2008	
	Sale of Products	**Transaction amount**	**Percentage in the total amount of similar transactions %**	Transaction amount	Percentage in the total amount of similar transactions %
Chongqing Si Gang Steel Company Limited	Steel products	**202,842**	**2.00%**	451,331	2.83%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**193,560**	**1.91%**	214,809	1.35%
Chongqing San Gang Steel Company Limited	Steel products	**200,118**	**1.97%**	226,073	1.42%
Chongqing Iron & Steel Group Chaoyang Gas	Utilities and ancillary materials	**178,247**	**34.57%**	173,397	31.94%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Utilities and ancillary materials	**12,241**	**2.37%**	27,258	5.02%
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	**6,778**	**1.31%**	7,337	1.35%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products,Utilities and ancillary mate	**29,692**	**0.28%**	16,531	0.10%
Chongqing Iron & Steel Group Company Limited	Steel products,Utilities and ancillary mate	**40,025**	**0.37%**	530	0.01%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**152,247**	**1.43%**	201,502	1.26%
Others		**22,460**		27,102	
Total		**1,038,210**		1,345,870	

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4 Related-party transactions *(continued)*

(2) Sales of products to related parties by the Company is summarised as follows: *(continued)*

Save for the sales stated aforesaid, 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.

(3) Guarantees for the Company's loans provided by the Parent Group and other related parties:

As at 31 December 2009, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to RMB 2,280,313,000 and RMB 2,955,102,000 (2008: RMB 1,623,000,000 and RMB 1,800,076,000) respectively were guaranteed by the Parent Group(Note IV.17,23 and 24).

All liabilities under the lease agreement between the Company and Jianxin are guaranteed by Parent Group (Note IV.10(3)). The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

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

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4 Related-party transactions *(continued)*

(4) Other transactions between the Company and the Parent Group and its subsidiaries:

Unit: RMB'000

	2009		2008	
	Transaction amount	Percentage in the total amount of similar transactions %	Transaction amount	Percentage in the total amount of similar transactions %
Social welfare expenses paid by the parent Group *(a)*	**59,050**	**37.04%**	119,882	58.04%
Fees paid for supporting services *(b)*	**209,275**	**26.81%**	230,310	31.03%
Rental expenses for land use right *(c)*	**17,957**	**100.00%**	17,957	100.00%
Fees received for supporting *(d)*	**2,874**	**52.28%**	3,232	64.47%
Advanced payment for land use right cost *(e)*	**—**	**—**	31,000	100.00%
Entrusted trial operation gains/losses settlement *(f)*	**10,433**	**100.00%**	—	—

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

(a) Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions. No handling fee was charged by the Parent Group.

(b) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agency services provided by the Parent Group and its subsidiaries. The services were charged at prices determined by reference to market price of such services or a profit mark-up above the cost of providing such services as agreed in accordance with, or price provided by relevant authorities of Chongqing government.

(c) Rental expenses payable to the Parent Group are in accordance with the lease agreements entered into between the Company and the Parent Group.

V. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4 Related-party transactions *(continued)*

(4) Other transactions between the Company and the Parent Group and its subsidiaries *(continued)*:

(d) 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.

(e) The advanced payment for land use right cost refers to advances paid on the Company's behalf to the Wansheng District Land and Resources Bureau by Chongqing Iron & Steel Group Ming Company Limited ("Mining Company") on 2008. No handling fee was charged by the Mining Company.

(f) According to the Entrusted Trail Operation of Production Line Agreement dated 24 December 2009 between the Parent Group and the Company in relation to the former's steel smelting production line and the latter's 4100 mm steel plate and 1780 mm hot rolled sheet production line, the gains or losses arising from the trail operation period shall be computed monthly and allocated between the two parties based on the proportions of respective asset values. The Parent Group shall pay / receive the Company the losses / gains arising from the operations. The agreement is temporarily set for 6 months commencing from the date of the agreement becoming effective. If the trail operation completes earlier, the agreement will terminate on the actual date the trial operation completes. During the trail production period, the Parent Group shall pay trial operation management fee of RMB 1 million per month to the Company. As at 31 December 2009, the steel smelting production line and the 4100 mm steel plate production line have commenced trail operation.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS *(CONTINUED)*

5 Balance of accounts due from and due to related parties

(1) Bills receivable

Unit: RMB'000

	2009	2008
Chongqing San Gang Steel Company Limited	**41,698**	36,555
Chongqing Si Gang Steel Company Limited	**14,830**	20,230
Chongqing Iron & Steel Group Steel Pipe Company Limited	**48,195**	40,874
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**1,000**	—
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	**—**	184
Total bills receivable	**105,723**	97,843

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS *(CONTINUED)*

5 Balance of accounts due from and due to related parties *(continued)*

(2) Receivables

Unit: RMB'000

	2009	2008
Chongqing Si Gang Steel Company Limited	**63,109**	62,658
Chongqing San Gang Steel Company Limited	**19,531**	19,193
Chongqing Iron & Steel Group Steel Pipe Company Limited	**20,768**	15,991
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,369**	7,369
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**5,661**	4,342
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	3,054
Others	**142**	5,584
Total accounts receivable	**119,336**	118,191
provision for bad and doubtful debts	**10,079**	10,079
Total net accounts receivable	**109,257**	108,112

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS *(CONTINUED)*

5 Balance of accounts due from and due to related parties *(continued)*

(3) Other Payables

Unit: RMB'000

	2009	2008
Parent Group *(Note(a))*	**27,838**	176,863
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**16,175**	20,276
Chongqing Iron & Stee Group Mining Company Limited	**1,385**	548
Chongqing Iron & Steel Group Electronic Company Limited	**981**	534
Chongqing Wuxia Mining Industry Incorporated Company	**9,675**	—
Chongqing Iron & Steel Group Design and Research Institute	**7,395**	1,965
Chongqing Chongqing Iron & Steel Group Industrial Company Limited	**6,176**	6,469
Others	**1,090**	925
Total other payables	**70,715**	207,580

(a) 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 31 December 2009, the Company didn't settle the procurement payments.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. RELATED-PARTY RELATIONSHIPS AND TRANSACTIONS *(CONTINUED)*

5 Balance of accounts due from and due to related parties *(continued)*

(4) Advances from customers

Unit: RMB'000

	2009	2008
Chongqing Huanya Construction Materials Co., Ltd	**872**	—
Parent Group *(Note (a))*	**63,979**	—
Total	**64,851**	—

(a) As at 31 December 2009, an expected trail operation loss of RMB 63,979,000 was prepaid by the Parent Group to the Company.

(5) The Company has no collaterals, guarantees for intercompany balances with related parties, and no fixed credit period for repayment.

VI. CONTINGENCIES

Save for the pending litigation and arbitration disclosed in Note IV.5(3), as at 31 December 2009, the Company did not have other discloseable significant or contingent events.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

VII. COMMITMENTS

1 Capital commitments

Unit: RMB'000

Item		2009	2008
Investment contracts entered into but not performed or performed partially	(1)	**15,000**	—
Significant construction contracts entered into under performance or preparation of performance		**1,636,235**	2,758,627
Significant construction contracts entered into under authorization but with out performance		**78,792**	30
Finance leases contracts entered into under performance or preparation of performance		**1,691,913**	—
Total		**3,421,940**	2,758,657

(1) The Fifth BOD meeting, on 16 October 2009, passed the Fourteenth Resolution on Investment in Construction of Jiangsu Hua Yuan Metal Processing Co., Ltd. The Company plans to invest in the Jiangsu Hua Yuan Metal Processing Co., Ltd with Run Zhou Steel Engineering Co., Ltd. of Jiangsu Province Jingjiang Economic Development Zone, Jiangsu New Yangzijiang Shipbuilding Co., Ltd. and JINYANG INVESTMENTS PTE.LTD. The subscribed capital contribution of the Company amounts RMB 15,000,000 with a 5% holding share of the new company.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

VII. COMMITMENTS *(CONTINUED)*

1 Capital commitments *(continued)*

(2) The Fifth BOD meeting, on 4 December 2009, passed the Eighteenth Resolution on Investment in Construction of Chongqing Steel's Jingjiang Logistics Base. The Company plans to invest in the Jingjiang Logistics Base of Chongqing Iron & Steel Company Ltd. in the Xingang Park of the economic development zone of Jingjiang City, Jiangsu province, and establish San Feng Jingjiang Port Logistics Company Limited (tentative name) with China Changjiang National Shipping (Group) Corporation, Chongqing Shipping (Group) Co., Ltd., Jiangsu New Yangzijiang Shipbuilding Co., Ltd., Jingjiang New Century Investment Co., Ltd., and Jingjiang Tianjiao Material Co., Ltd. The Company will be the controlling shareholder, holding a 51% share of the new company. As at 31 December 2009, the exact amount of subscribed capital contribution has not been determined. According to "The Agreement between sponsors of San Feng Jingjiang Port Logistics Company Limited" signed after the balance sheet date, the subscribed capital contribution of the Company amounts RMB 153,000,000. The Company has fully paid the subscribed amount in January and March 2010.

(3) The Company paid RMB 1,085,898,000 in 2009 for construction and equipment under capital commitment of 2008.

2 Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Unit: RMB'000

Item	2009	2008
Within 1 year (inclusive)	**19,769**	17,904
After 1year but within 2 years (inclusive)	**19,769**	18,101
After 2 years but within 3 years (inclusive)	**17,575**	18,101
After 3 years	**80,843**	95,785
Total	**137,956**	149,891

The lease payments for land use right paid by the Company amounted to RMB 17,957,000 in 2009.

VIII. POST BALANCE SHEET EVENTS

1 Profit appropriation after the balance sheet date

(1) The Fifth BOD meeting, on 13 April 2010, passed the Thirty-third Resolution on conducting two Finance Leases with Minsheng Financial Leasing ("MFL") in respect of certain equipments for the 2,700 mm Rolling Mill Production Line ("2,700 mm") Relocation and Construction Project. One lease is by way of Sale and Leaseback of certain relocated equipments with a financing amount of RMB510 million. The other lease is a direct finance lease of certain equipments to be bought by MFL with a financing amount of RMB440 million. These equipments should accommodate to the need of 2,700 mm Relocation and Construction Project and the Company has the right to appoint the provider and equipments needed.

(2) The Agreement for Trail Operation of Production Lines (Note V. 4(4)) dated 24 December 2009 between the Company and the Parent Group was terminated on 31 March 2010 by the two parties and replaced by the Agreement for Authorised Use of Assets (the "Agreement").

Pursuant to the Agreement dated 19 April 2010 between the Company and the Parent Group, the Company is authorised to use the operation comprises steel smelting production lines and relevant auxiliary public facilities of the Parent Group in Jiangnan Town, Changshou District, Chongqing with an investment amount of approximately RMB 3,990,097,300 (the "Assets"). The term of the Agreement commences from 1 April 2010 to 31 March 2011 (tentatively for one year). The Parent Group shall not charge the Company any sum for the Company's authorized use of the Assets. The Parent Group agreed to provide the design of the relevant production lines and facilities, all the technical information of installation and the relevant facilities and coordinate installation, construction, technical support and services of the facilities' suppliers for the Company's use. The Company shall be responsible for the management of production and bear the profits and losses arising out of the use of such Assets.

2 Profit appropriation after the balance sheet date

During the BOD meeting on 22 April 2010, the directors of the Company resolved to declare no dividend in respect of 2009 (2008:RMB 0.1 per share).

IX. OTHER MATERIAL EVENTS

1 Lease

Minimum lease payments to be paid of the Company as lessee under finance leases in next years:

Unit: RMB'000

Rest of lease term	Minimum lease payments
Within 1 year (inclusive)	81,618
After 1 year but within 2 years (inclusive)	158,618
After 2 years but within 3 years (inclusive)	428,611
After 3 years	1,023,066
Total	1,691,913

2 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments

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

IX. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments

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

(1) Credit risk

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

The Company requires prepayment by cash or bills from most of its customers prior to delivery. As for accounts receivable and other receivables, the limit on sales credit is determined by the Company's credit assessment on customers. In the normal course, the Company does not obtain collateral from its customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in Note IV.3 and Note IV.5 respectively.

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

(2) Liquidity risk

Failure of the Company to perform its financial obligations at maturity date is identified as liquidity risk. The Company's liquidity management was to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to reputation of the Company. Analysis on liability structure and maturity was carried out on regular basis by the Company to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Company held negotiation with financial institutions for enough banking facilities.

The Company's banking facility was granted by certain financial institutions in China. As at 31 December 2009, it had an undrawn standby credit of RMB 2,010,687,000. Drawn borrowing facilities were recorded in non-current borrowings, and current borrowings respectively. The maturity analysis of long-term loans is disclosed in Note IV.24.

IX. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(continued)*

(3) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Company to cash flow interest rate risk and fair value interest risk respectively. The Company adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Company has achieved an appropriate mix of fixed and floating rate exposure consistent with the Company's policy. Interest rates for short-term and long-term liabilities are set out in Note IV.17, 23, 24 and 26.

As at 31 December 2009, it is estimated that a general increase of 100 basis points with all other variables held constant, would decrease the Company's net profit by RMB 42,377,000 (2008: RMB 30,550,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied to all financial instruments of the Company. Percentage of change was made on reasonable estimate of interest rate change between balance sheet date and next such date. The analysis is performed on the same basis for 2008.

(4) Foreign currency risk

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

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

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IX. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(continued)*

(4) Foreign currency risk (continued)

Unit: RMB'000

	2009		2008	
Item	**USD**	**HK**	USD	HK
Deposits with bank	**6,469**	**54**	1,209	42
Short-term loans	**-156,313**	**—**	—	—
Long-term loans due within one year	**-409,692**			
Long-term loans	**-341,410**	**—**	-410,076	—
Net amount	**-900,946**	**54**	-408,867	42

Major foreign exchange rates applied by the Company:

	Average rate		**Reporting date middle mid-spot**	
Item	**2009**	2008	**2009**	2008
USD	**6.8314**	7.0696	**6.8282**	6.8346
HKD	**0.8812**	0.9092	**0.8805**	0.8819

Assuming other variables remain unchanged, a 5% strengthening of the Renminbi against the US dollar and the HK dollar as at 31 December 2009 would increase the Company's profit after tax by approximately RMB 38,288,000 (2008: RMB 17,375,000).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Company which expose the Company to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2008.

(5) Price risks

As the Company sells steel and iron products at market prices it is exposed to market price fluctuations.

IX. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Risk analysis, sensitivity analysis, and determination of fair values for Financial instruments *(continued)*

(6) Fair values

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Company's bank loans are evaluated at discounted cash flow based on similar financial instruments' prevailing market interest rates, and approximate to the book value.

The Company's other long-term equity investments without public quotation do not have a significant impact on the financial condition and operating result of the Company.

There were no significant differences between the book value and fair value of the Company's financial assets and financial liabilities as at 31 December 2009.

X. COMPARATIVE FIGURES

The comparative figures of 2008 represented figures for the year from 1 January 2008 to 31 December 2008. Certain items in these comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

Supplementary information to financial statement

1 EXTRAORDINARY GAIN AND LOSS

Unit: RMB'000

Item	2009	2008
Disposal of non-current asset	**1,099**	-4,115
Tax refunds, exemptions and reductions on an occasional basis	**7,410**	—
Government grants recognized through profit or loss	**11,076**	650
Gains on disposal of held-to-maturity	**—**	32
Others	**2,786**	123
Less: effect on taxation	**3,400**	-380
Total	**18,971**	-2,930

Note: Above extraordinary gain and loss items are listed by amount before taxation.

2 RECONCILIATION STATEMENTS OF DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAP

The effect of the significant differences between CAS and Hong Kong Financial Reporting Statement ("HKFRS") on profit attributable to shareholders of the Company is analysed as follows:

Unit: RMB'000

	Net profit		Net asset	
Item	2009	2008	2009	2008
Amount under CAS	**84,029**	598,298	**5,555,662**	5,644,946
Adjustment and amount under HKFRS:				
Government grants for year 2006	**957**	538	**-16,727**	-17,684
Amount under HKFRS	**84,986**	598,836	**5,538,935**	5,627,262

2 RECONCILIATION STATEMENTS OF DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER DIFFERENT GAAP *(CONTINUED)*

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 CAS from 1 January 2007 ("first adoption date"). In accordance with CAS, before the first adoption date, government grants were recognised in capital reserve once they complied with the conditions associated. After the first adoption date, such government grants are recognised initially as deferred income and equally recognised in profit or loss over the useful life of the asset. No retrospective adjustment has been made by the Company for the change of accounting policy on government grants.

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE

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" (2010 revised) issued by the CSRC, the Company's return on net assets is calculated as follows:

		Earnings per share	
Profit under reporting period	**Weighted average return on net asset (%)**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to the Company's ordinary equity shareholders	1.50%	0.05	0.05
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	1.16%	0.04	0.04

Documents Available For Inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. Original copy of the auditor's report prepared under PRC GAAP which has been signed by certified public accountants, Mr. Lin Jian Kun and Mr. Gong Wei Li, and stamped by KPMG Huazhen, and the original copy of the auditor's report prepared under HKFRS which has been signed by KPMG.

3. The original copies of all documents and announcements of the Company which have been publicly disclosed during the reporting period in China Securities Journal, Shanghai Securities News and Securities Times, and the original copies of certain documents and announcements of the Company which have been publicly disclosed during the reporting period in Hong Kong Wen Wei Po and China Daily.

4. Summary of the Annual Report which was published in China Securities Journal, Shanghai Securities News and Securities Times.