Chongqing Iron & Steel Company Limited

重慶鋼鐵股份有限公司

# Interim Report 2010

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

3. The interim financial statements have not been audited, but they have been reviewed by the Audit Committee of the Board of the Company.

4. This interim report is compiled in Chinese and English. Any interpretation will be subject to the Chinese version if any discrepancies between the two versions arise, excluding the financial statements prepared under the Hong Kong Financial Reporting Standards ("HKFRS").

# Company Information

## (I) COMPANY PROFILE

| | |
|---|---|
| Chinese name of the Company: | 重慶鋼鐵股份有限公司(「重鋼股份公司」) |
| English name of the Company: | Chongqing Iron & Steel Company Limited ("CISL") |
| Company's legal representative: | Dong Lin |
| 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 Guoju |
| Correspondence address: | No. 30, Gangtie Road, Dadukou District, Chongqing, the PRC |
| Telephone: | 86-23-6884 2582 |
| Fax: | 86-23-6884 9520 |
| E-mail: | clarapeng@email.cqgt.cn |
| Registered address, office address and correspondence address: | No. 30, Gangtie Road, Dadukou District, Chongqing, the PRC |
| Postal code: | 400084 |
| Telephone: | 86-23-6884 5030 |
| Fax: | 86-23-6884 9520 |
| Website: | http://www.cqgt.cn |
| E-mail: | dms@email.cqgt.cn |
| Name of newspapers designated for information disclosure of the Company: | |
| Domestic: | China Securities Journal, Shanghai Securities News, Securities Times |
| Hong Kong: | Wen Wei Po, China Daily |
| Website for publishing the interim report: | http://www.sse.com.cn and http://www.hkexnews.hk |
| Place for preparation and reference of the interim report: | Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited |
| Place(s) of listing of the Company's shares: | Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares) |
| Abbreviated name of shares: | 重慶鋼鐵(A shares)/Chongqing Iron (H shares) |
| Stock code: | 601005 (A shares)/1053 (H shares) |

## (II) KEY FINANCIAL DATA AND INDICES

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

| Items | At the end of the reporting period | At the end of last year | Increase/decrease at the end of reporting period from the end of last year *(%)* |
|---|---|---|---|
| Total assets | **19,373,916** | 15,968,458 | 21.33 |
| Owner's equity (or shareholders' equity) attributable to shareholders of the Company | **5,556,630** | 5,555,662 | 0.02 |
| Net asset per share attributable to shareholders of the Company *(RMB)* | **3.21** | 3.21 | 0 |

| | The reporting period (Jan–Jun) | The same period last year | Increase/decrease in the reporting period from the same period last year *(%)* |
|---|---|---|---|
| Operating profit | **(6,879)** | 35,442 | (119.41) |
| Total profit | **1,302** | 40,659 | (96.80) |
| Net profit attributable to shareholders of the Company | **968** | 31,622 | (96.94) |
| Net profit after extraordinary gain and loss attributable to shareholders of the Company | **(5,986)** | 27,209 | (122.00) |
| Basic earnings per share *(RMB)* | **0.001** | 0.020 | (97.21) |
| Diluted earnings per share *(RMB)* | **0.001** | 0.020 | (97.21) |
| Net cash flow from operating activities | **(1,503,502)** | (167,960) | (795.15) |
| Net cash flow per share from operating activities *(RMB)* | **(0.87)** | (0.10) | (770.00) |
| Return on net assets (weighted average) *(%)* | **0.02** | 0.56 | Decreased by 0.54 percentage points |

## (II) KEY FINANCIAL DATA AND INDICES *(CONTINUED)*

### 1. Key financial data and indices of the Company and its subsidiaries (the "Group") prepared in accordance with PRC Accounting Standards (RMB'000) *(Continued)*

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

| Extraordinary gain and loss item | Amount |
|---|---|
| Disposal of non-current assets | 1,435 |
| Government grants | 5,962 |
| Other non-operating income and expenses | 784 |
| Less: effect on taxation | 1,227 |
| Total | 6,954 |

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

| | PRC GAAP | Hong Kong Financial Reporting Standards (HKFRS) |
|---|---|---|
| Net profit attributable to shareholders of the Company | 968 | 1,448 |
| Net assets attributable to shareholders of the Company | 5,556,630 | 5,540,383 |

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

## (I) CHANGES IN SHARE CAPITAL DURING THE REPORTING PERIOD

**Changes in Share Capital as at the end of the reporting period**

*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) | (845,000,000) | 0 | 0 |
| 1. State owned shares | – | – | – | – | – | – | – | – | – |
| 2. State owned legal person shares | 835,800,000 | 48.23 | – | – | – | (835,800,000) | (835,800,000) | 0 | 0 |
| 3. Other domestic shares | 9,200,000 | 0.53 | – | – | – | (9,200,000) | (9,200,000) | 0 | 0 |
| Including: | | | | | | | | | |
| Domestic non-state owned legal person shares | 4,200,000 | 0.24 | – | – | – | (4,200,000) | (4,200,000) | 0 | 0 |
| Domestic natural person shares | 5,000,000 | 0.29 | – | – | – | (5,000,000) | (5,000,000) | 0 | 0 |
| 4. Foreign shares | – | – | – | – | – | – | – | – | – |
| Including: | | | | | | | | | |
| Overseas legal person shares | – | – | – | – | – | – | – | – | – |
| Overseas natural person shares | – | – | – | – | – | – | – | – | – |
| **II. Shares not subject to trading moratorium** | 888,127,200 | 51.24 | – | – | – | 845,000,000 | 845,000,000 | 1,733,127,200 | 100 |
| 1. Renminbi ordinary shares | 350,000,000 | 20.19 | – | – | – | 845,000,000 | 845,000,000 | 1,195,000,000 | 68.95 |
| 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 | – | – | – | 0 | 0 | 1,733,127,200 | 100 |

*Note: 845,000,000 shares of the Company were released from trading moratorium on 1 March 2010.*

## (II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

1. At the end of the reporting period, the total number of shareholders was 103,597, of which 103,288 shareholders were the holders of A shares and 309 shareholders were holders of H Shares.

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

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

*Unit: share*

| Name of shareholder | Type of 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 | 0 | 35,000,000 shares frozen |
| HKSCC NOMINEES LIMITED | Foreign shareholder | 30.40% | 526,871,670 | 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 |
| Li Jing | Domestic natural person shareholder | 0.17% | 2,894,693 | 0 | Unknown |
| Shenzhen Lisha Co., Ltd. | Holders of domestic non-state owned legal person shares | 0.13% | 2,199,214 | 0 | Unknown |
| Liu Lei | Domestic natural person shareholder | 0.11% | 1,832,663 | 0 | Unknown |
| Li Shizhen | Domestic natural person shareholder | 0.11% | 1,828,900 | 0 | Unknown |
| Xu Fei | Domestic natural person shareholder | 0.10% | 1,675,700 | 0 | Unknown |
| Zhou Yong | Domestic natural person shareholder | 0.09% | 1,600,000 | 0 | Unknown |
| Industrial and Commercial Bank of China Ltd. - GF CSI 500 Index Securities Investment Fund (LOF) (中國工商銀行股份有限公司 — 廣發中證500指數證券投資基金(LOF)) | Holders of domestic non-state owned legal person shares | 0.06% | 1,124,749 | 0 | Unknown |

## (II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

2. Shareholdings of the top ten shareholders at the end of the 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 Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding more than 5% (including 5%) shares in the Company were pledged, frozen or in custody.*

*Note 3: 526,871,670 H shares of the Company held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.*

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

*Unit: share*

| Name of shareholder | Number of shares not subject to trading moratorium | Class of shares |
|---|---|---|
| Chongqing Iron & Steel Group Company Limited | 800,800,000 | Renminbi denominated ordinary shares |
| HKSCC NOMINEES LIMITED | 526,871,670 | 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 |
| Li Jing | 2,894,693 | Renminbi denominated ordinary shares |
| Shenzhen Lisha Co., Ltd. | 2,199,214 | Renminbi denominated ordinary shares |
| Liu Lei | 1,832,663 | Renminbi denominated ordinary shares |
| Li Shizhen | 1,828,900 | Renminbi denominated ordinary shares |
| Xu Fei | 1,675,700 | Renminbi denominated ordinary shares |
| Zhou Yong | 1,600,000 | Renminbi denominated ordinary shares |
| Industrial and Commercial Bank of China Ltd. - GF CSI 500 Index Securities Investment Fund (LOF) | 1,124,749 | Renminbi denominated ordinary shares |

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

## (II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

4. Save as disclosed above, as at 30 June 2010, 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 maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong (the "SFO").

## (I) SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

| Name | Type of interest | Number of shares *(shares)* |
|---|---|---|
| Yuan Jin Fu | Individual | 2,400 |
| Chen Shan | Individual | 800 |
| Sun Yi Jie | Individual | 800 |
| Chen Hong | Individual | 1,600 |

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

Save as disclosed above, as at 30 June 2010, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its associated corporations.

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

During the reporting period, there was no appointment or dismissal of any director, supervisor and senior management by the Company.

(Unless otherwise specified, financial data contained in this report are extracted from the unaudited 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 during the reporting period

In the first half of 2010, steel companies' profitability was impacted to a relatively large extent by the dramatic fluctuation in domestic steel market and the surge in raw material prices. The Company proactively coped with the market changes through efforts in stabilizing the production in Dadukou District, Chongqing City ("Old Zone") and carried out product certification, sales and marketing activities in Jiangnan Town, Changshou District, Chongqing City ("New Zone") so as to gradually expand production scale, adjust product mix and ensure operating profit at the meanwhile. For the first half of 2010, the Company's sales revenue amounted to RMB6,947,852,000 and pre-tax profit amounted to RMB1,301,000, representing a year-on-year increase of 32.54% and a year-on-year decrease of 96.8%, respectively.

During the reporting period, the Company, following its well-designed production plans, put efforts in enhancement of production management and the performance of steel sales contracts while rationalizing production arrangement, fully making use of rest time for equipment maintenance and repair, keeping the inventory of steel billets on a reasonable level and balancing the operation of each rolling mill, so as to ensure stable production in the Old Zone. Through ensuring the smooth operation of blast furnaces, controlling the quality of raw and ancillary materials and setting output target for each production process, the Company successfully achieved smooth operation and efficient production in the New Zone. In the first half of 2010, the Company produced 1,006,400 tonnes of coke, 2,124,800 tonnes of pig iron, 2,263,400 tonnes of steel and 1,903,200 tonnes of steel products (billets), representing an increase of 51.34%, 47.08%, 41.48% and 27.36% as compared with the same period last year, respectively.

In response to the enlarged production scale and the increasing consumption of various raw and ancillary materials during the reporting period, the Company focused on increasing total resources and securing supply channels, and established and improved the systems in relation to raw material supply to coordinate supply between the New Zone and the Old Zone with an aim to secure the raw materials required by production . Meanwhile, the Company made the best of existing raw materials inventory and appropriately controlled the procurement volume based on the material requirements plan and with reference to market prices.

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

### 1. Overall operation status of the Company during the reporting period *(Continued)*

During the reporting period, the Company overcame the adverse effects of dramatic volatility in domestic steel market by strengthening market information collection and analysis and duly adjusting marketing strategies. In favourable market conditions, it stuck to marketing strategies that support prices and attract key strategic customers, while in unfavourable market environment, it strove to secure production and boost sales, thus keeping the Company's profitability stable. Meanwhile, the Company expanded the sales of 4100mm wide-thick plate products based on the existing customer base of 2700mm medium-gauge plates. The Company sold an aggregate of 1,707,000 tonnes of steel products (billets) in the first half of 2010, representing an increase 14.13% as compared with the same period last year.

During the reporting period, the quality management system for the New Zone was set up by the Company, which has operated effectively. Three plants in the New Zone, namely the steel plant, the medium-gauge plate plant and the hot-rolling thin sheet plant, have passed the quality system certification of China Classification Society. Meanwhile, the Company has been actively pushing forward the certification of steel plates for shipbuilding and obtained certifications from 8 classification societies including CCS, LR, GL, DNV, RINA, BV, NK and KR in the first half of 2010. In addition, the Company enhanced the trial production of 4100mm wide-thick plate products such as shipbuilding plates, carbon structural steel, low-alloy steel and steel for bridge building and developed the relevant production technique for production of 26 kinds of 2700mm medium-gauge plate products at 4100mm wide-thick plate production line, enabling most of the 2700mm medium-gauge plate products to be produced at the 4100mm wide-thick plate production line.

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

### 2. Analysis of principal operations during the reporting period

As at 30 June 2010, the Company's principal revenue amounted to RMB6,947,852,000 representing a year-on-year increase of 32.54%; profit before tax amounted to RMB1,302,000, representing a year-on-year decrease of 96.8%.

In the first half of 2010, the Company's revenue from principal operations in south-west region amounted to RMB3,469,123,000, representing a year-on-year increase of 1.08%; the Company's revenue from principal operations in other regions amounted to RMB3,478,729,000, representing a year-on-year increase of 92.21%.

| Region | revenue from principal operations *(RMB'000)* | Year-on-year increase/ decrease in revenue from principal operations *(%)* |
|---|---|---|
| South-west region | 3,469,123 | 1.08 |
| Other regions | 3,478,729 | 92.21 |
| Total | 6,947,852 | 32.54 |

In the first half of 2010, the Company's revenue from sale of steel products (billets) amounted to RMB6,618,143,000, representing 95.25% of the total revenue, up 31.78% over the same period last year; revenue from sale of water granulated slag, coking by-products and other products of the Company amounted to RMB329,709,000, which accounted for 4.75% of the total revenue, up 50.04% from the same period last year.

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

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

| Product | For the first half of 2010 | | For the first half of 2009 | | Year-on-year increase/ decrease |
|---|---|---|---|---|---|
| | *RMB'000* | *Percentage (%)* | *RMB'000* | *Percentage (%)* | *(%)* |
| Steel plates | **3,510,557** | **50.53** | 2,190,074 | 41.78 | 60.29 |
| Steel sections | **1,663,840** | **23.95** | 1,613,343 | 30.78 | 3.13 |
| Wire rods | **805,704** | **11.60** | 803,464 | 15.33 | 0.28 |
| Steel billets | **562,729** | **8.10** | 309,754 | 5.91 | 81.67 |
| Cool rolled plates | **75,313** | **1.07** | 105,603 | 2.01 | (28.68) |
| Subtotal | **6,618,143** | **95.25** | 5,022,238 | 95.81 | 31.78 |
| Others | **329,709** | **4.75** | 219,746 | 4.19 | 50.04 |
| Total | **6,947,852** | **100.00** | 5,241,984 | 100.00 | 32.54 |

In the first half of 2010, the sales revenue of the Company's steel products (billets) increased by RMB1,595,905,000 as compared with the same period last year. The increase was attributable to (1) price recovery: the average selling prices of steel products (billets) was RMB3,877 per tonne, representing an increase of 15.46% from the same period last year, which increased sales revenue by RMB859,919,000; and (2) increased production and sales volume: the Company sold 1,707,000 tonnes of steel products (billets), representing an increase of 14.13% over the same period last year which increased sales revenue by RMB735,986,000.

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

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

**Selling price**

| Selling price | First half of 2010 (RMB/tonne) | First half of 2009 (RMB/tonne) | Year-on-year Increase/ decrease (%) | Year-on-year Increase/ decrease in revenue (RMB'000) |
|---|---|---|---|---|
| Steel plates | 4,036 | 3,496 | 15.45 | 469,638 |
| Steel sections | 3,756 | 3,305 | 13.65 | 199,793 |
| Wire rods | 3,648 | 3,151 | 15.77 | 109,787 |
| Steel billets | 3,587 | 3,155 | 13.69 | 67,781 |
| Cool rolled plates | 4,560 | 3,777 | 20.73 | 12,920 |
| Total | 3,877 | 3,358 | 15.46 | 859,919 |

**Sales volume**

| Sales volume | First half of 2010 (0'000 tonne) | First half of 2009 (0'000 tonne) | Year-on-year Increase/ decrease (%) | Year-on-year Increase/ decrease in revenue (RMB'000) |
|---|---|---|---|---|
| Steel plates | 86.97 | 62.63 | 38.86 | 850,728 |
| Steel sections | 44.30 | 48.81 | (9.24) | (149,056) |
| Wire rods | 22.09 | 25.50 | (13.37) | (107,449) |
| Steel billets | 15.69 | 9.82 | 59.78 | 185,199 |
| Cool rolled plates | 1.65 | 2.80 | (41.07) | (43,436) |
| Total | 170.70 | 149.56 | 14.13 | 735,986 |

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

### 3. Operating results during the reporting period

In the first half of 2010, the Company's profit before tax amounted to RMB1,302,000, representing a decrease of RMB39,357,000 from the same period last year, of which:

| Product | Revenue from principal operations *(RMB'000)* | Cost of principal operations *(RMB'000)* | Gross profit margin *(%)* | Year-on-year increase/decrease in revenue from principal operations *(%)* | Year-on-year increase/decrease in cost of principal operations *(%)* |
|---|---|---|---|---|---|
| Steel plates | 3,510,557 | 3,199,411 | 8.86 | 60.29 | 67.70 |
| Steel sections | 1,663,840 | 1,537,235 | 7.61 | 3.13 | 5.18 |
| Wire rods | 805,704 | 738,263 | 8.37 | 0.28 | 1.07 |
| Steel billets | 562,729 | 515,466 | 8.40 | 81.67 | 81.68 |
| Cool rolled plates | 75,313 | 81,514 | (8.23) | (28.68) | (33.62) |
| Subtotal | 6,618,143 | 6,071,889 | 8.25 | 31.78 | 34.74 |
| Others | 329,709 | 282,179 | 14.42 | 50.04 | 38.14 |
| Total | 6,947,852 | 6,354,068 | 8.55 | 32.54 | 34.89 |

(1) In the first half of 2010, gross profit from principal operations amounted to RMB593,784,000, representing an increase of RMB62,357,000 over the same period last year, mainly due to the following factors:

(i) In the first half of 2010, thanks to the rally in steel prices, the average selling price of the Company's steel products (billets) was RMB3,877 per tonne, representing an increase of 15.46% over the same period last year, which increased profit by RMB859,919,000.

(ii) Due to the enlargement of sale scale after the 4100mm wide-thick plates project commenced production, the sales volume of steel products (billets) for the first half of 2010 amounted to 1,707,000 tonnes, representing a year-on-year increase of 14.13%, which increased profit by RMB72,933,000.

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

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

(1) In the first half of 2010, gross profit from principal operations amounted to RMB593,784,000, representing an increase of RMB62,357,000 over the same period last year, mainly due to the following factors: *(Continued)*

(iii) In the first half of 2010, the average selling cost of the Company's steel products (billets) increased by 18.6% from the same period last year to RMB3,557 per tonne, leading to a drop of approximately RMB902,556,000 in profit. This was mainly due to (a) the rise in the prices of ore, coal, alloy and pig iron; (b) the increase in power cost as a result of electricity price hike; and (c) the higher production cost for the major production facilities of the 4100mm wide-thick plates project which just commenced production and required additional time to achieve smooth operation.

(iv) In the first half of 2010, gross profit from sales of by-products such as water granulated slag, coking by-products, cutting steel leftover as well as water, electricity and steam increased by RMB32,061,000 from the same period last year to RMB47,530,000. The increase was primarily due to the recovery in prices of such by-products and the increase in sales volume of the by-products upon the operation of major facilities of the 4100mm wide-thick plate project.

(2) In the first half of 2010, expenses increased by RMB108,965,000 as compared with the same period last year, which was mainly due to (i) the increase in selling and distribution expenses arising from the rise in sales volume of steel products upon the operation of major facilities of 4100mm wide-thick plates project; and (ii) the increase in interest expenses owing to the increased loans.

### 4. Analysis on financial condition during the reporting period

(1) As at 30 June 2010, the Group's total assets amounted to RMB19,373,916,000 and total liabilities amounted to RMB13,671,207,000, with a gearing ratio of 70.57%. The current assets amounted to RMB10,125,959,000 while the current liabilities amounted to RMB9,066,212,000. The current ratio was 111.69%.

(2) In the first half of 2010, owing to the increase in inventory reserves and more payment settled by bills, the net cash outflow from operating activities amounted to RMB1,503,502,000 while net cash inflow from financing activities amounted to RMB1,920,115,000. The Company's cash and cash equivalents for the period decreased by RMB167,381,000 after deducting the net cash expenditures of RMB583,994,000 attributed to investment projects such as hot-rolled plates project and wide-thick plates project. As at 30 June 2010, the Company's cash and cash equivalents amounted to RMB1,237,567,000.

## (II) PROSPECTS

In the second half of 2010, as Europe sovereign-debt crisis continues, future growth of the world economy becomes even more uncertain. China's economy is moving on the track of the macro control. As the State steps up to eliminate outdated capacity and implement the adjusted export tax refund policy for steel products, China's steel export is likely to be restrained. Since overcapacity still exists in the steel industry, imbalance between demand and supply is to continue for long time. International iron ore price is determined quarterly. As prices of raw material and fuel go higher in China, growth potential of steel price is limited, which injured profitability of steel makers and added pressure to their operation. In the second half of the year, the Company aims to ensure stable and smooth operation, and fulfil its profit target. Meanwhile, it will continue exploring raw material supply sources, expend purchase of raw materials for production. Regular check and maintenance on equipments will be intensified. Production in the New Zone and Old Zone is to be balanced to maintain proper output scale. Certification and trail production of 4100mm products are to be continued in an effort to enhance product competitiveness in the market. With enhanced market analysis and connection between production and sales, the Company will promote the marketing for 4100mm wide-thick steel plate products and preliminary preparation for 1780mm products sales.

## (III) INVESTMENT DURING THE REPORTING PERIOD

### 1. Use of raised proceeds

*Unit: RMB'000*

**Use of proceeds by the Company as at 30 June 2010**

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

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

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

| Projects undertaken | Amount to be invested | Change of project | Actual investment (excluding fees in relation to underwriting, insurance and other fees) | Return generated | In line with schedule? | In line with estimated earning? |
|---|---|---|---|---|---|---|
| Technological Renovation project of plate-strip project | 2,038,110 | No | 2,224,815 | Not applicable | Yes | Not applicable |
| Total | 2,038,110 | – | 2,224,815 | – | – | – |

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

**Use of proceeds for undertaken projects**

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

During the reporting period, the Company successfully connected network of the hot rolling plate-strip project. Hot loaded test precondition for the line is ready. An accumulated amount of RMB1,573,190,000 was paid by the Company.

### 2. Projects financed by non-raised proceeds

*Unit: RMB'000*

| Project name | Budget | Progress | Earnings |
|---|---|---|---|
| 4,100mm wide-thick steel plates | 1,918,000 | 71% | Equipments need additional time for smooth operation since they just commenced production. Meanwhile, as steel market was sluggish, loss was recorded temporarily for the reporting period |
| Total | 1,918,000 | 71% | — |

During the reporting period, major facilities of 4,100mm wide-thick steel plates product line commenced production in April 2010, for which RMB1,947,775,000 has been paid accumulatively.

## (I) CORPORATE GOVERNANCE

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

During the reporting period, according to the Announcement ([2009] No. 34) issued by CSRC and Notice in Relation to Preparation of 2009 Annual Report of Listed Companies in Chongqing (《關於做好重慶市轄區上市公司2009年年度報告的通知》) (Yu Zheng Jian Fa [2010] No. 36) issued by Chongqing Securities Regulatory Bureau, the Company formulated the Accountability system for Major Errors in Annual Report Disclosure to enhance the truthfulness, accuracy, completeness and timeliness of information disclosure and improve the quality and transparency of annual report information disclosure.

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

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

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

## (II) INTERIM DIVIDEND FOR 2010

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

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

On 22 June 2010, a resolution was considered and passed at the 2009 annual general meeting of the Company, pursuant to which the Company would not distribute profit for 2009 nor transfer the capital reserve into share capital. Therefore, there was no profit distribution during the reporting period.

## (IV) MATERIAL LITIGATION OR ARBITRATION

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

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

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

## (VI) MATERIAL RELATED PARTY TRANSACTIONS

### 1. Related party transactions constituted by Service and Supply Agreement

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

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

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

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

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

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

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

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

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

## (VI) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

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

### 2. Related party transactions constituted by Land Lease

Pursuant to the land lease agreement dated 14 August 1997 and its supplemental lease agreement, the land lease agreement dated 8 December 2002 and its supplemental lease agreement and land lease agreements renewed on 10 February 2010 and 23 February 2010 entered into between the Company and its Holding Company, the Company leased from the Holding Company lands with an area of 2,559,973 square meters, 216,430 square meters, 337,473 square meters and 9,151 square meters respectively, with respective term of 20 years, 15 years, 3 years and 3 years. The leases are renewable upon maturity.

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

## (VI) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 3. Related party transactions constituted by trial operation of production lines and authorized use of assets

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"), 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.

The Company has completed the trial operation on steel smelting production lines and relevant auxiliary public facilities of the Holding Company in Jiangnan Town, Changshou District, Chongqing, PRC pursuant to the Agreement for Trial Operation of Production Lines. On 19 April 2010, the Company and the Holding Company entered into Agreement for Authorized Use of Assets ("Agreement for Authorized Use of Assets") and terminated the Agreement for Trial Operation of Production Lines. Pursuant to the Agreement for Authorized Use of Assets, the Company can use the assets of the Holding Company without compensation for one year commencing from 1 April 2010.

### 4. Related party transactions during the reporting period

From 1 January 2010 to 30 June 2010, all the continuing connected transactions carried out in the ordinary course of business between the Company and the Parent Group were settled by cash and had no adverse impacts on the Company's profit.

The connected transaction on sales and services provided to the Parent Group by the Company and procurement made and services received from the Parent Group during the reporting period amounted to RMB775,111,000 and RMB1,279,153,000.

## (VI) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 4. Related party transactions during the reporting period *(Continued)*

| Related party | Products sold to related party Amount (RMB'000) | Products sold to related party Percentage in similar transactions (%) | Products purchased from related party Amount (RMB'000) | Products purchased from related party Percentage in similar transactions (%) |
|---|---|---|---|---|
| Chongqing Iron & Steel Group Mining Company Limited | 6,987 | 2.08 | 423,677 | 9.89 |
| Chongqing Iron & Steel Group Iron Company Limited | – | – | 242,315 | 60.11 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | 27,357 | 0.39 | 119,870 | 12.86 |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | 176,786 | 52.64 | 199,920 | 92.82 |
| Chongqing Wuxia Mining Company Limited | – | – | 126,141 | 8.55 |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | – | – | 11,526 | 22.81 |
| Chongqing Iron & Steel Group Design and Research Institute | – | – | 85,566 | 9.18 |
| Chongqing Iron & Steel Group San Feng Industrial Company | – | – | 22,340 | 1.60 |
| Chongqing Iron & Steel Group Industrial Company Limited | 79,509 | 1.14 | 17,089 | 0.40 |
| Chongqing Iron & Steel Group Electronic Company Limited | – | – | 8,399 | 12.47 |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | – | – | 95 | – |
| Chongqing Si Gang Steel Company Limited | 117,687 | 1.78 | 3,982 | 1.02 |
| Chongqing Iron & Steel Group San Feng Technology Company Limited | – | – | 13,347 | 1.13 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | 154,105 | 2.33 | – | – |
| Chongqing San Gang Steel Company Limited | 145,428 | 2.20 | – | – |
| Chongqing Iron & Steel (Group) Company Limited | 25,734 | 0.37 | – | – |
| Chongqing Iron & Steel Group Transportation Company Limited | 1,233 | 0.37 | – | – |
| Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. | 20,919 | 0.30 | – | – |
| Others | 19,366 | – | 4,886 | – |
| Total | 775,111 | – | 1,279,153 | – |

## (VI) MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 4. Related party transactions during the reporting period *(Continued)*

During the reporting period, the Company paid a land rent of RMB9,900,000 to the Holding Company.

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

### 5. Material contracts entered into with the Holding Company

As at 30 June 2010, except the Service and Supply Agreement, Land Lease Agreements and Agreement for Authorized Use of Assets as described above, no material contracts has been entered into between the Company and the controlling shareholders.

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

As at 30 June 2010, except the ordinary course of business between the Company and related parties, there is no other creditor's rights or debt between the Company and related parties. Also, no controlling shareholders and its subsidiaries appropriated the Company's funds for non-operating purpose.

## (VIII) MATERIAL CUSTODY, CONTRACTING OR LEASING

On 19 April 2010, the Company and the Holding Company entered into the Agreement for Authorized Use of Assets in respect of the steel smelting production lines and relevant auxiliary public facilities of the Holding Company in Jiangnan Town, Changshou District, Chongqing, for a tentative term of one year from 1 April 2010 to 31 March 2011. The Holding Company shall not charge the Company any sum for the Company's authorized use of assets.

Pursuant to the Agreement for Authorized Use of 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, coordinate the relevant installation, construction, technical support and services of the facilities' suppliers for the Company's use, and pay insurance fees for such assets. During the period of authorized use of assets, the Company may independently arrange the production and operation of relevant assets and shall bear losses arising from the use of the assets, assume liabilities on safety and environmental protection arising from violation of standard operation and undertake losses unable to be covered by the compensation from insurance companies.

## (VIII) MATERIAL CUSTODY, CONTRACTING OR LEASING *(CONTINUED)*

The entering into the Agreement for Authorized Use of Assets can avoid industry competition with the Holding Company, meanwhile, allow the smelting production lines to provide billets for the production of the 4,100mm rolling units and 1780mm rolling units which was built by the Company in Jiangnan Town, Changshou District, Chongqing.

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

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

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

## (X) SECURITIES INVESTMENT

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

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

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

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

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

## (XIII) STAFF

As at 30 June 2010, the Company had 12,015 staffs, including 9,782 production staffs, 173 sales staffs, 961 technical and engineering staffs, 94 finance staffs, and 1,005 administrative staffs.

The Company has placed emphasis on staff skill training and knowledge upgrade. During the reporting period, a total of 14,285 staffs received training, covering 56% of the staffs.

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Steel output bulletin for December 2009 | Lin2010-001 | 8 January 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement on the estimated loss in the annual results for 2009 | Lin2010-002 | 28 January 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Steel output bulletin for January 2010 | Lin2010-003 | 6 February 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Indicative Notice on listing of shares subject to trading moratorium held by controlling shareholder | Lin2010-004 | 23 February 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Steel output bulletin for February 2010 | Lin2010-005 | 6 March 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of connected transactions | Lin2010-006 | 19 March 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Steel output bulletin for March 2010 | Lin2010-007 | 8 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Notice of board meeting | | 13 April 2010 | Shanghai Stock Exchange: www.sse.com.cn |

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(CONTINUED)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Announcement of 33rd written resolution of the fifth Board | Lin2010-008 | 14 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement in relation to leaseback finance leases | Lin2010-009 | 14 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement in relation to finance leases | Lin2010-010 | 14 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of connected transactions | Lin2010-011 | 20 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 3rd meeting of the fifth Board | Lin2010-012 | 23 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 4th meeting of the fifth Board | Lin2010-013 | 23 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Notice on convening 2009 annual general meeting | Lin2010-014 | 30 April 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Steel output bulletin for April 2010 | Lin2010-015 | 6 May 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of H shares: Clarification announcement | | 11 May 2010 | Shanghai Stock Exchange: www.sse.com.cn |
| Steel output bulletin for May 2010 | Lin2010-016 | 8 June 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(CONTINUED)*

| Name of Announcements | No. of the announcement | Date of Disclosure | Media and internet website for disclosure |
|---|---|---|---|
| Announcement | Lin2010-017 | 9 June 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Announcement of resolutions passed at 2009 annual general meeting | Lin2010-018 | 23 June 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Resignation of supervisors and proposed election of supervisors | Lin2010-019 | 30 June 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Notice of 2010 first extraordinary general meeting | Lin2010-020 | 30 June 2010 | China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn |
| Circular for H shareholders | | 30 June 2010 | Shanghai Stock Exchange: www.sse.com.cn |

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

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

## CONSOLIDATED BALANCE SHEET

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Closing balance | Opening balance |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank and on hand | V.1 | **1,298,703** | 1,590,937 |
| Bills receivable | V.2 | **1,550,361** | 1,059,242 |
| Accounts receivable | V.3 | **417,070** | 194,863 |
| Prepayments | V.4 | **727,819** | 341,905 |
| Other receivables | V.5 | **74,421** | 26,700 |
| Inventories | V.6 | **5,597,998** | 4,066,174 |
| Other current assets | V.7 | **459,587** | 227,518 |
| **Total current assets** | | **10,125,959** | 7,507,339 |
| **Non-current assets** | | | |
| Long-term equity investments | V.8 | **20,000** | 5,000 |
| Fixed assets | V.9 | **6,456,985** | 4,797,858 |
| Construction in progress | V.10 | **1,679,599** | 2,908,862 |
| Construction materials | V.11 | **591,095** | 244,391 |
| Intangible assets | V.12 | **332,336** | 335,841 |
| Deferred tax assets | V.13 | **117,132** | 118,387 |
| Other non-current assets | | **50,810** | 50,780 |
| **Total non-current assets** | | **9,247,957** | 8,461,119 |
| **Total assets** | | **19,373,916** | 15,968,458 |

The notes on pages 43 to 115 form part of these financial statements.

## CONSOLIDATED BALANCE SHEET *(CONTINUED)*

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Closing balance | Opening balance |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term loans | V.15 | **3,192,092** | 2,280,313 |
| Accounts payable | V.16 | **2,420,600** | 1,424,757 |
| Advance from customers | V.17 | **1,166,827** | 951,578 |
| Employee benefits payable | V.18 | **82,229** | 62,536 |
| Taxes payable | V.19 | **5,040** | 68,924 |
| Interest payable | | **1,690** | 1,200 |
| Other payables | V.20 | **338,106** | 125,616 |
| Non-current liabilities due within one year | V.21 | **1,859,628** | 1,900,118 |
| **Total current liabilities** | | **9,066,212** | 6,815,042 |
| **Non-current liabilities** | | | |
| Long-term loans | V.22 | **2,533,365** | 1,760,410 |
| Long term payables | V.23 | **1,487,111** | 1,130,793 |
| Other non-current liabilities | V.24 | **584,519** | 706,551 |
| **Total non-current liabilities** | | **4,604,995** | 3,597,754 |
| **Total liabilities** | | **13,671,207** | 10,412,796 |

The notes on pages 43 to 115 form part of these financial statements.

## CONSOLIDATED BALANCE SHEET *(CONTINUED)*

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Closing balance | Opening balance |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital | V.25 | **1,733,127** | 1,733,127 |
| Capital reserve | V.26 | **1,164,384** | 1,164,384 |
| Surplus reserve | V.27 | **575,082** | 575,082 |
| Retained earnings | V.28 | **2,084,037** | 2,083,069 |
| Minority interests | | **146,079** | — |
| **Total equity** | | **5,702,709** | 5,555,662 |
| **Total liabilities and shareholders' equity** | | **19,373,916** | 15,968,458 |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

# FINANCIAL REPORT

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## BALANCE SHEET

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | **Closing balance** | Opening balance |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank and on hand | | **1,048,731** | 1,590,937 |
| Bills receivable | | **1,550,361** | 1,059,242 |
| Accounts receivable | IX.1 | **415,070** | 194,863 |
| Prepayments | | **681,419** | 341,905 |
| Other receivables | IX.2 | **74,381** | 26,700 |
| Inventories | | **5,597,998** | 4,066,174 |
| Other current assets | | **459,587** | 227,518 |
| **Total current assets** | | **9,827,547** | 7,507,339 |
| **Non-current assets** | | | |
| Long-term equity investments | IX.3 | **173,000** | 5,000 |
| Fixed assets | | **6,456,608** | 4,797,858 |
| Construction in progress | | **1,678,879** | 2,908,862 |
| Construction materials | | **591,095** | 244,391 |
| Intangible assets | | **332,336** | 335,841 |
| Deferred tax assets | | **117,132** | 118,387 |
| Other non-current assets | | **50,810** | 50,780 |
| **Total non-current assets** | | **9,399,860** | 8,461,119 |
| **Total assets** | | **19,227,407** | 15,968,458 |

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## BALANCE SHEET *(CONTINUED)*

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Closing balance | Opening balance |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term loans | | **3,192,092** | 2,280,313 |
| Accounts payable | | **2,419,300** | 1,424,757 |
| Advance from customers | | **1,166,827** | 951,578 |
| Employee benefits payable | | **82,220** | 62,536 |
| Taxes payable | | **5,040** | 68,924 |
| Interest payable | | **1,690** | 1,200 |
| Other payables | | **338,027** | 125,616 |
| Non-current liabilities due within one year | | **1,859,628** | 1,900,118 |
| **Total current liabilities** | | **9,064,824** | 6,815,042 |
| **Non-current liabilities** | | | |
| Long-term loans | | **2,533,365** | 1,760,410 |
| Long term payables | | **1,487,111** | 1,130,793 |
| Other non-current liabilities | | **584,519** | 706,551 |
| **Total non-current liabilities** | | **4,604,995** | 3,597,754 |
| **Total liabilities** | | **13,669,819** | 10,412,796 |

The notes on pages 43 to 115 form part of these financial statements.

## BALANCE SHEET *(CONTINUED)*

*30 June 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Closing balance | Opening balance |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital | | **1,733,127** | 1,733,127 |
| Capital reserve | | **1,164,384** | 1,164,384 |
| Surplus reserve | | **575,082** | 575,082 |
| Retained earnings | | **2,084,995** | 2,083,069 |
| **Total equity** | | **5,557,588** | 5,555,662 |
| **Total liabilities and shareholders' equity** | | **19,227,407** | 15,968,458 |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## CONSOLIDATED INCOME STATEMENT

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | Notes | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|---|
| **I. Operating income** | V.29(1) | **6,965,240** | 5,253,842 |
| Less: Operating costs | V.29(2) | **6,364,119** | 4,719,528 |
| Business taxes and surcharges | | **304** | 141 |
| Selling and distribution expenses | | **172,357** | 139,233 |
| General and administrative expenses | | **265,352** | |
| Financial expenses | | **169,987** | 111,625 |
| **II. Operating profit (Losses denoted with "()")** | | **(6,879)** | 35,442 |
| Add: Non-operating income | V.30 | **8,607** | 5,799 |
| Less: Non-operating expenses | V.31 | **426** | 582 |
| **III. Profit before income tax** | | **1,302** | 40,659 |
| Less: Income tax expenses | V.32 | **1,255** | 9,037 |
| **IV. Net profit for the period** | | **47** | 31,622 |
| **V. Earnings per share:** | | | |
| Basic earnings per share *(RMB)* | V.33(1) | **0.001** | 0.020 |
| Diluted earnings per share *(RMB)* | V.33(2) | **0.001** | 0.020 |
| **VI. Other comprehensive income for the period** | | **—** | — |
| **VII. Total comprehensive income for the period** | | **47** | 31,622 |
| Attributable to: Shareholders of the Company | | **968** | — |
| Minority interests | | **(921)** | — |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

# FINANCIAL REPORT

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## INCOME STATEMENT

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | Notes | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|---|
| **I. Operating income** | IX.4(1) | **6,965,240** | 5,253,842 |
| Less: Operating costs | IX.4(2) | **6,364,119** | 4,719,528 |
| Business taxes and surcharges | | **304** | 141 |
| Selling and distribution expenses | | **172,357** | 139,233 |
| General and administrative expenses | | **263,157** | 247,873 |
| Financial expenses | | **170,303** | 111,625 |
| **II. Operating profit (Losses denoted with "()")** | | **(5,000)** | 35,442 |
| Add: Non-operating income | | **8,607** | 5,799 |
| Less: Non-operating expenses | | **426** | 582 |
| **III. Profit before income tax** | | **3,181** | 40,659 |
| Less: Income tax expenses | | **1,255** | 9,037 |
| **IV. Net profit for the period** | | **1,926** | 31,622 |
| **V. Earnings per share:** | | **–** | |
| Basic earnings per share *(RMB)* | | **0.001** | 0.020 |
| Diluted earnings per share *(RMB)* | | **0.001** | 0.020 |
| **VI. Other comprehensive income for the period** | | **–** | – |
| **VII. Total comprehensive income for the period** | | **1,926** | 31,622 |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## CONSOLIDATED CASH FLOW STATEMENT

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | **Jan–Jun 2010** | Jan–Jun 2009 |
|---|---|---|---|
| **I. Cash flows from operating activities:** | | | |
| Cash received from sale of goods and rendering of services | | **8,096,617** | 6,131,419 |
| Other cash received relating to operation activities | | **6,736** | 6,373 |
| Subtotal of cash inflows | | **8,103,353** | 6,137,792 |
| Cash paid for goods and services | | **(8,799,498)** | (5,675,818) |
| Cash paid to and for employees | | **(509,269)** | (306,759) |
| Cash paid for all types of taxes | | **(295,270)** | (259,463) |
| Other cash paid relating to operating activities | | **(2,818)** | (63,712) |
| Subtotal of cash outflows | | **(9,606,855)** | (6,305,752) |
| **Net cash outflow from operating activities** | V.34(1) | **(1,503,502)** | (167,960) |
| **II. Cash flows from investing activities:** | | | |
| Net cash received from disposal of fixed Assets, intagible assets and other non-current assets | | **1,546** | 1,124 |
| Other cash received relating to investing activities | | **5,265** | 4,124 |
| Subtotal of cash inflows | | **6,811** | 5,248 |
| Cash paid for acquisition of fixed assets, intangible assets and other non-current assets | | **(575,805)** | (507,810) |
| Cash paid for acquisition of investments | | **(15,000)** | — |
| Subtotal of cash outflows | | **(590,805)** | (507,810) |
| **Net cash outflow from investing activities** | | **(583,994)** | (502,562) |

The notes on pages 43 to 115 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | Notes | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|---|
| **III. Cash flows from financing activities:** | | | |
| Cash received from investors | | **147,000** | — |
| Cash received from borrowings | | **3,784,626** | 1,938,956 |
| Other cash received relating to financing activities | | **510,000** | — |
| Subtotal of cash inflows | | **4,441,626** | 1,938,956 |
| Cash repayments of borrowings | | **(2,322,130)** | (1,293,023) |
| Cash paid for dividends, profit distribution or interest | | **(199,381)** | (140,417) |
| Subtotal of cash outflows | | **(2,521,511)** | (1,433,440) |
| **Net cash inflow from financing activities** | | **1,920,115** | 505,516 |
| **IV. Net increase in cash and cash equivalents** | V.34(1) | **(167,381)** | (165,006) |
| Add: cash and cash equivalents at the beginning of the period | | **1,404,948** | 1,147,053 |
| **V. Cash and cash equivalents at the end of the period** | V.34(2) | **1,237,567** | 982,047 |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## CASH FLOW STATEMENT

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | Notes | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|---|
| **I. Cash flows from operating activities:** | | | |
| Cash received from sale of goods and rendering of services | | **8,096,617** | 6,131,419 |
| Other cash received relating to operating activities | | **6,736** | 6,373 |
| **Subtotal of cash inflows** | | **8,103,353** | 6,137,792 |
| Cash paid for goods and services | | **(8,799,498)** | (5,675,818) |
| Cash paid to and for employees | | **(508,883)** | (306,759) |
| Cash paid for all types of taxes | | **(295,270)** | (259,463) |
| Other cash paid relating to operating activities | | **(1,061)** | (63,712) |
| **Subtotal of cash outflows** | | **(9,604,712)** | (6,305,752) |
| **Net cash outflow from operating activities** | IX.5 | **(1,501,359)** | (167,960) |
| **II. Cash flows from investing activities:** | | | |
| Net cash received from disposal of fixed Assets, intangible assets and other non-current assets | | **1,546** | 1,124 |
| Other cash received relating to investing activities | | **4,949** | 4,124 |
| **Subtotal of cash inflows** | | **6,495** | 5,248 |
| Cash paid for acquisition of fixed assets, intangible assets and other non-current assets | | **(527,604)** | (507,810) |
| Cash paid for acquisition of investments | | **(168,000)** | — |
| **Subtotal of cash outflows** | | **(695,604)** | (507,810) |
| **Net cash outflow from investing activities** | | **(689,109)** | (502,562) |

The notes on pages 43 to 115 form part of these financial statements.

## CASH FLOW STATEMENT *(CONTINUED)*

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| Item | *Notes* | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|---|
| **III. Cash flows from financing activities:** | | | |
| Cash received from borrowings | | **3,784,626** | 1,938,956 |
| Other cash received relating to financing activities | | **510,000** | — |
| **Subtotal of cash inflows** | | **4,294,626** | 1,938,956 |
| Cash repayments of borrowings | | **(2,322,130)** | (1,293,023) |
| Cash paid for dividends, profit distribution or interest | | **(199,381)** | (140,417) |
| **Subtotal of cash outflows** | | **(2,521,511)** | (1,433,440) |
| **Net cash inflow from financing activities** | | **1,773,115** | 505,516 |
| **IV. Net increase in cash and cash equivalents** | IX.5 | **(417,353)** | (165,006) |
| Add: cash and cash equivalents at the beginning of the period | | **1,404,948** | 1,147,053 |
| **V. Cash and cash equivalents at the end of the period** | | **987,595** | 982,047 |

| **Dong Lin** | **Song Ying** | **Song Ying** |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

# FINANCIAL REPORT

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| | | Amount of current period | | | | | | Amount of last period | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | Attributable to shareholders of the Company | | | | | |
| Item | Note | Share capital | Capital reserve | Surplus reserve | Retained earnings | Minority interests | Total | Share capital | Capital reserve | Surplus reserve | Retained earnings | Minority interests | Total |
| I. Balance at the beginning of the period | | 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 |
| II. Changes in equity for the period (Decrease denoted with "()") | | | | | | | | | | | | | |
| (I) Net profit for the period | | | | | 968 | (921) | 47 | | | | 31,622 | | 31,622 |
| (II) Other comprehensive income | | | | | | | | | | | | | |
| Subtotal of (I) & (II) | | | | | 968 | (921) | 47 | | | | 31,622 | | 31,622 |
| (III) Shareholders contributions and decrease of capital | | | | | | | | | | | | | |
| –Contribution by shareholders | | | | | | 147,000 | 147,000 | | | | | | |
| (IV) Appropriation of profits | V.28 | | | | | | | | | | | | |
| –Distributions to shareholders | | | | | | | | | | | (173,313) | | (173,313) |
| III. Balance at the end of the period | | 1,733,127 | 1,164,384 | 575,082 | 2,084,037 | 146,079 | 5,702,709 | 1,733,127 | 1,164,384 | 566,679 | 2,039,065 | – | 5,503,255 |

**Dong Lin**
*Legal Representative*

**Song Ying**
*Chief Financial Officer*

**Song Ying**
*Chief Accountant*

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 interim financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## STATEMENT OF CHANGES IN EQUITY

*Jan-Jun 2010*

Prepared by: Chongqing Iron & Steel Company Limited *Unit: RMB'000*

| | Amount of current period | | | | | Amount of last period | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Item | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total |
| I. Balance at the beginning of the period | 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 |
| II. Changes in equity for the period (Decrease denoted with "()") | | | | | | | | | | |
| (I) Net profit for the period | | | | 1,926 | 1,926 | | | | 31,622 | 31,622 |
| (II) Other comprehensive income | | | | | | | | | | |
| Subtotal of (I) & (II) | | | | 1,926 | 1,926 | | | | 31,622 | 31,622 |
| (III) Appropriation of profits | | | | | | | | | | |
| –Distributions to shareholders | | | | | | | | | (173,313) | (173,313) |
| III. Balance at the end of the period | 1,733,127 | 1,164,384 | 575,082 | 2,084,995 | 5,557,588 | 1,733,127 | 1,164,384 | 566,679 | 2,039,065 | 5,503,255 |

| Dong Lin | Song Ying | Song Ying |
|---|---|---|
| *Legal Representative* | *Chief Financial Officer* | *Chief Accountant* |

The notes on pages 43 to 115 form part of these financial statements.

*The 2010 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China*

## I. COMPANY STATUS

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

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under State Council. For the implementation of a part of the restructuring, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda") under the Restructuring Agreement. As the consideration, the Company issued 650,000,000 state-owned legal person shares of RMB1 each to the Parent Group. The assets and liabilities mentioned above have been assessed by Zhongzi Assets Appraisal Office, and the net assets were valued at 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 RMB1, were listed on the Hong Kong Stock Exchange on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company's total shares capital were 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 overseas listed H shares.

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

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

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

As approved by the China Securities Regulatory Commission (the "CSRC"), 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.

## I. COMPANY STATUS *(CONTINUED)*

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.

On 4 December 2009, the Fifth Board of Directors' meeting 18th written proposal 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 ("the Subsidiary"), with a registered capital of RMB 300,000,000. The Company is the controlling shareholder, holding a 51% share of the Susidiary. The Company has fully subscribed the capital of RMB 153,000,000 in January and March 2010. On 12 January 2010, the Subsidiary has got its operating license.

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 30 June 2010, the preparation work for the Parent Group's environmental relocation as well as that of the Company is in progress and the Company's 4100mm wide-thick steel plate production line has finished trial operation and started ordinary production in April 2010.

The principal activities of the Company and its subsidiary (the "Group") 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 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 Business combination

#### *(1) Business combination involving entities under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to the capital premium(or share premium) in the capital reserve. If the balance of the capital premium (or share premium) is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 5 Business combination *(Continued)*

#### *(2) Business combinations involving entities not under common control*

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the acquirer is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

Any excess of the cost of a business combination over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill.

Any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

### 6 Consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 6 Consolidated financial statements *(Continued)*

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

Where losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' interest in the equity of the subsidiary, the excess, and any further losses attributable to the minority shareholders, are allocated against the equity attributable to the Company except to the extent that the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the equity attributable to the Company until the minority shareholders' share of losses previously absorbed by the Company has been recovered.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 7 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.

### 8 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.

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.15). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 9 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:

— 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)*

### 9 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.19(3)).

— 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.18).

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)*

### 9 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)*

### 9 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.10. 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.

— 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)*

### 10 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) Receivables due from the third parties which are individually significant are assessed for impairment both on an individual basis and on a collective group basis.

| | |
|---|---|
| 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)).

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 10 Impairment of receivables *(Continued)*

(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.

### 11 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 realisable 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.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 11 Inventories *(Continued)*

***(3) The underlying factors in the determination of net realisable value of inventories and the basis of provision for decline in value of inventories (Continued)***

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 realisable 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.

***(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.

### 12 Long-term equity investments

***(1) Initial investment cost***

(a) Long-term equity investments acquired through a business combination

— The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

— The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of assets given, liabilities incurred or assumed and the equity securities issued by the acquirier in exchange for control of the acquiree to be measured at fair value determined at the acquisition date.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 12 Long-term equity investments *(Continued)*

#### *(1) Initial investment cost (Continued)*

(b) Long-term equity investments acquired otherwise than through a business combination

— An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

#### *(2) Subsequent measurement*

(a) Investments in subsidiaries

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. Cash dividends or profit distributions declared by subsidiaries and attributed to the Company shall be recognized 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. The investments are stated at cost less impairment losses in the balance sheet

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II. 6.

(b) Other long-term equity investments

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

Other long-term equity investments are accounted for using the cost method. Cash dividends or profit distributions declared by subsidiaries and attributed to the Company shall be recognized 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.

#### *(3) Method of impairment testing and measuring*

For the method of impairment testing and measuring for subsidiaries, jointly controlled enterprises and associates, refer to Note II.17.

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)*

### 13 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.14.

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.

#### *(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.17.*

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 13 Fixed assets *(Continued)*

***(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.23 (3).

***(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.

### 14 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note II.15), 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.17).

For the recognition and measurement of construction in process acquired under finance leases, refer to the accounting policy set out in Note II.23 (3).

### 15 Borrowing costs

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

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

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 15 Borrowing costs *(Continued)*

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.

### 16 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.17). 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.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 16 Intangible assets *(Continued)*

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.17). Other development expenditures are recognised as expenses in the period in which they are incurred.

### 17 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

— Long-term equity investment to subsidiary

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 17 Impairment of assets other than inventories, financial assets and other long-term investments *(Continued)*

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.

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.

### 18 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)*

### 19 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***

Revenue from the rendering of services is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

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.

***(3) Interest income***

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

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 20 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.

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.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 21 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.

### 22 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.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 22 Deferred tax assets and liabilities *(Continued)*

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

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

— they relate to income taxes levied by the same tax authority on either:

  — the same taxable entity; or

  — different taxable entities which either 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.

### 23 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.13(2). Impairment losses are provided for in accordance with the accounting policy described in Note II.17. 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)*

### 23 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.13(2) and II.17, 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.15).

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.

### 24 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.

### 25 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;

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 25 Related parties *(Continued)*

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

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

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

(f) joint ventures of the Company;

(g) associates of the Company;

(h) principal individual investors and close family members of such individuals;

(i) key management personnel of the Company and close family members of such individuals;

(j) key management personnel of the Company's Parent;

(k) close family members of key management personnel of the Company's parent; and

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

Besides the related parties stated above, determined in accordance with the requirements of CAS, 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)*

### 26 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.

### 27 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.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

### 27 Significant accounting estimates and judgments *(Continued)*

Besides the assumptions and 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.10, 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.17, 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 its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

***(3) Depreciation and amortisation***

As described in Note II.13 and 16, 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.

## 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 | 3%, 5% |
| Enterprise income tax | Based on taxable profits | 15%, 25% |

### 2 Tax preferential and approval notice

(1) 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.

The income tax rate applicable to the Company's subsidiary for the year is 25%.

(2) 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.

## III. TAXATION *(CONTINUED)*

### 2 Tax preferencial and approval notice *(Continued)*

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

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

### 3 Other explanations

(1) On 25 November 2009, the Company applied with the State Administration of Taxation of Chongqing for exemption from Value Added Tax for the finance lease arrangement with Jianxin(Note V.9(2)(a)). As at the date of approval of the financial report, the Company has yet received any formal approval from the State Administration of Taxation of Chongqing. Concerning there is any approval from the Jianxin case, the Company suspended further application for Value Added Tax exemption in relation to the finance lease arrangement with Minsheng (Note V.9(2)(a)).

As at 30 June 2010, if the approval from the tax authority is not available, the finance lease arrangement between the Company and Jianxin would decrease the net profit by RMB 1,456,000. It would result in an increase in current liability of RMB 184,544,000 and a decrease of non-current liabilities of the same amount.

(2) 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.

(3) There is no change in the tax rates and preferential treatments that the Company and its subsidiaries are entitled to compared with the previous year.

## IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Background of major subsidiaries

Subsidiaries acquired through establishment or investment

*Unit: RMB'000*

| Name | Type | Registration place | Business nature | Registered capital | Business scope | Closing amount of investment | Closing amount of other items that in substance form net investment in the subsidiary | Shareholding percentage (%) | Voting rights (%) | Included in consolidated financial statements (Y/N) | Closing amount of minority interests | Amount in current period's minority interests used to offset the profit/(loss) attributable to minority shareholders | The excess of loss attributable to minority shareholders for the period over minority shareholders' share in opening equity, to be written off in parent company equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| San Feng Jingjiang Port Logistics Company Limited | Company Limited | Jiangsu | Logistics | 30000 | Goods-loading, lighterage, storage,traffic agent,stowage, common carrier | 153,000 | – | 51% | 51% | Y | 146,079 | 921 | – |

### 2 Entities that newly consolidated and those that ceased to be consolidated during the year

Subsidiaries, special purpose entities and operating entities controlled through entrusted operating and leases that are newly consolidated during the year

*Unit: RMB'000*

| Name | 30 June 2010 Equity | Jan–Jun 2010 Net profits |
|---|---|---|
| San Feng Jingjiang Port Logistics Company Limited | 298,121 | (1,879) |

## V. FINANCIAL STATEMENT NOTES

### 1 Cash at bank and on hand

*Unit: RMB'000*

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| Item | Original currency | Exchange rate | RMB/RMB equivalents | Original currency | Exchange rate | RMB/RMB equivalents |
| Cash on hand | | | | | | |
| RMB | 616 | 1.0000 | 616 | 675 | 1.0000 | 675 |
| Deposits with banks | | | | | | |
| RMB | 1,230,979 | 1.0000 | 1,230,979 | 1,394,940 | 1.0000 | 1,394,940 |
| US Dollars | 256 | 6.7909 | 1,739 | 947 | 6.8282 | 6,469 |
| HK Dollars | 61 | 0.8724 | 53 | 61 | 0.8805 | 54 |
| Other monetary fund | | | | | | |
| RMB | 26,175 | 1.0000 | 26,175 | 188,757 | 1.0000 | 188,757 |
| US Dollars | 5,764 | 6.7909 | 39,141 | 6 | 6.8282 | 42 |
| Total | | | 1,298,703 | | | 1,590,937 |

Other cash and cash equivalents include:

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Restricted | | |
| — Guarantees for letter of credit | 61,136 | 185,989 |
| Unrestricted | | |
| — Cash in transit | 4,180 | 2,810 |
| Total | 65,316 | 188,799 |

### 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 VI.5(1).

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 3 Accounts receivable

(1) Accounts receivable by category:

*Unit: RMB'000*

| | | Closing balance | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Provision for bad and doubtful debts | |
| Catagory | *Notes* | Amount | Percentage | Amount | Percentage |
| Individually significant accounts receivable | (3) | **273,950** | **48%** | **–** | **–** |
| Individually insignificant but with a material portfolio credit risk accounts receivable | (3) | **148,878** | **26%** | **144,740** | **97%** |
| Other immaterial accounts receivable | | **149,061** | **26%** | **10,079** | **7%** |
| Including: | | | | | |
| 1. Insignificant but tested for impairment individually | (3) | **60,698** | **11%** | **10,079** | **17%** |
| 2. Individually insignificant but with a immaterial portfolio credit risk | | **88,363** | **15%** | **–** | **–** |
| Total | | **571,889** | **100%** | **154,819** | **27%** |

*Unit: RMB'000*

| | | Opening balance | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Provision for bad and doubtful debts | |
| Catagory | *Notes* | Amount | Percentage | Amount | Percentage |
| Individually significant accounts receivable | | 159,207 | 46% | – | – |
| Individually insignificant but with a material portfolio credit risk accounts receivable | (3) | 148,112 | 42% | 144,740 | 98% |
| Other immaterial accounts receivable | | 42,363 | 12% | 10,079 | 24% |
| Among: | | | | | |
| 1. Insignificant but tested for impairment individually | | 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% |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 3 Accounts receivable *(Continued)*

(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 Notes VI.5(2).

(3) Provision for bad and doubtful debts for individually significant or insignificant but tested for impairment individually accounts receivable at the end of the period:

*Unit: RMB'000*

| Contents of accounts receivable | Gross carrying amount | Provision for bad and doubtful debts | Rate of provision |
|---|---|---|---|
| 1. Individually significant | 273,950 | — | — |
| 2. Insignificant but tested for impairment individually | 60,698 | 10,079 | 17% |
| Total | 334,648 | 10,079 | 3% |

As at 30 June 2010, 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.

## V. 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 period: *(Continued)*

Accounts receivable which are individually insignificant but with a material portfolio credit risk:

*Unit: RMB'000*

| | Closing balance Gross carrying amount | | | Opening balance 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) | 2,863 | 2% | 137 | 2,766 | 1% | 137 |
| 1 to 2 years (inclusive) | 979 | 1% | 151 | 602 | 1% | 151 |
| 2 to 3 years (inclusive) | 877 | 1% | 293 | 585 | 1% | 293 |
| Over 3 years | 144,159 | 96% | 144,159 | 144,159 | 97% | 144,159 |
| Total | 148,878 | 100% | 144,740 | 148,112 | 100% | 144,740 |

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

(4) 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 | 63,035 | within three months (inclusive) | 11% |
| Chongqing Si Gang Steel Co., Ltd. | Related party | 39,913 | four to twelve months (inclusive) | 7% |
| 2. Ningbo Baoyi Trading Co., Ltd. | The third party | 59,224 | within three months (inclusive) | 10% |
| 3. Chongqing Iron & Steel Group Steel Pipe Company Limited | Related party | 40,325 | within three months (inclusive) | 7% |
| 4. Guangzhou Wenchong Shipyard Co., Ltd | The third party | 37,527 | within three months (inclusive) | 7% |
| 5. Chongqing San Gang Steel Co., Ltd. | Related party | 33,926 | within three months (inclusive) | 6% |
| Total | | 273,950 | | |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 4 Prepayment

(1) The prepayments by category:

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Material prepayments | 587,112 | 272,094 |
| Prepayments for construction and equipment | 64,138 | 39,642 |
| Prepaid land premiums | 76,569 | 30,169 |
| Total | 727,819 | 341,905 |

(2) The prepayments by ageing:

*Unit: RMB'000*

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| Ageing | Amount | Percentage | Amount | Percentage |
| Within 1 year (inclusive) | 656,583 | 90% | 267,352 | 78% |
| 1 and 2 years (inclusive) | 46,133 | 6% | 51,559 | 15% |
| 2 and 3 years (inclusive) | 20,340 | 3% | 22,496 | 6% |
| Over 3 years | 4,763 | 1% | 498 | 1% |
| Total | 727,819 | 100% | 341,905 | 100% |

The ageing is counted starting from the date prepayments is recognised.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 5 Other receivables

(1) Other receivables by category:

*Unit: RMB'000*

| | | Closing balance | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Provision for bad and doubtful debts | |
| **Category** | *Notes* | **Amount** | **Percentage** | **Amount** | **Percentage** |
| Individually significant other receivables | (3) | **22,638** | **28%** | **6,718** | **30%** |
| Other immaterial other receivables | | **58,501** | **72%** | **–** | **–** |
| Including: | | | | | |
| – Insignificant but tested for impairment individually | | **58,501** | **72%** | **–** | **–** |
| Total | | **81,139** | **100%** | **6,718** | **8%** |

*Unit: RMB'000*

| | | Opening balance | | | |
|---|---|---|---|---|---|
| | | 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% |

(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.

## V. 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 since June 2003, 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.

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.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 6 Inventories

(1) Inventories by category:

*Unit: RMB'000*

| Item | Balance at the beginning of the period | Additions during the period | Reductions during the period | Balance at the end of the period |
|---|---|---|---|---|
| Raw materials | 2,155,769 | 6,163,319 | 5,714,051 | 2,605,037 |
| Work in progress | 923,141 | 7,682,916 | 6,876,640 | 1,729,417 |
| Finished goods | 307,093 | 7,175,950 | 6,354,068 | 1,128,975 |
| Reusable materials | 791,421 | 151,776 | 509,116 | 434,081 |
| Subtotal | 4,177,424 | 21,173,961 | 19,453,875 | 5,897,510 |
| Less: Provision for domination in value | 111,250 | 188,262 | — | 299,512 |
| Total | 4,066,174 | 20,985,699 | 19,453,875 | 5,597,998 |

(2) Provision for diminution in value of inventories

*Unit: RMB'000*

| Inventories catagory | Balance at the beginning of the period | Provision made for the period | Reductions during the period: Reversal | Reductions during the period: Write-off | Balance at the end of the period |
|---|---|---|---|---|---|
| Raw materials | 2,346 | – | – | – | 2,346 |
| Work in progress | 29,755 | 96,904 | – | – | 126,659 |
| Finished goods | 18,243 | 91,358 | – | – | 109,601 |
| Reusable materials | 60,906 | – | – | – | 60,906 |
| Total | 111,250 | 188,262 | – | – | 299,512 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 6 Inventories *(Continued)*

(2) Provision for diminution in value of inventories *(Continued)*

Since the 4100mm steel plate production line is still in the commissioning stage during January to March 2010, 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 188,262,000 has been capitalised in construction-in-progress.

### 7 Other current asset

Other current asset is deductible input VAT and prepaid EIT.

### 8 Long-term equity investments

(1) Long-term equity investments by category:

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Other long-term equity investments | 20,000 | 5,000 |
| Less: provision for impairment | — | — |
| Total | 20,000 | 5,000 |

(2) Long-term equity investments were as follows:

*Unit: RMB'000*

| Name of investee | Accounting method | Initial investment cost | Balance at the beginning of the year | Movement of addition and reduction | Balance at the end of the year | Share-holding percentage (%) | Voting Rights (%) | Provision for impairment | Provision made during the year |
|---|---|---|---|---|---|---|---|---|---|
| XiaMen Shipbuiding Industry Co., Ltd | Cost method | 5,000 | 5,000 | – | 5,000 | 2% | 2% | – | – |
| Jiangsu Huayuan Metalwork Company Limited | Cost method | 15,000 | – | 15,000 | 15,000 | 5% | 5% | – | – |
| Total | – | 20,000 | 5,000 | 15,000 | 20,000 | – | – | – | – |

On 9 October 2009, the Fifth Board of Directors' meeting 14th written proposal passed the resolution on "Investment in the Construction of Jiangsu Huayuan Metalwork Company Limited". The Company plans to invest in the construction with Runzhou steel structure engineering Company Limited of the Jinjiang Park of Economic Development Zone in jiangyin City, Jiangsu province and JINYANGINVESTMENTSPTE.LTD to set up a new company, Jiangsu Huayuan Metalwork Company Limited ("Huayuan Company"), with a registered capital of RMB 15,000,000. The Company hold a 5% share of the Huayuan Company. The Company has fully subscribed the capital in February 2010.

## V. 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 period | 2,330,409 | 5,882,493 | 32,280 | 8,245,182 |
| Transfer from construction in progress | 183,439 | 1,631,831 | – | 1,815,270 |
| Additions during the period | – | 4,802 | 381 | 5,183 |
| Disposals during the period | 87 | 85 | 768 | 940 |
| Transfer out for improvement | – | – | – | – |
| Balance at the end of the period | 2,513,761 | 7,519,041 | 31,893 | 10,064,695 |
| Less: Accumulated depreciation | | | | |
| Balance at the beginning of the period | 893,768 | 2,484,004 | 15,714 | 3,393,486 |
| Charge for the period | 27,463 | 132,251 | 1,501 | 161,215 |
| Written off on disposals | 14 | 83 | 732 | 829 |
| Transfer out for improvement | – | – | – | – |
| Balance at the end of the period | 921,217 | 2,616,172 | 16,483 | 3,553,872 |
| Less: Provision for impairment | | | | |
| Balance at the beginning of the period | 4,687 | 49,096 | 55 | 53,838 |
| Charge for the period | – | – | – | – |
| Written off on disposal | – | – | – | – |
| Balance at the end of the period | 4,687 | 49,096 | 55 | 53,838 |
| **Carrying amounts** | | | | |
| At the end of the period | 1,587,857 | 4,853,773 | 15,355 | 6,456,985 |
| At the beginning of the period | 1,431,954 | 3,349,393 | 16,511 | 4,797,858 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 9 Fixed assets *(Continued)*

(2) Construction in process under finance lease

(a) 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.

By the end of April 2010, the main project of the Equipment has finished trial operation and commenced production. As at 30 June 2010, the carrying amount of the Equipment was RMB 1,220,724,000.

(b) On 12 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 and carrying amount of RMB 510,220,870. The Company then leased back the Equipment for 36 months, from 15 May 2010 to 15 May 2013. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB 510,000,000, and the lease rate is five hundred basis points (5%) below the interest rate for a 3 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 Company can purchase the leased Equipments at a symbolic consideration of RMB10,000.

As at 30 June 2010, the carrying amount of the Equipment was RMB 504,097,000.

(c) 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. The Company then leased the Equipment for 36 months, from 15 May 2011 to 15 May 2014. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB 440,000,000, and the lease rate is five hundred basis points (5%) below the interest rate for a 4 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 Company can purchase the leased Equipments at a symbolic consideration of RMB10,000.

As at 30 June 2010, this lease agreement has yet performed.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 10 Construction in progress

(1) Construction in progress

*Unit: RMB'000*

| Item | Closing balance Cost | Closing balance Provision for impairment | Closing balance Carrying amount | Opening balance Cost | Opening balance Provision for impairment | Opening balance Carrying amount |
|---|---|---|---|---|---|---|
| Construction in progress | 1,679,599 | – | 1,679,599 | 2,908,862 | – | 2,908,862 |

(2) Major constructions in progress as at 30 June 2010

*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 period | Rate for capitalised interest for the period (%) | Sources of funds |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1780mm hot-rolled plates | 1,400,000 | 994,864 | 238,604 | – | – | 1,233,468 | 88% | 52% | 65,366 | 29,217 | 5.65% | Fund raised/ self-financing |
| 4100mm wide-thick plates | 1,918,000 | 1,876,509 | 314,830 | – | 1,814,881 | 376,458 | 114% | 71% | 142,476 | 34,317 | 5.65% | Bank loans/ self-financing |
| limestone transportation system | 61,180 | 9,507 | 23,370 | – | – | 32,877 | 54% | 54% | – | – | – | Bank loans/ self-financing |
| Others | | 27,982 | 9,203 | – | 389 | 36,796 | | | 28 | – | – | |
| Total | | 2,908,862 | 586,007 | – | 1,815,270 | 1,679,599 | | | 207,870 | 63,534 | – | |

### 11 Construction materials

Construction materials mainly represent the special equipment and large equipment for 4100 mm wide-thick plates and 1780mm Hot-rolled plates projects.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 12 Intangible assets

*Unit: RMB'000*

| Item | Land use rights *RMB'000* | Trademark *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **Cost** | | | |
| Balance at the beginning of the period | 347,718 | 6,478 | 354,196 |
| Additions for the period | — | — | — |
| Balance at the end of the period | 347,718 | 6,478 | 354,196 |
| Less: Accumulated amortisation | | | |
| Balance at the beginning of the period | 11,877 | 6,478 | 18,355 |
| Charge for the period | 3,505 | — | 3,505 |
| Balance at the end of the period | 15,382 | 6,478 | 21,860 |
| Carrying amounts | | | |
| At the end of the period | 332,336 | — | 332,336 |
| At the beginning of the period | 335,841 | — | 335,841 |

### 13 Deferred tax assets

(1) Recongnised deferred tax assets

*Unit: RMB'000*

| Item | Opening balance | Charge to profit or loss during the period | Closing balance | Ending Balance of temporary difference |
|---|---|---|---|---|
| Provision for impairments of receivables | 277 | — | 277 | 1,849 |
| Provision for diminution in values of inventories | 11,359 | — | 11,359 | 75,724 |
| Provision for impairment against fixed assets | 8,076 | — | 8,076 | 53,839 |
| Unused tax loss | 68,492 | (10,094) | 58,398 | 389,316 |
| Finance lease | | | | |
| — Amortisation of interest expense under finance lease | 4,784 | 9,051 | 13,835 | 92,236 |
| — Unrealised profit of sale and leaseback | 25,399 | (212) | 25,187 | 167,917 |
| Total | 118,387 | (1,255) | 117,132 | 780,881 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 13 Deferred tax assets *(Continued)*

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

*Unit: RMB'000*

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|---|---|
| Deferred tax assets, net | **117,132** | 118,387 |

### 14 Details of provisions for impairment

As at 30 June 2010, the provisions for impairment losses of the Company are set out as below:

*Unit: RMB'000*

| Item | Balance at the beginning of the period | Charge for the period | Decrease in the period Reversal | Decrease in the period Write-off | Balance at the end of the period |
|---|---|---|---|---|---|
| Provision for bad and doubtful debts of accounts receivables | 154,819 | – | – | – | 154,819 |
| Provision for bad and doubtful debts of other receivables | 6,718 | – | – | – | 6,718 |
| Provision for diminution in values of inventories | 111,250 | 188,262 | – | – | 299,512 |
| Provision for impairment against fixed assets | 53,838 | – | – | – | 53,838 |
| Total | 326,625 | 188,262 | – | – | 514,887 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 15 Short-term loans

*Unit: RMB'000*

| | | Closing balance | | | |
|---|---|---|---|---|---|
| **Item** | **Annual interest rate** | **Principal** | **Currency** | **Exchange rate** | **RMB** |
| Bank loans | | | | | |
| Loan with guarantee | | | | | |
| — Loan with guarantee denominated in USD | **1.45%-2.06%** | **40,134** | **USD** | **6.7909** | **273,092** |
| — Loan with guarantee denominated in RMB | **4.86%-5.35%** | **2,919,000** | **RMB** | **1.0000** | **2,919,000** |
| Total | | | | | **3,192,092** |

*Unit: RMB'000*

| | | Opening balance | | | |
|---|---|---|---|---|---|
| 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 |

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

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 16 Accounts payable

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.

### 17 Advances from customers

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.

### 18 Employee benefits payable

*Unit: RMB'000*

| Item | Balance at the beginning of the year | Accrued during the period | Paid during the period | Balance at the end of the period |
|---|---|---|---|---|
| Salaries, bonus, allowances | 23,286 | 320,872 | 330,339 | 13,819 |
| Staff welfare fees | — | 13,113 | 9,265 | 3,848 |
| Social insurances | | | | |
| Including: | | | | |
| 1. Medical insurance premium | — | 41,644 | 41,644 | — |
| 2. Pension insurance premium | 28,949 | 90,692 | 70,777 | 48,864 |
| 3. Unemployment insurance premium | 2,880 | 9,066 | 5,835 | 6,111 |
| 4. Work injury insurance premium | — | 2,688 | 2,688 | — |
| 5. Maternity insurance premium | — | 1,420 | 1,420 | — |
| Housing fund | — | 23,031 | 23,031 | — |
| Others | 7,421 | 26,434 | 24,268 | 9,587 |
| Total | 62,536 | 528,960 | 509,267 | 82,229 |

### 19 Tax payable

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| VAT | — | 67,598 |
| Business tax | 38 | 71 |
| EIT | — | — |
| Others | 5,002 | 1,255 |
| Total | 5,040 | 68,924 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 20 Other payables

Except for the payables shown in Note VI.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.

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

(1) Non-current liabilities due within one year by category are as follows:

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Long-term loans due within one year | **1,601,454** | 1,823,692 |
| Long-term payables due within one year *(Note V.23)* | **258,174** | 76,426 |
| Total | **1,859,628** | 1,900,118 |

(2) Long-term loans due within one year

*Unit: RMB'000*

| | Closing balance | | | | |
|---|---|---|---|---|---|
| Item | Annual interest rate | Principal | Currency | Exchange rate | RMB |
| Bank loans | | | | | |
| Guaranteed loans | | | | | |
| — Guaranteed loans denominated in USD | **1.28%–1.35%** | **60,000** | **USD** | **6.7909** | **407,454** |
| — Guaranteed loans denominated in RMB | **5.29%–7.74%** | **1,194,000** | **RMB** | **1.0000** | **1,194,000** |
| Total | | | | | **1,601,454** |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 21 Non-current liabilities due within one year *(Continued)*

(2) Long-term loans due within one year *(Continued)*

*Unit: RMB'000*

| | | Opening balance | | | |
|---|---|---|---|---|---|
| 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 |

Loan with guarantee was guaranteed by the Parent Group (Note VI.4(3)).

(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.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 22 Long-term loans

(1) Long-term loans by catagory

*Unit: RMB'000*

| | Closing balance | | | | |
|---|---|---|---|---|---|
| **Item** | **Annual interest rate** | **Principal** | **Currency** | **Exchange rate** | **RMB** |
| Bank loans | | | | | |
| Loan on credit | **5.40%** | **150,000** | **RMB** | **1.0000** | **150,000** |
| Loan with guarantee | | | | | |
| — Loan with guarantee denominated in USD | **2.85%–3.15%** | **75,743** | **USD** | **6.7909** | **514,365** |
| — Loan with guarantee denominated in RMB | **5.13%–7.74%** | **1,869,000** | **RMB** | **1.0000** | **1,869,000** |
| Total | | | | | **2,533,365** |

*Unit: RMB'000*

| | Opening balance | | | | |
|---|---|---|---|---|---|
| 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 |

Loan with guarantee were guaranteed by the Parent Group (Note VI.4(3)).

(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.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 23 Long-term payables

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Obligations under finance leases *(Note V. 9(2))* | **1,745,285** | 1,207,219 |
| Less: Due within one year *(Note V.21)* | **258,174** | 76,426 |
| Total | **1,487,111** | 1,130,793 |

As at 30 June 2010, the Company's unrecongnised finance charges amounted to RMB 458,365,000.

The long-term payables were guaranteed by the Parent Group (Note VI.4(3)).

### 24 Other non-current liabilities

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Other financial liabilities | **400,000** | 520,000 |
| Deferred income-government grants | **16,823** | 17,223 |
| Deferred income-unrealised income of sale and leaseback transactions | **167,696** | 169,328 |
| Total | **584,519** | 706,551 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 25 Share capital

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

*Unit: RMB'000*

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|---|---|
| Share subject to trading restrictions | | |
| — State-owned shares | – | 835,800 |
| — Other legal person holding shares | – | 4,200 |
| — The nature person holding shares | – | 5,000 |
| Shares not subject to trading restrictions | | |
| — RMB-denominated ordinary share-domestically listed A shares | 1,195,000 | 350,000 |
| — Overseas listed foreign shares-Hong Kong listed H shares | 538,127 | 538,127 |
| Total | 1,733,127 | 1,733,127 |

### 26 Capital reserve

*Unit: RMB'000*

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|---|---|
| Share premiums | 894,257 | 894,257 |
| Transfer from items under previous standards | 270,127 | 270,127 |
| Total | 1,164,384 | 1,164,384 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 27 Surplus reserve

*Unit: RMB'000*

| Item | Balance at the end of the period | Balance at the beginning of the period |
|---|---|---|
| Statutory surplus reserve | **575,082** | 575,082 |

### 28 Retained earnings

According to the prospectus, the Extraordinary General Meeting convened on 16 April 2003 has passed a resolution that all of its existing and new shareholders are entitled to the retained earnings before the date of issuance of A share in 2007 after the completion of issuance of A share in 2007. H shares and A shares rank pari passu in all aspects with each other.

Pursuant to the shareholders' approval at the Shareholders' Meeting on 1 June 2009, a cash dividend of RMB 0.1 per share totalling RMB 173.313 million was declared and paid to the Company's ordinary shareholders on 24 July 2009. Distribution base was the 1,733.127 million issued shares as at 31 December 2008.

Pursuant to the shareholders' approval at the Shareholders' Meeting on 22 June 2010, no cash dividend was paid to the Company's ordinary shareholders.

### 29 Operating income, operating costs

(1) Operating income

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Steel products | **6,618,143** | 5,022,238 |
| By products | **329,709** | 219,746 |
| Other operating income | **17,388** | 11,858 |
| Total | **6,965,240** | 5,253,842 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 29 Operating income, operating costs *(Continued)*

(2) Operating costs

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Operating costs from principal activities | 6,354,068 | 4,710,557 |
| Other operating costs | 10,051 | 8,971 |
| Total | 6,364,119 | 4,719,528 |

### 30 Non-operating Income

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Gains on disposal of fixed assets | 1,471 | 503 |
| Government grants | 5,962 | 2,478 |
| Others | 1,174 | 2,818 |
| Total | 8,607 | 5,799 |

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

### 31 Non-operating expenses

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Losses on disposal of fixed assets | 36 | — |
| Donation expenses | 250 | — |
| Others | 140 | 582 |
| Total | 426 | 582 |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 32 Income tax expense

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Current tax expenses for the period based on tax law and corresponding regulations | — | — |
| Deferred taxation adjustments | 1,255 | 9,037 |
| Total | 1,255 | 9,037 |

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

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Reversal of temporary differences | (1,255) | (9,037) |

### 33. 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 of the Company attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding:

| | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Net profit of the Company attributable to ordinary shareholders *(RMB'000)* | 968 | 31,662 |
| Weighted average number of ordinary shares outstanding *('000 shares)* | 1,733,127 | 1,733,127 |
| Basic earnings per share | 0.001 | 0.020 |

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. In 2010, there was no issuance of dilutive potential ordinary shares (2009: Nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 34. Supplement to cash flow statement

(1) Supplemental information to cash flow statement

*Unit: RMB'000*

| Supplemental Information | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| 1. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | **47** | 31,622 |
| Add: Depreciation of fixed assets | **161,215** | 149,798 |
| Amortisation of intangible assets | **3,505** | 2,605 |
| Gains on disposal of fixed assets | **(1,435)** | (503) |
| Financial expenses | **154,845** | 92,653 |
| Increase in deferred tax assets | **1,255** | 9,037 |
| Decrease in gross inventories (Increase denoted with "()") | **(1,720,086)** | 140,494 |
| Increase in operating receivables | **(1,421,793)** | (537,197) |
| Increase in operating payables (decrease denoted with "()") | **1,194,092** | (9,628) |
| Decrease in restricted cash (increase denoted with "()") | **124,853** | (46,841) |
| Net cash flow from operating activities | **(1,503,502)** | (167,960) |
| 2. Change in cash and cash equivalents: | | |
| Cash at the end of the period | **1,237,567** | 982,047 |
| Less: Cash at the beginning of the period | **1,404,948** | 1,147,053 |
| Add: Cash equivalents at the end of the period | **–** | – |
| Less: Cash equivalents at the beginning of the period | **–** | – |
| Net decrease in cash and cash equivalents | **(167,381)** | (165,006) |

## V. FINANCIAL STATEMENT NOTES *(CONTINUED)*

### 34. Supplement to cash flow statement *(Continued)*

(2) Cash and cash equivalents

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Cash and cash equivalents | **1,237,567** | 982,047 |
| Including: | | |
| Cash on hand | **616** | 694 |
| Bank deposits available on demand | **1,232,771** | 976,589 |
| Other monetary fund available on demand | **4,180** | 4,764 |
| Cash equivalents | **—** | — |
| Closing balance of cash and cash equivalents | **1,237,567** | 982,047 |

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

### 1. Information on the parent and subsidiaries of the Company are listed as follows

(1) Parent of the Company

| Company Name | Organization code | Registered place | Business nature | Registered capital *RMB'000* | Shareholding percentage | Proportion of voting rights |
|---|---|---|---|---|---|---|
| Chongqing Iron &Steel (Group) Company Limited | 202803370 | No.1, Building No.1, Dayan Village III Dadukou District, Chongqing, the PRC | sintering, iron smelting, rolling and the by-products of iron and steel mining, milling, machinery, electronic, transportation by automobile, construction, refractory materials | 1,650,706 | 48% | 48% |

(2) Information on the subsidiaries of the Company see Note IV.

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 2. Transaction with its key management personnel

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Remuneration of key management personnel | **1,190** | 1,796 |

### 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 Logistics Services Company Limited | 20299347-7 | Under the same parent company |
| Chongqing Iron & Steel Group Transportation Company Limited | 20299344-2 | Under the same parent company |
| Chongqing Iron & Steel Group Electronic Company Limited | 50427800-6 | Under the same parent company |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | 20288942-6 | Under the same parent company |
| Chongqing Iron & Steel Group Mining Company Limited | 20299276-5 | Under the same parent company |
| Chongqing 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 |

## VI. 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 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 |
| Chongqing Iron & Steel Group San Feng Science & 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 |

## VI. 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*

| | | Jan–Jun 2010 | | Jan–Jun 2009 | |
|---|---|---|---|---|---|
| | 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 | 423,677 | 9.89% | 354,634 | 16.96% |
| Chongqing Iron & Steel Group Iron Company Limited | Pig iron | 242,315 | 60.11% | 247,598 | 82.84% |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | Fixed assets and construction in progress | 119,870 | 12.86% | 77,115 | 6.83% |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | Gas for industrial use | 199,920 | 92.82% | 125,030 | 91.92% |
| Chongqing Wuxia Mining Industry Incorporated Company | Coal | 126,141 | 8.55% | – | – |
| Chongqing Iron & Steel Group Refractory Materials Company Limited | Refractory materials | 11,526 | 22.81% | 8,568 | 16.90% |
| Chongqing Iron & Steel Group Design and Research Institute | Fixed assets and construction in progress | 85,566 | 9.18% | 38,441 | 6.95% |
| Chongqing Iron&Steel Group SanFeng Industrial Company Limited | Spare parts and gas for industrial use | 22,340 | 1.60% | 8,051 | 5.92% |
| Chongqing Iron & Steel Group Industrial Company Limited | Ore and ancillary products | 17,089 | 0.40% | 13,076 | 0.58% |
| Chongqing Iron & Steel Group Electronic Company Limited | Other parts | 8,399 | 12.47% | 5,273 | 2.22% |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | Refractory materials and ancillary products | – | – | 4,561 | 3.73% |
| Chongqing Iron & Steel Group Zhongxing Industrial Company Limited | Pig iron and spare parts | 95 | – | 561 | 0.35% |
| Chongqing Si Gang Steel Company Limited | Pig iron | 3,982 | 1.02% | 2,631 | 0.78% |
| Chongqing Sanfeng Metallurgy Equipment Manufacturing Company Limited | Fixed assets and ancillary products | 13,347 | 1.13% | 4,219 | 0.16% |
| Others | | 4,886 | | 18,990 | |
| Total | | 1,279,153 | | 908,748 | |

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

## VI. 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*

| | | Jan–Jun 2010 | | Jan–Jun 2009 | |
|---|---|---|---|---|---|
| | 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 | 117,687 | 1.78% | 87,937 | 1.75% |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | Steel products | 154,105 | 2.33% | 58,150 | 1.16% |
| Chongqing San Gang Steel Company Limited | Steel products | 145,428 | 2.20% | 63,771 | 1.27% |
| Chongqing Iron & Steel Group Chaoyang Gas | Utilities and ancillary materials | 176,786 | 52.64% | 85,132 | 32.78% |
| Chongqing Iron & Steel Group Mining Company Limited | Utilities and ancillary materials | 6,987 | 2.08% | 3,259 | 1.25% |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | Steel products,Utilities and ancillary mate | 27,357 | 0.39% | 7,249 | 2.79% |
| Chongqing Iron & Steel Group Transportation Company Limited | Utilities and ancillary materials | 1,233 | 0.37% | 3,100 | 1.19% |
| Chongqing Iron & Steel Group Company Limited | Steel products | 25,734 | 0.37% | 251 | – |
| Chongqing Iron & Steel Group Doorlead Realty Company Limited | Utilities and ancillary materials | 20,919 | 0.30% | 45 | 0.44% |
| Chongqing Iron & Steel Group Industrial Company Limited | Steel products | 79,509 | 1.14% | 67,861 | 1.35% |
| Others | | 19,366 | | 8,790 | |
| Total | | 775,111 | | 385,545 | |

## VI. 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 30 June 2010, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to RMB 3,192,092,000 and RMB 3,984,819,000 (2009: RMB 2,280,313,000 and RMB 2,955,102,000) respectively were guaranteed by the Parent Group(Note V.15,21 and 22).

All liabilities under the lease agreement between the Company and Jianxin are guaranteed by Parent Group (Note V.9(2)). The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

(4) Other transactions between the Company and the Parent Group and its subsidiaries:

*Unit: RMB'000*

| | Jan–Jun 2010 | | Jan–Jun 2009 | |
|---|---|---|---|---|
| | 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) | 44,669 | 32% | 27,116 | 40% |
| Fees paid for supporting services (b) | 135,748 | 49% | 89,297 | 24% |
| Rental expenses for land use right (c) | 9,900 | 100% | 9,000 | 100% |
| Fees received for supporting (d) | 3,284 | 38% | 1,576 | 53% |
| Entrusted trial operation gains/losses settlement (e) | 499,227 | 100% | – | – |

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

## VI. 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)*:

(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.

(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) According to the Agreement for Trail Operation of Production Lines 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 1,000,000 per month to the Company. The Agreement for Trail Operation of Production Lines 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 Group and the Parent Group, the Group 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 Group any sum for the Group'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 Group's use. The Group shall be responsible for the management of production and bear the profits and losses arising out of the use of such Assets.

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(1) Bills receivable

*Unit: RMB'000*

| | Closing balance | Opening balance |
|---|---|---|
| Chongqing San Gang Steel Company Limited | 59,669 | 41,698 |
| Chongqing Si Gang Steel Company Limited | 29,332 | 14,830 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | 63,992 | 48,195 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | — | 1,000 |
| Total bills receivable | 152,993 | 105,723 |

(2) Receivables

*Unit: RMB'000*

| | Closing balance | Opening balance |
|---|---|---|
| Chongqing Si Gang Steel Company Limited | 102,948 | 63,109 |
| Chongqing San Gang Steel Company Limited | 33,926 | 19,531 |
| Chongqing Iron & Steel Group Steel Pipe Company Limited | 40,325 | 20,768 |
| Chongqing Iron & Steel Group Thermal Ceramics Company Limited | 7,369 | 7,369 |
| Chongqing Iron & Steel Group San Feng Industrial Company Limited | 6,927 | 5,661 |
| Chongqing Iron & Steel Group Yingsite Mould Company Limited | 2,756 | 2,756 |
| Chongqing Iron & Steel Group Doorlead Realty Company Limited | 24,256 | — |
| Chongqing Iron & Steel Group Iron Company Limited | 4,000 | — |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | 15,269 | — |
| Others | 121 | 142 |
| Total accounts receivable | 237,897 | 119,336 |
| Provision for bad and doubtful debts | (10,079) | (10,079) |
| Total net accounts receivable | 227,818 | 109,257 |

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(3) Other Payables

*Unit: RMB'000*

| **Related parties** | **Closing balance** | Opening balance |
|---|---|---|
| Parent Group *(Note(a))* | **237,046** | 27,838 |
| Chongqing Iron & Steel Group Construction and Engineering Company Limited | **–** | 16,175 |
| Chongqing Iron & Steel Group Mining Company Limited | **3,862** | 1,385 |
| Chongqing Iron & Steel Group Electronic Company Limited | **3,480** | 981 |
| Chongqing Wuxia Mining Industry Incorporated Company | **–** | 9,675 |
| Chongqing Iron & Steel Group Design and Research Institute | **1,965** | 7,395 |
| Chongqing Chongqing Iron & Steel Group Industrial Company Limited | **2,352** | 6,176 |
| Chongqing Iron & Steel Group Chaoyang Gas Company Limited | **5,751** | – |
| Chongqing Iron & Steel Group Transportation Company Limited | **1,938** | 26 |
| Chongqing Iron & Steel Group San Feng Industrial Company Limited | **1,543** | 628 |
| Others | **271** | 436 |
| Total other payables | **258,208** | 70,715 |

(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 30 June 2010, the Company didn't settle the procurement payments.

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(4) Advances from customers

*Unit: RMB'000*

| | **Closing balance** | Opening balance |
|---|---|---|
| Chongqing Huanya Construction Materials Co., Ltd | **920** | 872 |
| Parent Group *(Note (a))* | **296,066** | 63,979 |
| Total | **296,986** | 64,851 |

(a) As at 30 June 2010, an expected trail operation loss of RMB 296,066,000 prepaid by the Parent Group to the Compan is not settled.

(5) The Company has no collaterals, guarantees for intercompany balances with related parties, and no fixed credit period for repayment.

## VII. COMMITMENTS

### 1 Capital commitments

As at 30 June 2010, the capital commitments of the Company are summarized as follows:

*Unit: RMB'000*

| **Item** | **Closing balance** | Opening balance |
|---|---|---|
| Investment contracts entered into but not performed or performed partially | **–** | 15,000 |
| Significant construction contracts entered into under performance or preparation of performance | **1,511,823** | 1,636,235 |
| Significant construction contracts entered into under authorization but with out performance | **17,341** | 78,792 |
| Finance leases contracts entered into under performance or preparation of performance | **2,682,761** | 1,691,913 |
| Total | **4,211,925** | 3,421,940 |

## VII. COMMITMENTS *(CONTINUED)*

### 2 Operating lease commitments

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

*Unit: RMB'000*

| Item | Closing balance | Opening balance |
|---|---|---|
| Within 1 year (inclusive) | **19,769** | 19,769 |
| After 1year but within 2 years (inclusive) | **18,681** | 19,769 |
| After 2 years but within 3 years (inclusive) | **17,575** | 17,575 |
| After 3 years | **72,128** | 80,843 |
| Total | **128,153** | 137,956 |

## VIII. POST BALANCE SHEET EVENTS

On 13 August 2010, the Company entered into the Agreement with the Parent Company under which the Parent Company has agreed to transfer 100% of the equity interest in Chongqing Iron & Steel Group Electronics Company Limited for a consideration of RMB37,861,900 which was paid in cash.

## IX. OTHER MATERIAL EVENTS

### 1 Segment reporting

The Group has two reportable segments, which are Steel products and Logistics segment, determined based on the structure of its internal organisation, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments are regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance. Inter-segment sales are priced with reference to prices charged to external parties for similar orders,expense is allocated to the segments with reference to sales generated by those segments.

## IX. OTHER MATERIAL EVENTS *(CONTINUED)*

### 1 Segment reporting *(Continued)*

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and results of operations, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as accounts receivable, with the exception of deferred tax assets and other unallocated corporate assets. Segment liabilities include payables, prepayable and bank borrowings attributable to the individual segments.

Results of operations is revenue (except investment income in segment) after deducting expenses, depreciation, amortisation and impairment losses attributable to the individual segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments.

Reportable information on the Group's primary and secondary reporting segments in 2010 is set out as follows:

**Primary segment reporting (Operating segments)**

*Unit: RMB'000*

| Item | Steel products | Logistics | Unallocated item | Total |
|---|---|---|---|---|
| Operating income | 6,965,240 | – | – | 6,965,240 |
| Including: | | | | |
| External transaction | 6,965,240 | – | – | 6,965,240 |
| Inter-segment transaction | – | – | – | – |
| Less: | | | | |
| Operating expenses | 6,963,314 | 1,879 | – | 6,965,193 |
| Operating profit (loss denoted with "()") | 1,926 | (1,879) | – | 47 |

*Unit: RMB'000*

| Item | Steel products | Logistics | Unallocated item | Total |
|---|---|---|---|---|
| Segment assets | 18,935,421 | 299,509 | 138,986 | 19,373,916 |
| Segment liabilities | 13,669,819 | 1,388 | – | 13,671,207 |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS

### 1 Accounts receivable

(1) Accounts receivable by category:

*Unit: RMB'000*

| | | Closing balance | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Provision for bad and doubtful debts | |
| Catagory | *Notes* | Amount | Percentage | Amount | Percentage |
| Individually significant accounts receivable | (2) | 273,950 | 48% | – | – |
| Individually insignificant but with a material portfolio credit risk accounts receivable | (2) | 146,878 | 26% | 144,740 | 99% |
| Other immaterial accounts receivable | | 149,061 | 26% | 10,079 | 7% |
| Including: | | | | | |
| 1. Insignificant but tested for impairment individually | (2) | 60,698 | 10% | 10,079 | 17% |
| 2. Individually insignificant but with a immaterial portfolio credit risk | | 88,363 | 16% | – | – |
| Total | | 569,889 | 100% | 154,819 | 27% |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS *(CONTINUED)*

### 1 Accounts receivable *(Continued)*

(1) Accounts receivable by category: *(Continued)*

*Unit: RMB'000*

| | | Opening balance | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Provision for bad and doubtful debts | |
| Catagory | *Notes* | Amount | Percentage | Amount | Percentage |
| Individually significant accounts receivable | | 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% |
| Among: | | | | | |
| 1. Insignificant but tested for impairment individually | | 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% |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS *(CONTINUED)*

### 1 Accounts receivable *(Continued)*

(2) Provision for bad and doubtful debts for individually significant or insignificant but tested for impairment individually accounts receivable at the end of the period:

*Unit: RMB'000*

| Contents of accounts receivable | Gross carrying amount | Provision for bad and doubtful debts | Rate of provision |
|---|---|---|---|
| 1. Individually significant | 273,950 | — | — |
| 2. Insignificant but tested for impairment individually | 60,698 | 10,079 | 17% |
| Total | 334,648 | 10,079 | 3% |

Accounts receivable which are individually insignificant but with a material portfolio credit risk:

*Unit: RMB'000*

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | 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) | 863 | 1% | 137 | 2,766 | 1% | 137 |
| 1 to 2 years (inclusive) | 979 | 1% | 151 | 602 | 1% | 151 |
| 2 to 3 years (inclusive) | 877 | 1% | 293 | 585 | 1% | 293 |
| Over 3 years | 144,159 | 97% | 144,159 | 144,159 | 97% | 144,159 |
| Total | 146,878 | 100% | 144,740 | 148,112 | 100% | 144,740 |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS *(CONTINUED)*

### 1 Accounts receivable *(Continued)*

(3) 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 | 63,035 | within three months (inclusive) | 11% |
| Chongqing Si Gang Steel Co., Ltd. | Related party | 39,913 | four to twelve months (inclusive) | 7% |
| 2. Ningbo Baoyi Trading Co., Ltd. | The third paryy | 59,224 | within three months (inclusive) | 10% |
| 3. Chongqing Iron & Steel Group Steel Pipe Company Limited | Related party | 40,325 | within three months (inclusive) | 7% |
| 4. Guangzhou Wenchong Shipyard Co., Ltd | The third paryy | 37,527 | within three months (inclusive) | 7% |
| 5. Chongqing San Gang Steel Co., Ltd. | Related party | 33,926 | within three months (inclusive) | 6% |
| Total | | 273,950 | | |

### 2 Other receivables

*Unit: RMB'000*

| Category | Closing balance | | | |
|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage | Amount | Percentage |
| Individually significant other receivables | 22,638 | 28% | 6,718 | 30% |
| Other immaterial other receivables | 58,461 | 72% | — | — |
| Including: | | | | |
| — Insignificant but tested for impairment individually | 58,461 | 72% | — | — |
| Total | 81,099 | 100% | 6,718 | 8% |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS *(CONTINUED)*

### 2 Other receivables *(Continued)*

*Unit: RMB'000*

| Category | Opening balance | | | |
|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage | Amount | Percentage |
| Individually significant other receivables | 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% |

### 3 Long-term equity investments

*Unit: RMB'000*

| Name of investee | Accounting for method | Initial investment cost | Balance at the beginning of the year | Movement of addition and reduction | Balance at the end of the year | Share-holding percentage (%) | Voting Rights (%) | Provision for impairment | Provision made during the year | Cash dividend for the year |
|---|---|---|---|---|---|---|---|---|---|---|
| San Feng Jingjiang Port Logistics Company Limited | Cost Method | 153,000 | – | 153,000 | 153,000 | 51% | 51% | – | – | – |
| XiaMen Shipbuiding Industry Co., Ltd | Cost Method | 5,000 | 5,000 | – | 5,000 | 2% | 2% | – | – | – |
| Jiangsu Huayuan Metalwork Company Limited | Cost Method | 15,000 | – | 15,000 | 15,000 | 5% | 5% | – | – | – |
| Total | – | 173,000 | 5,000 | 168,000 | 173,000 | – | – | – | – | – |

### 4 Operating income, operating costs

(1) Operating income

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Steel products | **6,618,143** | 5,022,238 |
| By products | **329,709** | 219,746 |
| Other operating income | **17,388** | 11,858 |
| Total | **6,965,240** | 5,253,842 |

## X. NOTES TO MAJOR ITEMS IN THE PARENT'S FINANCIAL STATEMENTS *(CONTINUED)*

### 4 Operating income, operating costs *(Continued)*

(2) Operating costs

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Operating costs from principal activities: | **6,354,068** | 4,710,557 |
| Other operating costs | **10,051** | 8,971 |
| Total | **6,364,119** | 4,719,528 |

### 5 Supplement to cash flow statement

*Unit: RMB'000*

| Supplemental Information | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| 1. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | **1,926** | 31,622 |
| Add: Depreciation of fixed assets | **161,212** | 149,798 |
| Amortisation of intangible assets | **3,505** | 2,605 |
| Losses on disposal of fixed assets | **(1,435)** | (503) |
| Financial expenses | **155,161** | 92,653 |
| Decrease in deferred tax assets | **1,255** | 9,037 |
| Decrease in gross inventories (increase denoted with "()") | **(1,720,086)** | 140,494) |
| Decrease in operating receivables | **(1,421,753** | (537,197 |
| Increase in operating payables (decrease denoted with "()") | **1,194,003** | (9,628) |
| Decrease in restricted cash | **124,853** | (46,841 |
| Net cash flow from operating activities | **(1,501,359)** | (167,960) |
| 2. Change in cash and cash equivalents: | | |
| Cash at the end of the period | **987,595** | 982,047 |
| Less: Cash at the beginning of the period | **1,404,948** | 1,147,053 |
| Add: Cash equivalents at the end of the period | **–** | – |
| Less: Cash equivalents at the beginning of the period | **–** | – |
| Net decrease in cash and cash equivalents | **(417,353)** | (165,006) |

## SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENT

### 1 Extraordinary gain and loss

*Unit: RMB'000*

| Item | Jan–Jun 2010 | Jan–Jun 2009 |
|---|---|---|
| Disposal of non-current asset | **1,435** | 503 |
| Government grants recognized through profit or loss | **5,962** | 2,478 |
| Others | **784** | 2,236 |
| Less: effect on taxation | **1,227** | 804 |
| Total | **6,954** | 4,413 |

*Note: Above extraordinary gain and loss items are listed by amount before taxation.*

### 2 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:

| Profit under reporting period | Weighted average return on net asset *(%)* | Earnings per share Basic earnings per share | Diluted earnings per share |
|---|---|---|---|
| Net profit attributable to the Company's ordinary equity shareholders | 0.02% | 0.001 | 0.001 |
| Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders | (0.11%) | (0.003) | (0.003) |

The Board of Directors of the Company hereby announces the unaudited interim financial statements of the Company for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009. The interim financial statements have not been audited by the auditor of the Company, but have been reviewed by the Audit Committee of the Company.

## CONSOLIDATED BALANCE SHEET

*at 30 June 2010*

| | *Note* | **30 June 2010** ***RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **8,727,679** | 7,951,111 |
| Land use right | | **332,336** | 335,841 |
| Available-for-sale financial asset | | **20,000** | 5,000 |
| Deferred income tax assets | | **117,132** | 118,387 |
| Trade and other receivables | 10 | **50,810** | 50,780 |
| **Total non-current assets** | | **9,247,957** | 8,461,119 |
| **Current assets** | | | |
| Inventories | 9 | **5,597,998** | 4,066,174 |
| Prepaid taxation | | **1,854** | 1,854 |
| Trade and other receivables | 10 | **3,227,404** | 1,848,374 |
| Restricted cash | | **61,136** | 185,989 |
| Cash and cash equivalents | | **1,237,567** | 1,404,948 |
| **Total current assets** | | **10,125,959** | 7,507,339 |
| **Total assets** | | **19,373,916** | 15,968,458 |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONSOLIDATED BALANCE SHEET *(CONTINUED)*

*at 30 June 2010*

| | Note | **30 June 2010** *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's shareholders** | | | |
| Share capital | 11 | **1,733,127** | 1,733,127 |
| Other reserves | | **1,685,412** | 1,685,412 |
| Retained earnings | | | |
| — Others | | **2,121,844** | 2,120,396 |
| | | **5,540,383** | 5,538,935 |
| **Non-controlling interests** | | **146,079** | — |
| **Total equity** | | **5,686,462** | 5,538,935 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 12 | **400,000** | 520,000 |
| Borrowings | 13 | **2,533,365** | 1,760,410 |
| Deferred income | | **200,766** | 203,278 |
| Obligation under finance leases | 14 | **1,487,111** | 1,130,793 |
| **Total non-current liabilities** | | **4,621,242** | 3,614,481 |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONSOLIDATED BALANCE SHEET *(CONTINUED)*

*at 30 June 2010*

| | Note | 30 June 2010 *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 12 | **4,014,492** | 2,634,611 |
| Borrowings | 13 | **4,793,546** | 4,104,005 |
| Obligation under finance leases | 14 | **258,174** | 76,426 |
| **Total current liabilities** | | **9,066,212** | 6,815,042 |
| **Total liabilities** | | **13,687,454** | 10,429,523 |
| **Total equity and liabilities** | | **19,373,916** | 15,968,458 |
| **Net current assets** | | **1,059,747** | 692,297 |
| **Total assets less current liabilities** | | **10,307,704** | 9,153,416 |

Approved and authorised for issue by the board of directors on 18 August 2010.

| | |
|---|---|
| **Dong Lin** | **Chen Shan** |
| *Chairman* | *Vice Chairman* |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2010*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Sales** | 15 | **6,947,852** | 5,241,984 |
| Cost of goods sold | | **(6,354,372)** | (4,710,698) |
| **Gross profit** | | **593,480** | 531,286 |
| Selling and marketing costs | | **(172,357)** | (139,233) |
| Administrative expenses | | **(265,352)** | (247,873) |
| Other net gains | | **11,538** | 13,064 |
| **Operation profit** | | **167,309** | 157,244 |
| Finance costs | | **(165,527)** | (116,106) |
| **Profit before income tax** | | **1,782** | 41,138 |
| Income tax expense | 17 | **(1,255)** | (9,037) |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(CONTINUED)*

*for the six months ended 30 June 2010*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | | **527** | 32,101 |
| Other comprehensive income for the period (after taxation and reclassification adjustments) | | **—** | — |
| **Total comprehensive income for the period** | | **527** | 32,101 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **1,448** | 32,101 |
| Non-controlling interests | | **(921)** | — |
| **Total comprehensive income for the period** | | **527** | 32,101 |
| **Earnings per share for profit attributable to the Company's shareholders during the period:** | | | |
| — Basic and diluted | 18 | **RMB0.001** | RMB0.020 |

Approved and authorised for issue by the board of directors on 18 August 2010.

| **Dong Lin** | **Chen Shan** |
|---|---|
| *Chairman* | *Vice Chairman* |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 18.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the six months ended 30 June 2010*

| | | 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 *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| Balance at 1 January 2009 | | 1,733,127 | 894,259 | 216,071 | 566,679 | 2,217,126 | 5,627,262 | – | 5,627,262 |
| Changes in equity for the six months ended 30 June 2009: | | | | | | | | | |
| Total comprehensive income for the period | | – | – | – | – | 32,101 | 32,101 | – | 32,101 |
| Dividends relating to 2008 | 19(a) | – | – | – | – | (173,313) | (173,313) | – | (173,313) |
| Balance at 30 June 2009 and 1 July 2009 | | 1,733,127 | 894,259 | 216,071 | 566,679 | 2,075,914 | 5,486,050 | – | 5,486,050 |
| Changes in equity for the six months ended 31 December 2009 | | | | | | | | | |
| Total comprehensive income for the period | | – | – | – | 8,403 | 44,482 | 52,885 | – | 52,885 |
| Balance at 31 December 2009 | | 1,733,127 | 894,259 | 216,071 | 575,082 | 2,120,396 | 5,538,935 | – | 5,538,935 |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

*for the six months ended 30 June 2010*

| | | Attributable to equity shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital<br>RMB'000 | Share premium<br>RMB'000 | Capital surplus<br>RMB'000 | Statutory common reserve<br>RMB'000 | Retained earnings<br>RMB'000 | Total<br>RMB'000 | Non-controlling interests<br>RMB'000 | Total equity<br>RMB'000 |
| Balance at 1 January 2010 | | 1,733,127 | 894,259 | 216,071 | 575,082 | 2,120,396 | 5,538,935 | – | 5,538,935 |
| Changes in equity for the six months ended 30 June 2010 | | | | | | | | | |
| Paid-in Capital | | – | – | – | – | – | – | 147,000 | 147,000 |
| Total comprehensive income for the period | | – | – | – | – | 1,448 | 1,448 | (921) | 527 |
| Balance at 30 June 2010 | | 1,733,127 | 894,259 | 216,071 | 575,082 | 2,121,844 | 5,540,383 | 146,079 | 5,686,462 |

Approved and authorised for issue by the board of directors on 18 August 2010.

| | |
|---|---|
| **Dong Lin** | **Chen Shan** |
| *Chairman* | *Vice Chairman* |

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## CONDENSED STATEMENT OF CASH FLOWS

*for the six months ended 30 June 2010*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Cash (used in)/generated from operations | | **(1,503,502)** | (90,141) |
| Income tax paid | | **—** | (77,819) |
| Net cash (used in)/generated from operating activities | | **(1,503,502)** | (167,960) |
| Net cash used in investing activities | | **(583,994)** | (502,562) |
| Net cash generated from financing activities | | **1,920,115** | 505,516 |
| Net increase in cash and cash equivalents | | **(167,381)** | (165,006) |
| Cash and cash equivalents at 1 January | | **1,404,948** | 1,147,053 |
| Cash and cash equivalents at 30 June | | **1,237,567** | 982,047 |

Approved and authorised for issue by the board of directors on 18 August 2010.

**Dong Lin**
*Chairman*

**Chen Shan**
*Vice Chairman*

The notes on pages 124 to 147 form an integral part of these condensed interim financial statements.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1 ORGANISATION AND PRINCIPAL ACTIVITIES

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 RMB1.00 each to the Holding Company. The Company issued 413,944,000 H shares which have been listed on The Hong Kong Exchanges and Clearing 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.

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.

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 ("the Subsidiary"), with a registered capital of RMB300,000,000. The Company is the controlling shareholder, holding a 51% share of the Subsidiary. The Company has fully subscribed the capital of RMB153,000,000 in January and March 2010. On 12 January 2010, the Subsidiary has got its operating license.

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 30 June 2010, the preparation work for the Holding Company's environmental relocation as well as that of the Company is in progress. By the end of April 2010, The Company's main project of 4100 mm wide-thick steel plate production line has finished trial operation and commenced production.

The Company and the Subsidiary (collectively referred to as the "Group") is principally engaged in the manufacture and sale of steel products.

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, interim financial reporting, issued by the Hong Kong Institute of Certificated Public Accountants ("HKICPA"). It was authorised for issue on 18 August 2010.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial report. The condensed interim financial report and notes thereon do not include all of the information required for a full set of financial report prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs")

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Group's statutory financial report prepared under HKFRSs for that financial year but is derived from those financial statements. Statutory financial report for the year ended 31 December 2009 is available from the Group's registered office. The Group's auditor has expressed an unqualified opinion on those financial report in their report dated 22 April 2010.

## 3 ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial report, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial report. Details of these changes in accounting policies are set out in note 4.

## 4 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial report:

- Amendments to HKAS 27, Consolidated and separate financial statements

- Improvements to HKFRSs (2009)

With the setup of the Subsidiary, the Group firstly adopted HKAS 27, consolidated and separate financial statements. Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 4 CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

The amendments to HKFRSs (2009) have had no material impact on the Group's financial report as the amendments and interpretations were consistent with policies already adopted by the Group.

### 5 FINANCIAL RISK

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 31 December 2009.

### 6 CRITICAL ACCOUNTING ESTIMATES

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

In preparing this condensed interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 31 December 2009.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 7 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). On first-time adoption of HKFRS 8, operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Steel products: this segment manufactures and sells steel products. Currently the Group's activities in this segment are carried out in Mainland China.

- Logistics: this segment runs logistics on ore and steel transit. It was incorporated at 12 January 2010, no revenue has generated by this segment.

### (a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payable attributable to the sales activities of the individual segments and bank borrowings managed directly by the segment with the exception of deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 7 SEGMENT REPORTING *(CONTINUED)*

### (a) Segment results, assets and liabilities *(Continued)*

The measure used for reporting segment profit is profit before taxation. In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter segment revenue), depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment revenue is priced with reference to prices charged to external parties for similar orders. Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the period ended 30 June 2010 and 2009 is set out below:

| | Steel Products | | Logistics | | Total | |
|---|---|---|---|---|---|---|
| **For the six months ended** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from external customers | 6,965,240 | 5,253,842 | – | – | 6,965,240 | 5,253,842 |
| Inter-segment revenue | – | – | – | – | – | – |
| **Reportable segments** | | | | | | |
| Profit/(loss) before taxation | 3,661 | 41,138 | (1,879) | – | 1,782 | 41, 138 |
| Depreciation & amortization | 164,716 | 152,403 | 4 | – | 164,720 | 152,403 |
| Reportable segments assets | 18,935,421 | 15,843,217 | 299,509 | – | 19,234,930 | 15,843,217 |
| Additions to non-current segment assets during the period | 936,793 | 552,892 | 1,101 | – | 937,894 | 552,892 |
| Reportable segments liabilities | 13,686,066 | 10,429,523 | 1,388 | – | 13,687,454 | 10,429,523 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 7 SEGMENT REPORTING *(CONTINUED)*

### (b) Reconciliations of reportable segment profit before taxation, assets and liabilities

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **6,965,240** | 5,253,842 |
| Elimination of inter-segment revenue | **—** | — |
| Consolidated revenue | **6,965,240** | 5,253,842 |

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| **Profit/(loss) before taxation** | | |
| Total profit or loss for reportable segments | **1,782** | 41,138 |
| Elimination of inter-segment profits | **—** | — |
| Consolidated profit before taxation | **1,782** | 41,138 |

| | **At 30 June 2010** | At 31 December 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **19,234,930** | 15,843,217 |
| Elimination of inter-segment | **—** | — |
| | **19,234,930** | 15,843,217 |
| Available-for-sale financial asset | **20,000** | 5,000 |
| Deferred income tax assets | **117,132** | 118,387 |
| Prepaid taxation | **1,854** | 1,854 |
| Consolidated total assets | **19,373,916** | 15,968,458 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 7 SEGMENT REPORTING *(CONTINUED)*

### (b) Reconciliations of reportable segment profit before taxation, assets and liabilities *(Continued)*

| | At 30 June 2010 *RMB'000* | At 31 December 2009 *RMB'000* |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities and Consolidated total liabilities | 13,687,454 | 10,429,523 |

### (c) Geographic information

The location of the Group's revenue from external customers and the Group's non-current assets as fixed assets and land use rights are all in Mainland China.

## 8 PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment *RMB'000* |
|---|---|
| Net book amount at 1 January 2009 | 6,704,129 |
| Additions | 1,545,047 |
| Disposals | (142) |
| Depreciation and impairment | (297,923) |
| Net book amount at 31 December 2009 | 7,951,111 |
| Net book amount at 1 January 2010 | 7,951,111 |
| Additions | 937,894 |
| Disposals | (111) |
| Depreciation and impairment | (161,215) |
| Net book amount at 30 June 2010 | 8,727,679 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 8 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) 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 RMB1,230,672,000 and were sold to Jianxin at a consideration of RMB1,400,000,000. 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 RMB1,400,000,000, 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.

By the end of April 2010, the main project of the Equipment has finished trial operation and commenced production. As at 30 June 2010, the carrying amount of the Equipment was RMB1,220,724,000.

(b) On 12 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 RMB510,000,000 and carrying amount of RMB510,221,000. The Company then leased back the Equipment for 36 months, from 15 May 2010 to 15 May 2013. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB510,000,000, and the lease rate is five hundred basis points (5%) below the interest rate for a 3 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 Company can purchase the leased Equipments at a symbolic consideration of RMB10,000.

As at 30 June 2010, the carrying amount of the Equipment was RMB504,097,000.

(c) The second lease agreement has a financing amount of RMB440,000,000 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. The Company then leased the Equipment for 36 months, from 15 May 2011 to 15 May 2014. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB440,000,000, and the lease rate is five hundred basis points (5%) below the interest rate for a 4 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 Company can purchase the leased Equipments at a symbolic consideration of RMB10,000.

As at 30 June 2010, this lease agreement has yet performed.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 9 INVENTORIES

| | **30 June 2010 *RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|
| Raw materials | **2,602,691** | 2,153,423 |
| Work in progress | **1,602,758** | 893,386 |
| Finished goods | **1,019,374** | 288,850 |
| Reusable materials | **373,175** | 730,515 |
| | **5,597,998** | 4,066,174 |

Since the 4100mm steel plate production line is still in the commissioning stage during January to March 2010, 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 RMB188,262,000 has been capitalised in construction-in-progress.

### 10 TRADE AND OTHER RECEIVABLES

| | **30 June 2010 *RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|
| Notes receivable | **1,397,368** | 953,519 |
| Accounts receivable *(Note (a))* | **333,992** | 230,346 |
| Trade receivables | **1,731,360** | 1,183,865 |
| Less: provision for impairment of trade receivables *(Note (b))* | **(144,740)** | (144,740) |
| Trade receivables — net | **1,586,620** | 1,039,125 |
| Receivables from fellow subsidiaries of the Holding Company *(Note (c))* | **390,890** | 225,059 |
| 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 | **380,811** | 214,980 |
| Prepayments and deposits | **778,629** | 392,685 |
| Other receivables | **538,872** | 259,082 |
| Less: provision for impairment of other receivables *(Note (d))* | **(6,718)** | (6,718) |
| Other receivables — net | **532,154** | 252,364 |
| | **3,278,214** | 1,899,154 |
| Less non-current portion : prepayment to suppliers | **(50,810)** | (50,780) |
| Current portion | **3,227,404** | 1,848,374 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|---|---|
| Trade receivables | 1,586,620 | 1,039,125 |
| Receivables from fellow subsidiaries of the Holding Company | 380,811 | 214,980 |
| Prepayments and deposits | 778,629 | 392,685 |
| Other receivables | 532,154 | 252,364 |
| | 3,278,214 | 1,899,154 |

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

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|---|---|
| Between 1 and 2 years | 20,760 | 28,440 |
| Between 2 and 5 years | 15,800 | 22,340 |
| | 36,560 | 50,780 |

The remaining balance of the non-current prepayment is security deposit to Minsheng (Note 8(b)) for the finance lease contract.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a one-month credit period. The ageing analysis of accounts receivables as at 30 June 2010 is as follows:

| | **30 June 2010** *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| Within 3 months | **185,114** | 82,234 |
| Between 3 months and 1 year | **2,863** | 2,766 |
| Between 1 and 2 years | **979** | 602 |
| Between 2 and 3 years | **877** | 585 |
| Over 3 years | **144,159** | 144,159 |
| | **333,992** | 230,346 |

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

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

| | **30 June 2010** *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| At the beginning of the period | **144,740** | 144,562 |
| Impairment loss recognised | **–** | 2,459 |
| Receivables written off during the period as uncollectible | **–** | (2,281) |
| At the end of the period | **144,740** | 144,740 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(c) The ageing analysis of receivables from fellow subsidiaries of the Holding Company as at 30 June 2010 is as follows:

| | **30 June 2010** ***RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|
| Within 3 months | **226,871** | 99,744 |
| Between 3 months and 1 year | **148,977** | 110,087 |
| Between 1 and 2 years | **43** | 3 |
| Between 2 and 3 years | **12** | 9 |
| Over 3 years | **14,987** | 15,216 |
| | **390,890** | 225,059 |

(d) The provision for impairment of other receivables is as follows:

| | **30 June 2010** ***RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|
| Provision for impairment of other receivables | **6,718** | 6,718 |

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 RMB18,340,000 and RMB18,200,000 respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate RMB36,540,000 dividends to be distributed to the Holding Company ("the Dividend"). The Courts seized RMB4,528,000 and RMB1,059,000 from the Company's bank accounts in 2005 and 2006 respectively.

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(d) The provision for impairment of other receivables is as follows: *(Continued)*

As at the date of this interim financial report is approved for issue, the case relating to the debts of RMB18,340,000 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 (Company) 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 RMB5,587,000 in prior years.

## 11 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 2009 / 31 December 2009 (nominal value of RMB1.00 each) | 1,733,127 | 845,000 | 350,000 | 538,127 | 1,733,127 |
| At 1 January 2010 / (nominal value of RMB1.00 each) | 1,733,127 | 845,000 | 350,000 | 538,127 | 1,733,127 |
| Change in equity for six months ended 30 June 2010: | – | (845,000) | 845,000 | – | – |
| At 30 June 2010 (nominal value of RMB1.00 each) | 1,733,127 | – | 1,195,000 | 538,127 | 1,733,127 |

As approved by China Securities Regulatory Commission on 29 January 2007, the Group 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 RMB1.00 each.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 11 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.

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.. 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.

### 12 TRADE AND OTHER PAYABLES

| | **30 June 2010** *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| Trade payables *(Note (a))* | **2,420,600** | 1,424,757 |
| Advances from customers | **1,269,841** | 1,406,727 |
| Amounts due to the Holding Company and its subsidiaries | **555,194** | 135,566 |
| Value added tax and other tax payables | **5,040** | 68,924 |
| Salaries payable | **82,229** | 62,536 |
| Deposits from customers | **9,095** | 8,056 |
| Other payables | **72,493** | 48,045 |
| | **4,414,492** | 3,154,611 |
| Less non-current portion: | | |
| — Advances from a customer *(Note (b))* | **(400,000)** | (520,000) |
| Current portion | **4,014,492** | 2,634,611 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 12 TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) The ageing analysis of trade payables as at 30 June 2010 is as follows:

| | 30 June 2010 *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| Within 6 months | **2,329,017** | 1,346,548 |
| Between 6 months and 1 year | **25,082** | 14,787 |
| Between 1 and 2 years | **17,364** | 15,710 |
| Between 2 and 3 years | **5,842** | 7,432 |
| Over 3 years | **43,295** | 40,280 |
| | **2,420,600** | 1,424,757 |

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

| | 30 June 2010 *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| Between 1 and 2 years | **150,000** | 270,000 |
| Between 2 and 5 years | **250,000** | 250,000 |
| | **400,000** | 520,000 |

## 13 BORROWINGS

| | 30 June 2010 *RMB'000* | 31 December 2009 *RMB'000* |
|---|---|---|
| **Non-current** | | |
| Unsecured bank borrowings | **2,533,365** | 1,760,410 |
| **Current** | | |
| Unsecured bank borrowings | **4,793,546** | 4,104,005 |
| **Total borrowings** | **7,326,911** | 5,864,415 |

Unsecured bank borrowings of RMB7,176,911,000 (31 December 2009: RMB5,235,415,000) are guaranteed by the Holding Company (Note 22(a)).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 14 OBLIGATION UNDER FINANCE LEASES

As at 30 June 2010, the Company had obligations under finance leases repayable as follows:

| | **30 June 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **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 | **258,174** | **265,759** | 76,426 | 81,618 |
| Between 1 and 2 years | **418,071** | **479,909** | 131,444 | 158,618 |
| Between 2 and 3 years | **583,663** | **741,347** | 323,602 | 428,611 |
| Over 3 years | **485,377** | **716,635** | 675,747 | 1,023,066 |
| | **1,487,111** | **1,937,891** | 1,130,793 | 1,610,295 |
| | **1,745,285** | **2,203,650** | 1,207,219 | 1,691,913 |
| Less: total future interest expense | | **(458,365)** | | (484,694) |
| Present value of lease obligations | | **1,745,285** | | 1,207,219 |

The obligation under finance leases are guaranteed by the Holding Company (Note 22(a)).

### 15 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.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Steel products | **6,618,143** | 5,022,238 |
| By-products | **329,709** | 219,746 |
| | **6,947,852** | 5,241,984 |

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 period ended 30 June 2010.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 16 EXPENSE BY NATURE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation | **160,989** | 149,798 |
| Amortisation | **3,505** | 2,605 |
| Staff costs | **528,962** | 298,536 |
| Raw materials and consumables used | **6,229,250** | 3,950,603 |
| Maintenance expenses | **130,387** | 137,281 |
| Rental for land use rights | **9,900** | 9,000 |
| Transportation expenses | **67,044** | 148,457 |

### 17 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Deferred income tax assets | **1,255** | 9,037 |

(a) In April 2003, the Company obtained the "Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited (Yu Guo Shui Han [2003] No. 57)" issued by the State Administration of Taxation of Chongqing on 17 February 2003 and the "Reply to Application of Preferential Enterprise Income Tax for Enterprises in Western Development by Chongqing Iron & Steel Company Limited (Da Dukou Guo Shui Han [2003] No. 8)" issued by the State Administration of Taxation of Da Dukou District, Chongqing on 21 February 2003. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and its income tax rate is reduced to 15% for the period from 2001 to 2010.

Enterprise Income Tax Law of the PRC ("new PRC EIT law") has been approved by the 5th Session of the 10th National People's Congress on 16 March 2007, and came into effect on 1 January 2008. According to the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Guo Fa No. [2007] 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the development of China's western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010.

The income tax rate applicable to the Subsidiary for the year is 25%.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 17 INCOME TAX EXPENSE *(CONTINUED)*

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

In accordance with the Reply to Application for Income Tax Reduction lodged by the Company on the 2004 Purchased Domestic Manufactured Equipment (Da Dukou Guo Shui Han [2006] No.3), the Application Form for the Income Tax Reduction lodged by the Company ("the Application Form") on the 2005 Purchased Domestic Manufactured Equipment, the Application Form on the 2006 Purchased Domestic Manufactured Equipment, and Filing Form of Tax Credit and Exemption for Tax Payers in Chongqing (Da Guo Shui Jian (Di) Bei Mian [2008] No.041801) issued and approved by the Chongqing Administration of State Taxation of Da Dukou District from 2006 to 2008. The Company was entitled to a total tax reduction of RMB238,692,000 on the domestic manufactured equipment purchased from 2004 to 2007. Of them, RMB12,178,000, RMB52,394,000, RMB53,287,000 and RMB86,214,000 were utilised to offset the Company's income tax liability for 2005, 2006, 2007 and 2008 respectively. The remaining RMB34,619,000 approved in 2007 and 2008 was not utilised.

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

(c) On 25 November 2009, the Company applied with the State Administration of Taxation of Chongqing for exemption from Value Added Tax for the sale and lease back arrangement with Jianxin (note 8(a)). As at the date of approval of the financial report, the Company has not received any formal written approval from the State Administration of Taxation of Chongqing. Concerning there is any approval from the Jianxin case, the Company suspended further application for Value Added Tax exemption in relation to the sale and lease back arrangement with Minsheng (note 8(b)).

As at 30 June 2010, if the approval from the tax authority is not available, the sale and lease back arrangement between the Company and Jianxin and Minsheng would decrease the net profit by RMB1,456,000 . It would result in an increase in current liability of RMB184,544,000 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 period presented.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

### 18 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company of RMB1,448,000 (six months ended 30 June 2009: RMB32,101,000) by the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 of 1,733,127,200 shares (six months ended 30 June 2009: 1,733,127,200 shares).

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

### 19 DIVIDENDS

**(a) 2009 dividend**

During the Annual General Meeting of shareholders on 22 June 2010, it was resolved to declare no dividend in respect of 2009 (2008: RMB0.10 per share).

**(b) Interim dividends**

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

### 20 CONTINGENT LIABILITIES

As at 30 June 2010, other than the pending litigation as disclosed in Note 10(d), the Group had no material contingent liabilities.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 21 COMMITMENTS

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

| | **30 June 2010** ***RMB'000*** | 31 December 2009 *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 | **1,511,823** | 1,636,235 |
| Significant construction contracts entered into under authorization but without performance | **17,341** | 78,792 |
| Finance leases contracts entered into under performance or preparation of performance | **2,682,761** | 1,691,913 |
| | **4,211,925** | 3,421,940 |

### (b) Operating lease commitments

As at 30 June 2010, the future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

| | **30 June 2010** ***RMB'000*** | 31 December 2009 *RMB'000* |
|---|---|---|
| Within 1 year | **19,769** | 19,769 |
| Between 1 and 5 years | **71,405** | 72,493 |
| Over 5 years | **36,979** | 45,694 |
| | **128,153** | 137,956 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 22 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

**(a) As at 30 June 2010 the Company's bank borrowings of RMB7,176,911,000 (31 December 2009: RMB5,235,415,000) are guaranteed by the Holding Company (Note 13).**

All liabilities under the lease agreement between the Company and Jianxin (note 14), as well as Minsheng (note 14), are guaranteed by the Holding Company. 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 Group on normal commercial terms with the Holding Company and its fellow subsidiaries during the period:**

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| **Income** | | |
| Sales to fellow subsidiaries of the Holding Company *(Note (i))* | **775,111** | 385,545 |
| Fees received for supporting services *(Note (ii))* | **3,044** | 1,042 |
| Fees received for lease rental *(Note (iii))* | **240** | 534 |
| **Expenditure** | | |
| Fees paid for supporting services *(Note (iv))* | **135,229** | 88,948 |
| Fees paid for lease rental *(Note (v))* | **519** | 349 |
| Purchase of raw materials and spare parts *(Note (vi))* | **1,066,086** | 797,638 |
| Purchase of property, plant and equipment *(Note (vii))* | **213,067** | 111,110 |
| Rental for land use rights *(Note 16 and Note (viii))* | **9,900** | 9,000 |
| Social welfare services *(Note (ix))* | **44,669** | 27,116 |
| Commissioning gains/losses settlement *(Note(x))* | **499,227** | — |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 22 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 Group on normal commercial terms with the Holding Company and its fellow subsidiaries during the period: *(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 Group and the fellow subsidiaries.

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

(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 Group 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 Group 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 Group 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.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 22 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 Group on normal commercial terms with the Holding Company and its fellow subsidiaries during the period: *(Continued)***

(x) 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 RMB1,000,000 per month to the Company. The Agreement for Trail Operation of Production Lines 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 Group and the Holding Company, the Group 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 RMB3,990,097,300 (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 Group any sum for the Group'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 Group's use. The Group shall be responsible for the management of production and bear the profits and losses arising out of the use of such Assets.

**(c) Key management compensation**

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and other short-term employee benefits | **1,190** | 1,796 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS *(CONTINUED)*

## 22 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

The Group 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 Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group 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 Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

## 23 EVENTS AFTER THE BALANCE SHEET DATE

On 13 August 2010, the Company entered into the Agreement with the Parent Company under which the Parent Company has agreed to transfer 100% of the equity interest in Chongqing Iron & Steel Group Electronics Company Limited for a consideration of RMB37,861,900 which was paid in cash.

# Documents Available for Inspection

1. The copy of interim report signed by the Chairman;

2. The copy of financial report signed and sealed by the person in charge of the Company, the Chief Financial Officer and the Chief Accountant;

3. The copies of all documents of the Company which have been publicly disclosed in the newspapers designated by the CSRC during the reporting period;

4. The copies of summary of interim report published in China Securities Journal, Shanghai Securities News and Securities Times, and preliminary results announcement published in Hong Kong Wen Wei Po and China Daily.

**Chongqing Iron & Steel Company Limited**
*Chairman*
**Dong Lin**

18 August 2010