重慶鋼鐵股份有限公司

Chongqing Iron & Steel Company Limited

(H Share Stock Code: 1053)

(A Share Stock Code: 601005)

2010 Annual Report

Contents

IMPORTANT NOTICE

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

2. All other directors of the Company attended the 6th meeting of the fifth session of Board convened on 25 March 2011 except Mr. Liu Tian Ni, an independent director, who failed to attend the meeting due to business engagements.

3. Mr. Deng Qiang, Chairman of the Company, and Ms. Gong Jun, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness and completeness of the financial statements in the Annual Report.

4. The financial data in this Annual Report are prepared under PRC GAAP.

5. This Annual Report is prepared in Chinese and English. If there is any difference between Chinese version and English version, the Chinese version shall prevail.

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Company Profile

(I) BASIC INFORMATION

Chinese name of the Company: 重慶鋼鐵股份有限公司(「重鋼股份公司」)

English name: Chongqing Iron & Steel Company Limited ("CISL")

Company's legal representative: Dong Lin

Secretary to the Board: You Xiao An

Correspondence address: No.30, Gangtie Road, Dadukou District, Chongqing, the PRC

Telephone: 86-23-6884 5030

Fax: 86-23-6884 9520

E-mail: yxa@email.cqgt.cn

Securities representative: Peng Guo Ju

Correspondence address: No.30, Gangtie Road, Dadukou District, Chongqing, the PRC

Telephone: 86-23-6884 2582

Fax: 86-23-6884 9520

E-mail: clarapeng@email.cqgt.cn

Registered address and office address: No.30, Gangtie Road, Dadukou District, Chongqing, the PRC

Postal code: 400084

Website: http://www.cqgt.cn

E-mail: dms@email.cqgt.cn

(I) BASIC INFORMATION *(CONTINUED)*

Name of newspapers designated for information disclosure of the Company:

Domestic:	China Securities Journal, Shanghai Securities News, and Securities Times
Hong Kong:	Wen Wei Po and China Daily
Website for publishing annual report:	http://www.sse.com.cn and http://www.hkexnews.hk
Place for Inspection of annual reports:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place of listing of the Company's Shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Abbreviated name of Shares:	重慶鋼鐵(A shares)/Chongqing Iron (H shares)
Stock code:	601005(A shares)/1053(H shares)
Abbreviated name of corporate bonds:	10 CISL Bond(10重鋼債)
Code of corporate bonds:	122059
Date of first business registration of the Company:	11 August 1997
Place of registration:	Chongqing Municipal Administration of Industry and Commerce
Business registration number:	500000400003546
Tax registration number:	500104202852965
Organization Code:	20285296-5

(I) BASIC INFORMATION *(CONTINUED)*

Auditors of the Company:

KPMG Huazhen

Office address:	8/F, Office Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
Postal Code:	100738

Legal Advisers:

Domestic:	Chongqing Branch of Beijing Kai Wen Law Firm
Office address:	Room 2307, Metropolitan Tower, No.68, ZouRong Road, Yuzhong District, Chongqing
Postal Code:	400010

Chongqing Zhong Shi Law Firm

Office address:	F19, Tower A5, Asia Pacific Enterprise Valley, No.1 Yatai Road, Nan'an District, Chongqing
Postal Code:	400060
Overseas:	S.H. LEUNG & CO.SOLICITORS & NOTARIES
Office address:	Room 502, Aon China Building, 29 Queen's Road Central, Hong Kong

Share Registrar:

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

(II) ISSUE AND LISTING

The Company was established on 11 August 1997 as part of the restructuring by Chongqing Iron & Steel (Group) Company Limited (the "Parent Company"). Pursuant to the Restructure Agreement, the principal iron and steel business undertakings and one of the subsidiaries of the Parent Company, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), were taken over by the Company, where upon the Company issued 650,000,000 state-owned shares of RMB1 each to the Parent Company. 413,944,000 Renminbi dominated ordinary shares ("H shares") issued by the Company in Hong Kong were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 October 1997. 319,183,200 bonus shares were distributed to all shareholders by the Company with three bonus shares for every ten shares through distributable profits in 2006.

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

The Company issued corporate bonds of RMB2 billion on Shanghai Exchange on 14 December 2010 and listed the bonds on Shanghai Exchange on 31 December. Abbreviated name and trading code of the corporate bonds were "10 CISL Bond(10重鋼債)" and "122059" respectively.

(III) PRINCIPAL BUSINESSES AND MAJOR PRODUCTS

The Company is a large scale iron and steel producer in the People's Republic of China (the "PRC") and is one of the largest producers of medium-gauge plates in the PRC. The principal business activities consist of the manufacture and sale of medium-gauge steel plates, steel sections, wire rods, cool-rolled sheets, steel billets and coking and smelting by-products. The Company adopted advanced technology and skills in production of high quality products through integrated production process. Steel products such as steel plates for ship building, pressure vessel plates and steel plates for boilers have received a number of quality awards and quality certificates issued by a number of domestic and international professional organizations. The products with the brand "Sanfeng(三峰)" are very famous among products of the same category in the PRC.

(III) PRINCIPAL BUSINESSES AND MAJOR PRODUCTS *(CONTINUED)*

Major products of the Company in 2010 and their applications are set out below

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

(I) KEY FINANCIAL DATA OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP") FOR THE REPORTING PERIOD (RMB'000)

Total profit	14,132
Net profit attributable to the Company's shareholders	10,009
Net profit after extraordinary gains and loss attributable to the Company's shareholders	-25,848
Profit from principal operations	1,274,829
Profit from other operations	14,071
Operating profit	-171,467
Net non-operating income and expenses	185,599
Net cash flow from operating activities	-2,100,887
Net increase in cash and cash equivalents	128,028

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

Extraordinary gain and loss item	Amount
Gain and loss arising from disposal of non-current assets	7,709
Tax refunds, exemptions and reductions	5,407
Government grants	10,715
Net profits of subsidiaries arising form business combination under the same control for current period before the date of combination	3,731
Relevant usage fees which should be measured for use of relevant assets of the Parent Company for free	153,194
Actual additional expenses for preparation of environmental relocation	-147,125
Others	8,574
Effect on income tax	-6,348
Total	35,857

(II) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE GROUP IN THE RECENT YEARS (RMB'000)

1. Major Financial data

Item	2010	2009	Increase/ decrease from last year (%)	2008	2007
Operating revenue	**16,617,840**	10,856,947	53.06	16,517,443	12,058,453
Total profit	**14,132**	103,556	-86.35	605,764	470,234
Income tax	**4,123**	12,024	-65.71	7,466	20,990
Net profit attributable to shareholders of the Company	**10,009**	91,273	-89.03	598,298	449,244
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**-25,848**	63,853	-140.48	601,228	470,119
Net cash flow from operating activities	**-2,100,887**	-790,275	-165.84	483,509	479,983

Item	At the end of 2010	At the end of 2009	Increase/ decrease at the end of the year from the end of last year (%)	At the end of 2008	At the end of 2007
Total assets	**22,492,351**	**16,063,823**	40.02	12,424,968	10,974,111
Total liabilities	**16,790,847**	**10,480,533**	60.21	6,780,022	5,754,150
Shareholders' equity	**5,701,504**	**5,583,290**	2.12	5,644,946	5,219,961

(II) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE GROUP IN THE RECENT YEARS (RMB'000) *(CONTINUED)*

2. Major financial indicators

Unit: RMB

Item	2010	2009	Increase/ decrease from last year *(%)*	2008	2007
Basic earnings per share	**0.006**	0.05	-88.00	0.35	0.27
Diluted earnings per share	**0.006**	0.05	-88.00	0.35	0.27
Basic earnings per share after extraordinary gain and loss	**-0.015**	0.04	-137.50	0.35	0.28
Return on net assets (fully diluted) *(%)*	**0.18**	1.63	Decreased by 1.45 percentage points	10.6	8.61
Return on net assets (weighted average) *(%)*	**0.18**	1.62	Decreased by 1.44 percentage points	11.01	9.13
Return on net assets net of extraordinary gain and loss (fully diluted) *(%)*	**-0.45**	1.14	Decreased by 1.59 percentage points	10.65	9.01
Return on net assets net of extraordinary gain and loss (weighted average) *(%)*	**-0.47**	1.14	Decreased by 1.61 percentage points	11.07	9.55
Net cash flow per share from operating activities	**-1.21**	-0.46	-163.04	0.28	0.29

(II) MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS OF THE GROUP IN THE RECENT YEARS (RMB'000) *(CONTINUED)*

2. Major financial indicators *(Continued)*

Item	**At the end of 2010**	At the end of 2009	Increase/ decrease at the end of the year from the end of last year *(%)*	At the end of 2008	At the end of 2007
Net asset per share attributable to shareholders of the Company	**3.29**	3.22	2.17	3.26	3.12

(IV) MOVEMENTS IN EQUITY OF THE GROUP'S SHAREHOLDERS DURING THE REPORTING PERIOD (RMB'000)

Item	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained profits	Including: Proposed dividend in cash by the Board	Minority interests	Shareholders' equity
Opening balance	1,733,127	1,179,756	166	582,880	2,085,972	—	1,389	5,583,290
Increase during the year	—	—	1,000	572	10,009	—	147,000	158,581
Decrease during the year	—	38,048	358	—	572	—	1,389	40,367
Closing balance	1,733,127	1,141,708	808	583,452	2,095,409	—	147,000	5,701,504

Reasons for the changes: In September 2010, the Company combined Chongqing Iron & Steel Group Electronic Company Limited ("Chongqing Electronic"), which was under the same control of Parent Company, which resulted a decrease of RMB37,862,000 in owners' equity. In addition, surplus reserves of RMB572,000 were provided.

(I) CHANGES IN SHARE CAPITAL

Changes in Shares 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

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

Changes in Shares Subject to Trading Moratorium

Unit: share

Names of shareholders	Number of shares subject to trading moratorium at the beginning of the year	Number of shares released from trading moratorium in the year	Increase in shares subject to trading moratorium	Number of shares subject to trading moratorium at the end of the year	Reasons for trading moratorium or release of trading moratorium	Date of release of trading moratorium
Chongqing Iron & Steel (Group) Company Limited	835,800,000	835,800,000	0	0	Promised period of trading moratorium expired.	1 March 2010
Shanghai Royal Sea Capital Company Limited	4,200,000	4,200,000	0	0		
Yao Jian Kang	5,000,000	5,000,000	0	0		

(II) ISSUE AND LISTING OF SECURITIES IN RECENT YEARS

1. Issue and listing of A shares

Unit: share

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

As of the end of the reporting period, total share capital of the Company was 1,733,127,200 shares.

2. Issue and listing of corporate bonds

After being approved by Zheng Jian Xu Ke [2010] No. 1689 document of China Securities Regulatory Commission, the Company issued corporate bonds of RMB2 billion on Shanghai Stock Exchange on 14 December 2010 and listed the bonds on Shanghai Stock Exchange on 31 December. Abbreviated name and trading code of the corporate bond were "10 CISL Bond (10重鋼債)" and "122059" respectively. The duration of this tranche of corporate bonds is seven years and the fixed coupon rate of the bonds for the first five years of the duration is 6.20%. The interests shall be paid annually and the interests for the last tranche shall be paid together with the principal. The value date of this tranche of corporate bonds is the first day of issue of corporate bonds, namely, 9 December 2010. Interests of the corporate bonds shall be paid annually from the date of issue and December 9 each year between 2011 and 2017 is the interest payment date for previous interest-bearing year (extended for holidays, similarly hereinafter). This tranche of corporate bonds will expire on 8 December 2017. If holders of bonds exercise sale-back option at the end of the fifth year, the interests of bonds sold back for the fifth year shall be paid together to investors on the payment date of sale-back. Record date of interests of the corporate bonds is the trading day before annual interest payment date and record date of creditor's rights for principal and interest due is the 6th working day before the maturity.

3. The Company has no internal employee shares.

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER

1. **At the end of the reporting period, the total number of shareholders was 98,487, including 98,174 holders of A Shares and 313 holders of H Shares.**

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

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

Unit: share

Name of shareholder	Type of shareholders	Shareholding Percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State-owned legal person shareholder	48.23%	835,800,000	0	35,000,000 (frozen)
HKSCC NOMINEES LIMITED	Holder of foreign shares	30.38%	526,465,670	0	Unknown
Zhang Guoliang (張國良)	Domestic natural person shareholder	0.28%	4,878,099	0	Unknown
Industrial Bank Co.,Ltd. — Lombarda China New Trend Stock Fund (興業銀行股份有限公司 — 中歐新趨勢股票型證券投資基金)	Holders of domestic non-state owned legal person shares	0.12%	2,000,000	0	Unknown
Zhou Yong (周勇)	Domestic natural person shareholder	0.09%	1,600,000	0	Unknown
You Jianjun (遊建軍)	Domestic natural person shareholder	0.06%	993,141	0	Unknown
Industrial and Commercial Bank Of China Limited -Guangfa China Stock 500 Index LOF (廣發中證500指數證券投資基金)	Holders of domestic non-state owned legal person shares	0.05%	873,249	0	Unknown
Agricultural Bank of China — China Southern CSI 500 Index Fund (中國農業銀行股份有限公司 — 南方中證500指數證券投資基金)	Holders of domestic non-state owned legal person shares	0.05%	849,300	0	Unknown
IP KOW	Holder of foreign shares	0.04%	725,200	0	Unknown
Xing Yizhi (邢浥之)	Domestic natural person shareholder	0.04%	672,455	0	Unknown

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

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

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 Companies' Shareholders between the Parent Company and other 9 shareholders. The Company is not aware of any connected relationship among the other 9 shareholders or any party acting in concert.

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

Note 3: The 526,465,670 H shares held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

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

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

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

Unit: share

Name of shareholder	Number of shares not subject to trading moratorium held	Shares class
Chongqing Iron & Steel (Group) Company Limited	835,800,000	Renminbi denominated ordinary shares
HKSCC NOMINEES LIMITED	526,465,670	Overseas listed foreign shares
Zhang Guoliang (張國良)	4,878,099	Renminbi denominated ordinary shares
Industrial Bank Co.,Ltd. — Lombarda China New Trend Stock Fund (興業銀行股份有限公司 — 中歐新趨勢股票型證券投資基金)	2,000,000	Renminbi denominated ordinary shares
Zhou Yong (周勇)	1,600,000	Renminbi denominated ordinary shares
You Jianjun (遊建軍)	993,141	Renminbi denominated ordinary shares
Industrial and Commercial Bank Of China Limited — Guangfa China Stock 500 Index LOF (廣發中證500指數證券投資基金)	873,249	Renminbi denominated ordinary shares
Agricultural Bank of China — China Southern CSI 500 Index Fund (中國農業銀行股份有限公司 — 南方中證500指數證券投資基金)	849,300	Renminbi denominated ordinary shares
IP KOW	725,200	Overseas listed foreign shares
Xing Yizhi (邢浥之)	672,455	Renminbi denominated ordinary shares

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

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

3. Particulars of Controlling Shareholder

Chongqing Iron & Steel (Group) Company Limited, the controlling shareholder of the Company, held 835,800,000 shares of the Company, representing 48.23% of total share capital of the Company. Established on 22 June 1995, the Parent Company is a state owned company with State-owned Assets Supervision and Administration Commission of Chongqing being its sole shareholder and Dong Lin as its legal representative, with a registered capital of RMB1,650,706,543.56 and registered address at No.1, Building No.1, Dayan Village III, Dadukou District, Chongqing. Its scope of business: assets operation, investment and property right trading within the entrusted authority, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computer and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals).

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

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

(1) As at 31 December 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 of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO").

(2) Pre-emptive Rights

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

(3) Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2010, the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

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

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

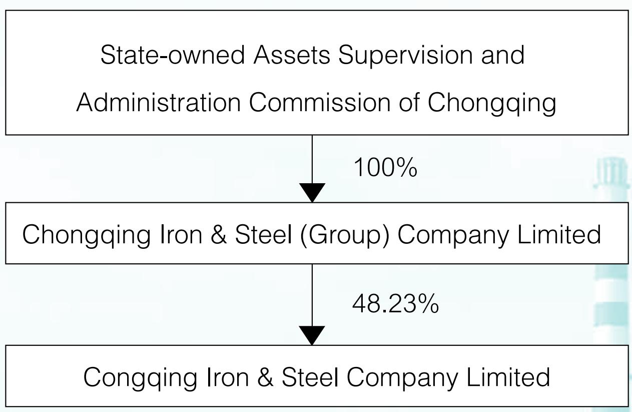
(4) Public float of H shares

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

(5) Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2010, the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$2.02)) was HK$1.087 billion and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB3.76)) was RMB4.493 billion.

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



(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Title	Gender	Age	Tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Total remuneration received from the Company during the reporting period *(RMB'000)*	Whether receive remuneration and allowance from shareholder or other connected parties
Dong Lin	Chairman	M	59	From 1 June 2009 to 21 January 2011	0	0	0	Yes
Yuan Jin Fu	Director	M	48	From 1 June 2009 to 31 May 2012	0	0	0	Yes
Chen Shan	Vice Chairman	M	57	From 1 June 2009 to 31 May 2012	0	0	273	No
Chen Hong	Director and General Manager	M	54	From 1 June 2009 to 31 May 2012	0	0	274	No
Sun Yi Jie	Director, Deputy General Manager and Chief Engineer	M	55	From 1 June 2009 to 31 May 2012	0	0	263	No
Li Ren Sheng	Director and Deputy General Manager	M	46	From 1 June 2009 to 31 May 2011	0	0	261	No
Liu Xing	Independent Director	M	54	From 1 June 2009 to 31 May 2012	0	0	60	No
Zhang Guo Lin	Independent Director	M	54	From 1 June 2009 to 31 May 2012	0	0	60	No
Liu Tian Ni	Independent Director	M	46	From 1 June 2009 to 31 May 2012	0	0	60	No
Zhu Jian Pai	Chairman of the Supervisory Committee	M	53	From 1 June 2009 to 31 May 2012	0	0	0	Yes
Huang You He	Supervisor	M	58	From 1 June 2009 to 18 August 2010	0	0	0	Yes
Gong Jun	Supervisor	F	38	From 1 June 2009 to 18 August 2010	0	0	0	Yes
	Financial Controller			From 1 June 2009 till now			35	No
Li Zheng	Supervisor	M	48	From 18 August 2010 to 2011 Annual General Meeting	0	0	0	Yes
Li Mei Jun	Supervisor	M	44	From 18 August 2010 to 2011 Annual General Meeting	0	0	0	Yes
Chen Hong	Supervisor	F	46	From 1 June 2009 to 31 May 2012	0	0	179	No
Gao Shou Lun	Supervisor	M	57	From 1 June 2009 to 31 May 2012	0	0	208	No
Wu Zi Sheng	Deputy General Manager	M	46	From 8 January 2004 till now	0	0	261	No
Song Ying	Financial Controller	F	43	From 29 June 2007 to 10 September 2010	0	0	178	No
You Xiao An	Secretary to the Board	M	46	From 23 January 2001 till now	0	0	210	No

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

Note: 1. On 18 August 2010, Mr. Huang You He and Ms. Gong Jun resigned from their positions as the Shareholder Representative Supervisors. Meanwhile, Mr. Li Zheng and Mr. Li Mei Jun were appointed as the Shareholder Representative Supervisors.

2. On 10 September 2010, the Board of the Company dismissed Ms. Song Ying's position as Financial Controller. Meanwhile, Ms. Gong Jun was appointed as Financial Controller.

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

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

Directors

Mr. Dong Lin, aged 59, the Chairman of the Company, Chairman of the Strategic Committee and Chairman of the Parent Company. Mr. Dong graduated from North-eastern University of Technology majoring in Electrical Automation. He is a professor-level senior engineer, Registered Electrical Engineer and Registered Consulting Engineer of the PRC. Mr. Dong joined the Parent Company in 1972 and has been the Chairman of the Parent Company since February 2006. He was Vice Director and Director of the Design Institute of Chongqing Iron & Steel, Assistant to the General Manager of the Parent Company and Director of the Design Institute, Deputy General Manager, Chief Engineer and General Manager of the Parent Company. Mr. Dong was elected as the Director of the Company at the AGM held on 1 June 2009. He resigned his positions as director, Chairman of the Board, Chairman of the Strategic Committee in the Company on 21 January 2011.

Mr. Yuan Jin Fu, aged 48, is a Director and member of the Salary and Remuneration Review Committee of the Company. He is also Deputy General Manager and the Chief Accountant of the Parent Company. Mr. Yuan obtained a bachelor degree in Economics and Management and holds the title of senior accountant. Mr. Yuan joined the Parent Company in 1981 and has been the Chief Accountant of the Parent Company since August 2002 and Deputy General Manager of the Parent Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Parent Company, and the Chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. Mr. Yuan was re-elected as a Director of the Company at the AGM held on 1 June 2009.

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

Directors *(Continued)*

Mr. Chen Shan, aged 57, is the Vice Chairman, a member of the Strategic Committee, the Party Secretary and the Chairman of the Labour Union of the Company. Mr. Chen graduated from Chongqing University specializing in metal heating processing with a bachelor degree in engineering. He graduated from the Business Administration Faculty of Chongqing University with a MBA degree. He holds the title of senior engineer. Mr. Chen joined the Parent Company in 1982 and had been the deputy factory manager of No. 5 Factory and the head of the Operation Planning Department of the Parent Company and deputy chief executive of the Dadukou district of Chongqing and deputy general manager and general manager of the Company. Mr. Chen was reelected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Chen Hong, aged 54, is a Director, a member of the Strategic Committee, the general manager of the Company. Mr. Chen graduated from Wuhan Iron & Steel University with a bachelor's degree in coking engineering and attended the postgraduate course in management engineering of Tsinghua University with a postgraduate diploma, and he is a senior engineer. Mr. Chen joined the Parent Company in 1982, and had been the deputy head of Chemical Workshop, deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant of the Parent Company, head of Raw Material Department of the Company, deputy chief engineer of the Parent Company, Chairman of the Board of the Chongqing Iron & Steel Group Industries Co., Ltd., Chairman of the Board of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd., deputy general manager and head of Sales Department of the Company. Mr. Chen was reelected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Sun Yi Jie, aged 55, is a Director, a member of the Strategic Committee, the deputy general manager and chief engineer of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He holds a bachelor degree in engineering and holds the title of senior engineer, and is a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". Mr. Sun joined the Parent Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company. Mr. Sun was re-elected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Li Ren Sheng, aged 46, is a Director and the deputy general manager of the Company. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses of a bachelor's degree and is a senior engineer. He joined the Parent Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Parent Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of Sales Department of the Company. Mr. Li was re-elected as a Director of the Company at the AGM held on 1 June 2009.

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

Independent Directors:

Mr. Liu Xing, aged 54, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of the Salary and Remuneration Review Committee of the Company. Mr. Liu has a doctor's degree in management, and is the professor and PhD supervisor and the head of Economy, Industry and Business Management Institute of Chongqing University. He is also a council member of China Accounting Society, a standing council member of the Education Branch of China Accounting Society, vice president of the Chongqing Accounting Society and a standing council member of Chongqing CPA Association. Mr. Liu engaged in teaching and research in management and engineering department of Chongqing University in 1983, and had been a researcher of accounting department of City University of Hong Kong and the visiting scholar and professor of accounting college of the Chinese University of Hong Kong. Mr. Liu had released a number of academic theses in domestic and foreign academic periodicals and obtained numerous provincial grade awards for research achievements. He had acted as Independent Non-executive Director of Dongfeng Electronic Technology Co., Ltd., Sichuan Meifeng Chemicals Co. Ltd. and Chongqing Titanium Industry Co. Ltd of Pangang Group since 2002. He is currently the Independent Nonexecutive Director of Chongqing Gang Jiu Co., Ltd., Chongqing Hecheng Co., Ltd., Chongqing Huapont Pharm Co., Ltd. and Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

Mr. Zhang Guo Lin, aged 54, an Independent Non-executive Director, Chairman of Salary and Remuneration Review Committee, a member of the Strategic Committee and the Audit Committee of the Company. He is currently the professor and master tutor of Southwest University of Political Science & Law, an academic leader and secretary to the Party Committee of Chongqing, a member of Technology Advisory Committee of Chongqing government, a member of Discipline Committee of Chongqing and a member to the Third People's Congress of Chongqing. He is also the vice president of Administration Association of Chongqing. Mr. Zhang graduated from the Faculty of Metallurgy of Chongqing University in January 1982 with a doctor's degree in technology economy and management. He had studied as a visiting scholar in University of Illinois at Chicago, USA. Mr. Zhang had released a number of academic theses in academic periodicals and obtained numerous awards for research achievements and projects. Mr. Zhang has extensive teaching and working experience in steel smelting, metallurgy and economy management. Mr. Zhang had been director of the Organization Department of Party Committee, the deputy secretary to party committee, the vice director to school administration committee, the standing member of party committee and the vice president of Chongqing University. He also served as the deputy secretary to working committee and the vice director of Administrative Committee of northern new district of Chongqing, a member of the second CCP Discipline Committee of Chongqing and a member of the second Political Consultative Conference of Chongqing. He is also an independent director of Chongqing Brewery Co. Ltd. Mr. Zhang was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

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

Independent Directors: *(Continued)*

Mr. Liu Tian Ni, aged 46, an Independent Non-executive Director and a member of the Salary and Remuneration Review Committee and the Audit Committee of the Company, is currently the Founder and Chairman of Wonderful Sky Financial Group Limited, an executive director of Silver Grant International Industries Limited, a listed company in Hong Kong, and the Managing Director of Sure Spread Company Limited. Mr. Liu graduated from Beijing Normal University, with a master's degree in Science. Mr. Liu has extensive experience in fields including international capital market, post listing corporate financing, mergers & acquisitions and direct investment. Mr. Liu Tian Ni was awarded the World Outstanding Young Chinese Entrepreneur by Asia Weekly in October 2008 for his excellent corporate management and remarkable business strategy. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

Supervisors

Mr. Zhu Jian Pai, aged 53, is the Chairman of the Supervisory Committee of the Company, and a Director and the deputy secretary to the Communist Party Committee of the Parent Company. Mr. Zhu graduated from the Faculty of Metallurgy of Chongqing University with major in pressure processing. He has a bachelor degree in engineering and holds the title of senior engineer. Mr. Zhu joined the Parent Company in 1982 and served as the deputy secretary to the Communist Party Committee of the Parent Company in January 2000, a Director of the Parent Company in February 2002, the secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company, the head of the labour affairs office, the head of the personnel department and the deputy secretary to the Communist Party Committee of the Parent Company. Mr. Zhu was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009.

Mr. Li Zheng, aged 48, is the head of audit department of the Parent Company. Mr. Li graduated from Sichuan Second Communist Party School by distance learning with a bachelor's degree in economics and trade (四川省二黨校函授經貿專業). He is a senior accountant. Mr. Li joined the Parent Company in 1980 and acted as the head of audit department of the Parent Company in May 2010. He held positions as the assistant to the head of the Finance Office of the Parent Company, the chief accountant of Chongqing Building Materials and Industry Co., Ltd. (重慶建材實業有限公司), the deputy head of the sales department and the secretary to the Chief Party Committee of the sales department of the Company as well as the deputy general manager of Chongqing Iron & Steel Mining Company (重鋼集團礦業公司). Mr. Li was appointed as a Shareholder Representative Supervisor of the Company at the Extraordinary General Meeting held on 18 August 2010.

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

Supervisors: *(Continued)*

Mr. Li Mei Jun, aged 44, is the deputy officer of the legal affairs office (upholding overall responsibilities) of the Parent Company. Mr. Li graduated from the law department of Nankai University with a master's degree in law. He is an assistant economist. Mr. Li joined the Parent Company in 1988 and acted as the deputy officer of the legal affairs office of the Parent Company in February 2009. He held positions as the deputy manager of the sales department of Zhangjiang Industry and Trade Dong Hua (湛江工貿東華) of the Parent Company, the manager of Nanning Business Department (南寧經營部) of Zhangjiang Industry and Trade Group (湛江工貿集團) of Parent Company and the department head of the legal department of the legal affairs office of the Parent Company. Mr. Li was appointed as a Shareholder Representative Supervisor of the Company at the Extraordinary General Meeting held on 18 August 2010.

Mr. Huang You He, aged 58, is the Supervisor of the Company and the head of the legal affairs office of the Parent Company. Mr. Huang obtained a diploma in Economics and holds the title of senior economist. Mr. Huang joined the Parent Company in 1983, served as the head of the legal affairs office of the Parent Company from May 1999 to April 2010 and worked as deputy head of the Cadre Office, deputy head of the Labour Affairs Office and the head of the Assets Operation and Management Office and the head of Legal Regulation Office of the Parent Company. Mr. Huang was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009. On 18 August 2010, Mr. Huang was approved to resign from his position as a supervisor of the Company at the general meeting.

Ms. Gong Jun, aged 38, is a Supervisor, Financial Controller and the head of the financial and accounting office of the Company and the head of the Auditing Department and the head of the finance office of the Parent Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Parent Company in 1996, she acted as the head of Audit Department of the Parent Company from March 2008 to May 2010 and acted as the head of Finance Office of the Parent Company from May 2010 to September 2010. She had been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department and deputy head of the Audit Department of the Parent Company. Ms. Gong was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009. On 18 August 2010, Ms. Gong was approved to resign from his position as a supervisor of the Company at the general meeting.

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

Supervisors: *(Continued)*

Ms. Chen Hong, aged 46, is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen obtained a university diploma from the Logistical Engineering University of the Chinese Peoples's Liberation Army. Ms. Chen joined the Parent Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of the Design Institute, chief officer of Production and Operation Department of the Parent Company and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.

Mr. Gao Shou Lun, aged 57, is a Supervisor of the Company, the secretary to the Communist Party Committee of the medium plate plant of the Company as well as the Chairman of the Labor Union. Mr. Gao graduated from the History Department of Southwest China Normal University and was awarded a bachelor degree in History. He was also awarded a master degree in History of the Sichuan University. As a senior political engineer, Mr. Gao joined the Parent Company in 1971. During his term of office, he has served as the deputy section chief of the educational section of Qijiang Iron Mine（綦江鐵礦）and the section chief of the education theory section of promotion department of the Parent Company. He was also the deputy secretary to the communist party committee (managed tasks), Chairman of the Labor Union, secretary to the communist party committee and Chairman of the Labor Union of the power plant of the Company. He also undertook the role of manager of party committee office (secretary) of the Parent Company. Mr. Gao was reelected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.

Senior Management:

Mr. Wu Zi Sheng, aged 46, is the deputy general manager of the Company. Mr. Wu obtained a bachelor's degree in Economics and Management and a master degree in business administration from the graduate school of business administration of Chongqing University（重慶大學工商管理研究生學院）. He is a postgraduate student (EMBA) of Chongqing University and is a senior economist and senior management consultant. Mr. Wu joined the Parent Company in 1981 and had served as the head of the production workshop, the secretary to the Party Committee, head of the promotion department, head of the labour training section of the coking plant and the assistant to the plant head and the assistant to the head of the labour and corporate affairs department of the industrial office of the smelting plant of the Parent Company, the secretary to the Communist Party Committee, the Chairman of the Labour Union of the Steel Casting Company, deputy head of the personnel department, head of the human resources department, Supervisor of the Company.

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

Senior Management: *(Continued)*

Ms. Song Ying, aged 43, the chief financial officer and head of the financial and accounting office of the Company. Ms. Song graduated from Yuzhou University majoring in accounting and possesses a bachelor degree in economics; and also the faculty of business administration of Northeastern University and obtained a master degree in business administration. Being a senior accountant, Ms. Song joined the parent company in 1989 and has served as the head of the finance office of a power plant of the Parent Company, head and deputy head (responsible for work) of the accounting section of the Company's financial and accounting office. Ms. Song resigned her positions as the chief financial officer and head of the financial and accounting office of the Company on 10 September 2010.

Mr. You Xiao An, aged 46, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now attending postgraduate courses in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Parent Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

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

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 18 August 2010, at the 2010 first extraordinary general meeting of the Company, Mr. Huang You He and Ms. Gong Jun were approved to resign their positions as the Shareholder Representative Supervisors of the Company. Meanwhile, Mr. Li Zheng and Mr. Li Mei Jun were elected as the Shareholder Representative Supervisors of the Company.

2. On 10 September 2010, Ms. Song Ying was dismissed from her position as Chief Financial Controller through the 43rd written resolution of the fifth Board of the Company. Meanwhile, Ms. Gong Jun was appointed as Chief Financial Controller of the Company.

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration for members of the fifth session of Board and Supervisory Committee of the Company shall be determined in accordance with the performance of the Company and individual contribution, with reference to the performance appraisal conducted by the Salary and Remuneration Review Committee of the Company, which shall be decided by the Board. The Salary and Remuneration Review Committee under the Board proposed to the Board on the remuneration package of Directors. Please refer to the above table for the remunerations of directors, supervisors and senior management of the Company for 2010.

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

In 2010, Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni, all being Independent Non-executive Directors, received remunerations of RMB60,000 from the Company.

In 2010, the total remunerations for directors, supervisors and senior management receiving remunerations from the Company amounted to RMB2,322,000.

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

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

As at 31 December 2010, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the SFO) of the Directors, Supervisors and senior management members in the shares or underlying shares or debentures of the Group and its connected corporations(within the meaning of Part XV of the SFO), which are required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules of the Stock Exchange") and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

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

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

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

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

Note: the above information indicates that the interests of the Directors and Supervisors in Hengda were transferred from the Company to the Parent Company in December 2002.

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Group or its connected corporations.

During the year 2010, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year 2010 was the Group, its fellow subsidiaries or its Parent Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year 2010 was the Group, its fellow subsidiaries or its Parent Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

2. Service Contracts of Directors and Supervisors

Save for the service contracts entered into between each of Mr. Li Zheng and Mr. Li Mei Jun, both supervisors, and the Company, which commences from 18 August 2010 and expires on the date of 2011 Annual General Meeting, all directors and supervisors of the Company respectively entered into service contracts for a term of three years which commences from 1 June 2009 and expire on 31 May 2012.

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

3. Directors' and Supervisors' Interests in the Contracts

The Group did not enter into any contract of significance (except service contracts) in which a Director or Supervisor of the Company was enabled to have a material interest or is substantially interested, whether directly or indirectly, and there was no such contract subsisting at the end of the reporting period or at any time during the reporting period.

4. Model Code for Securities Transactions by Directors and Supervisors

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

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

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

Name	Position held in shareholder company	Term of office
Dong Lin	Chairman	From February 2006 to January 2011
Yuan Jin Fu	Deputy General Manager	From July 2008 to the present
	Chief Accountant	From August 2002 to the present
Zhu Jian Pai	Director	From February 2002 to the present
	Deputy Secretary to the Party Committee	From January 2000 to the present
Huang You He	Head of the Legal Affairs Office	From May 1999 to May 2010
Gong Jun	Head of Audit Department	From March 2008 to May 2010
	Head of the Finance Office	From May 2010 to September 2010
Li Mei Jun	Deputy Officer of the Legal Affairs Office	From February 2009 to the present
Li Zheng	Head of Audit Department	From May 2010 to the present

(V) STAFF OF THE GROUP

As at the end of 2010, the Group had 12,342 staff, including 9,771 production staff, 216 sales staff, 933 technical and engineering staff, 90 finance staff, and 1,332 administrative staff. The staff with bachelor or above degrees accounted for 12.37% of the total staff. The Group has been emphasizing on the training to its staff in update of knowledge. In 2010, 15,202 attendances were received at training, and the training plan was fulfilled at a rate of 93.73%.

Education Background	Staff number
Master's degree	153
Undergraduate	1,374
Associate degree	2,758
Secondary technical graduates and others	8,057

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

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

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

(I) CORPORATE GOVERNANCE

1. Improvement of corporate governance

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

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. In order to strengthen management of information disclosure pursuant to relevant laws and regulations, the Board of the Company also formulated the Information Insider Management System, the External Information User Management System of the Company and the Selection and Assessment System of Annual Audit Institutions of the Company.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board

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

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

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

The members of the Board have varied industry background and have expertise in the field of corporate management, the iron & steel smelting and etc., whose profiles were set out on pages 19 to 30 of this Annual Report. The Board comprises 9 directors, including 3 independent directors. The number of the independent directors accounts for one third of the total members of the Board. The present independent non-executive directors of the Company hold profound knowledge and rich experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non-executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

Duty performance of Independent Directors: During the reporting period, Independent Directors had performed their duties in accordance with the requirement of relevant laws, regulations and the Articles of Association of the Company, proactively attended Board meetings and general meetings, provided professional advices to the Board on proposals regarding production, operation and projects investment, issued independent opinions on the Company's significant events such as connected transactions, thus effectively safeguarded the overall interests of the Company and the interest of investors. Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed their independent opinions in respect to acquisition of 100% equity interest in Chongqing Iron & Steel Group Electronics Company Limited by the Company from the Parent Company on 18 March 2010 and 16 August 2010 respectively. They are of the view that the terms and conditions of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and the transaction under the agreement is in the interest of the Company and its shareholders as a whole. On 19 April 2010, Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed independent opinions in respect the agreed termination of the Agreement for Trial Operation of Production Lines, which was entered into on 24 December 2009 by the Company and the Parent Company, the signing of the Agreement for Authorization of Assets Usage in respect of free usage of assets of the Parent Company. They are of the view that the terms and conditions of the Agreement for Authorization of Assets Usage are entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, there is no any circumstances which are detrimental to the interests of the Company and all the shareholders, especially minority shareholders. On 22 April 2010, Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed independent opinions in respect of the plan of the Company under which the Company will not distribute profit although the Company achieved profit in 2009. They are of the view that although the Company distributed no cash dividends in 2009, cash dividends distributed by the Company in last three years exceed 30% of annual profit for the same period, which is in accordance with requirements of relevant provisions. Meanwhile, the Company faced pressures from capital needs in 2010. No distribution of cash dividends is beneficial to the implementation of environmental relocation by the Company, will facilitate the development of production and operation of the Company and maintain long-term interests of shareholders. On 19 October 2010, Independent Directors Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni expressed independent opinions on connected transactions constituted by the Contract for Entrusted Debugging of Production Lines entered into with the Parent Company in respect of debugging of some production lines newly built in Jiangnan Town, Changshou District by the Company. They are of the view that the terms and conditions of the Contract for Entrusted Debugging of Production Lines are entered into on normal commercial terms and are fair and reasonable, and the transactions under the contract are in the interests of the Company and the Shareholders as a whole. On 3 December 2010, they expressed independent opinions on matters related to the Assets Transfer Contract of 35KV Power Station (No. 8 Station) entered into with Chongqing Iron & Steel Group Chaoyang Gas Company Limited in respect of the transfer of a complete set of equipments of No. 8 transformer station located in District A, Jianqiao Industrial Park, Dadukou District, Chongqing City by the Company. They are of the view that the terms and conditions of the Assets Transfer Contract of 35KV Power Station (No. 8 Station) are entered into on normal commercial terms and are fair and reasonable, and the transactions under the contract are in the interests of the Company and all the shareholders as a whole. During the reporting period, Independent Directors did not raise objections to proposals presented at the Board meetings or other meetings in 2010.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

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

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

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

During the reporting period, the Board of the Company convened six meetings; the details of attendance are set out on page 39 of this Annual Report. Please refer to pages 44 to 83 of this annual report for particulars of the meeting. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through Secretary to the Board. In order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

The remuneration of directors is set out under the section"Directors, Supervisors and Senior Management" on page 19 of this Annual Report.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

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

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

(1) Audit Committee

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

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

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

During the reporting period, the Audit Committee convened two meetings both with full attendance. Details of the attendance are set out on page 39 of this annual report respectively. Please refer to pages 44 to 83 of this annual report for particulars of the meetings. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

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

(2) Strategic Committee

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

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

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

During the reporting period, the Strategic Committee convened one meeting with 100% attendance. Details of the attendance and meetings are set out on page 39 and pages 44 to 83 of this Annual Report respectively.

(3) Salary and Remuneration Review Committee

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

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

(3) Salary and Remuneration Review Committee (Continued)

During the reporting period, the Salary and Remuneration Review Committee convened one meeting with full attendance. Details of the attendance and meetings are set out on page 39 and pages 44 to 83 of this Annual Report respectively.

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

4. Supervisory Committee

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

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

Chairman: Mr. Zhu Jian Pai
Supervisors: Mr. Li Mei Jun, Mr. Li Zheng, Ms. Chen Hong and Mr. Gao Shou Lun

During the reporting period, Supervisory Committee convened 3 meetings and attended all Board meetings as an observer, duly performing its duties. Details of the Supervisory Committee's work are set out on pages 81 to 83 "Report of the Supervisory Committee" in this annual report. Please refer to page 39 of this annual report for attendance of the meetings.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

4. Supervisory Committee *(Continued)*

Attendance of the Board meetings, Supervisory Committee meetings and meetings of each special committee in 2010

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

Name	Board of Directors	Audit Committee	Strategic Committee	Salary and Remuneration Review Committee	Supervisory Committee
Directors:					
Dong Lin	4/4(100%)	—	1/1(100%)	—	—
Yuan Jin Fu	4/4(100%)	—	—	1/1(100%)	—
Chen Shan	4/4(100%)	—	1/1(100%)	—	—
Sun Yi Jie	4/4(100%)	—	1/1(100%)	—	—
Chen Hong	4/4(100%)	—	—	—	—
Li Ren Sheng	4/4(100%)	—	—	—	—
Independent directors:					—
Liu Xing	4/4(100%)	2/2(100%)	—	1/1(100%)	—
Zhang Guo Lin	4/4(100%)	2/2(100%)	1/1(100%)	1/1(100%)	—
Liu Tian Ni	4/4(100%)	2/2(100%)	—	1/1(100%)	—
Supervisors:	—	—	—	—	
Zhu Jian Pai	—	—	—	—	3/3(100%)
Huang You He	—	—	—	—	2/2(100%)
Gong Jun	—	—	—	—	2/2(100%)
Li Zheng	—	—	—	—	1/1(100%)
Li Mei Jun	—	—	—	—	1/1(100%)
Chen Hong	—	—	—	—	3/3(100%)
Gao Shou Lun	—	—	—	—	3/3(100%)

(II) INDEPENDENCE OF THE GROUP FROM ITS CONTROLLING SHAREHOLDER IN PERSONNEL, ASSETS, FINANCE, ORGANISATION AND OPERATIONS

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

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

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

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

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

(III) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

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

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

(III) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM *(CONTINUED)*

The Company has established and improved various internal accounting control policies under relevant laws and regulations and set up internal control system focused on financial accounting. The Company's finance management is in compliance with relevant regulations and configuration of accounting staff and positions are implemented in the principle of "Separation of Duties and Mutual Restriction", with internal control links including authorisation and signature effectively executed.

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

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

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

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

The full version of the Board's opinion on Self-Evaluation Report on Internal Control of the Company was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 28 March 2011.

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

(V) THE SUPERVISORY COMMITTEE'S OPINIONS ON THE SELF-ASSESSMENT OF THE COMPANY'S INTERNAL CONTROL

In accordance with provisions of laws and regulations such as the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China and requirements of China Securities Regulatory Commission and Shanghai Stock Exchanges, the Company has established reasonable and effective internal control systems which cover all of aspects and links of operating activities of the Company, ensuring its normal business activities and protecting the security and integrity of its assets. The Company has a whole internal control organization with an internal audit department, ensuring full and effective implementation and supervision of key internal control activities, but the staff of the internal audit department needs to be further recruited. The self-assessment report of internal control of the Company by the Board is objective, true and correct, which reflects the real situation of the Company's internal control.

(VI) REPORT ON SOCIAL RESPONSIBILITY PERFORMANCE BY THE COMPANY

The full version of the Board's Report on Social Responsibility Performance was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 28 March 2011.

(I) ANNUAL GENERAL MEETING

The Company convened the 2009 Annual General Meeting on 22 June 2010. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 23 June 2010.

(II) EXTRAORDINARY GENERAL MEETING

1. On 18 August 2010, the Company held the 2010 first extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 19 August 2010.

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

1. Overall operation status of the Group

In 2010, the effects of the government's stimulus package continued to show up, and production, investment, consumption, and foreign trade in China maintained rapid growth with full-year economic growth at 10.3%. The increase in demand for steel from domestic sectors such as shipbuilding, automobile, household appliances, machinery and infrastructure, coupled with the rise in steel exports, have driven the steel production in China to continue growing. Starting from the second half of the year, steel market experienced turmoil due to the uncertainty and instability of the recovery and growth of domestic and global economy, as a result of which steel prices hovered at low levels as a whole. The significant rise in raw material prices also limit earnings of steel companies.

In 2010, according to relevant requirements for eliminating outdated capacity and carrying out environmentally friendly relocation, the Group closed down a blast furnace and a converter under the arrangement regarding the environmentally friendly relocation of its parent company. Thanks to the synergy in steel production with Dadukou District ("Old District"), Chongqing City, the Group's production capacity in Jiangnan Town, Changshou District, Chongqing City ("New District") reached 2 million tonnes and 4 million tonnes respectively in two phases. With production lines in both the New and Old Districts operating at the same time, the Group's production scale expanded considerably. During the Reporting Period, the Group produced 2,070,500 tonnes of coke, 4,173,000 tonnes of pig iron, 4,515,400 tonnes of steel and 4,050,100 tonnes of steel products (billets), representing an increase of 53.41%, 41.85%, 40.21% and 34.97% respectively as compared with the same period last year, respectively. The Group recorded operating revenue of RMB16,617,840,000, representing a year-on-year increase of 53.06%, and net profit of RMB10,009,000, representing a decrease of 89.07%.

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

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

During the Reporting Period, the Group strengthened market information collection and analysis, adopted at proper time marketing strategies that support prices and attract key strategic customers based on the fluctuation in steel products prices and the ever changing market conditions. By leveraging the existing sales channels of medium-gauge plates, the Group vigorously expanded the wide-thick plates market and formulated sales plans for hot-rolling thin sheets. In order to turn itself into a production base for steel for shipbuilding in China, the Group stepped up its efforts toward analysis of the consumer market of plates for shipbuilding, determined its orientation and tried to promote sales in regional markets. As a result of these efforts, sales of plates for shipbuilding amounted to 1.71 million tonnes, representing a year-on-year increase of 92.13%.

During the Reporting Period, in order to support the normal operation of the New and Old Districts, the Group established and improved its management systems for raw material supply and material purchase and the system for supplier assessment to tighten its management on suppliers and improve the fulfilment rate of raw material purchase contracts. In a bid to meet the significant increase in demand for raw materials in New and Old Districts, the Group, while increasing steadily the total resource supplies from existing suppliers, actively searched for new resource purchase channels and optimized the material consumption structure to ensure the sufficient supply of high quality materials.

During the Reporting Period, the Group strove to overcome the enormous difficulty brought to the production arrangement by the circumstance where the equipment in the New District has not yet begun normal operation and production equipment in the Old District were shut down. It also tightened up its control over the coordination and collaboration in production between the New and Old Districts. All these efforts brought about the improvement in production capacity. The Group made reasonable arrangements for the maintenance and overhaul of production equipment in the Old District pursuant to its production plan so as to ensure the stable production operation. Meanwhile, the Group set up in the New District highly efficient systems for production scheduling, planning and management, and established corresponding production management system in an effort to ensure the circulation and balanced distribution of materials in the New District and fully release its production capacity.

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

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

During the Reporting Period, the Group tightened the inspection and acceptance of incoming raw materials, and, according to the characteristics of and requirements about large-scale production in the New District, made wide use of mechanical sampling equipment and automatic testing equipment in the processes of incoming raw materials inspection and acceptance and materials testing, which enabled the achievement of "mechanical sampling, instruments-aided analysis, video surveillance and networked information transmission" and guaranteed the quality of incoming raw material. The Group modified and improved the product standards for internal control and conducted effective internal assessment and management evaluation to ensure the effective operation of the quality system. In order to improve the product quality in the New District, the Group staged quality assurance campaigns and special quality research project involving all of its employees. Its plants passed the certification of classification societies of eight countries and the production licenses for furnaces and vessel plates were obtained.

During the Reporting Period, the special project in relation to the environmentally friendly relocation was pressed forward at steady pace and under overall co-ordination. In order to ensure the complete shutdown of the production equipment in the Old District according to the progress of the environmentally friendly relocation, and to shift production from the Old District to the New District, the Group implemented a project for the relocation of the 2700mm medium plate production lines of the Old District, which finished the preliminary work for dismantling the 2700mm rolling mill production line in a protective manner from the Old District and relocating to the New District in 2011. Other projects carried forward at the same time included the agglomerate with an annual output of 3.56 million tonnes and the 1×360m^2 sintering project with an annual output of 0.6 million tonnes of coke and a recuperative 60-hole 6-meter top installed coke oven and its auxiliary projects; the special project for Jiangsu Jingjiang as a logistic base mainly for the transit of ores and steel products, capacity expansion and upgrade project (0.45 million tonnes/year) of the cool-rolled plates and the special steel project in the New District will be implemented under overall-co-ordination.

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

2. Analysis on principle operations and operating status

In 2010, there was overcapacity in domestic steel market which led to comparatively visible oversupply. In addition, cost stayed at high level due to the surge in major raw material prices such as iron ore and coal. As a result, the whole industry demonstrated a weak profitability with certain fluctuations. On the other hand, the Company's environmental relocation project has entered crucial stage. Certain production facilities in old District has stopped production while the wide-thick plates project and hot-rolled plates project in New District has commenced production in tandem. The Company overcame the adverse impact such as paralleled production in the New and Old District as well higher costs resulted from incomplete operation of assets in the New District. The Company's production and sales have reached a higher level and basically achieved profit. As at 31 December 2010, the Group's revenue from principal operations under the PRC accounting standards was RMB16,547,490,000, representing an increase of 52.7% as compared with last year. Total profit was RMB14,132,000 and net profit was RMB10,009,000, down 86.35% and 89.07% from last year respectively.

(1) Analysis on revenue from principal operations

In 2010, the Group's revenue from principal operations amounted to RMB16,547,490,000, of which contributions from south-western region and other regions were RMB8,080,943,000 and RMB8,466,547,000, representing an increase of 29.18% and 84.81% respectively as compared with last year.

Region	Revenue from principal operations *(RMB'000)*	Increase/ decrease in revenue from principal operations from last year *(%)*
South-western region	8,080,943	29.18
Other regions	8,466,547	84.81
Total	16,547,490	52.70

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

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

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

In 2010, the Group's revenue from principal operations amounted to RMB16,547,490,000, of which RMB15,673,275,000 was derived from sales of steel products (billets), representing 94.72% of the total revenue, up 54.68% from last year, and RMB874,215,000 was derived from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and water, electricity and steam as well as provision of electronic engineering design and installation service, which accounted for 5.28% of the total revenue, up 24.19% from last year.

	2010		2009		
Product	**Amount *(RMB'000)***	**Percentage *(%)***	Amount *(RMB'000)*	Percentage *(%)*	Year-on-year increase *(%)*
Steel plates	**8,802,753**	**53.20**	4,302,653	39.70	104.59
Steel billets	**955,858**	**5.78**	699,230	6.45	36.70
Steel sections	**3,103,872**	**18.76**	3,253,359	30.02	-4.59
Wire rods	**1,704,030**	**10.30**	1,698,686	15.68	0.31
Hot rolled coil	**905,799**	**5.47**	—	—	N/A
Cool-rolled plates	**200,963**	**1.21**	178,955	1.65	12.30
Subtotal	**15,673,275**	**94.72**	10,132,883	93.50	54.68
Others	**874,215**	**5.28**	703,945	6.50	24.19
Total	**16,547,490**	**100.00**	10,836,828	100.00	52.70

In 2010, the sales revenue of the Group's steel products (billets) increased by RMB5,540,392,000 as compared with last year. The increase was attributable to (1) higher product price: during the year, the average selling price of steel products (billets) was RMB3,891 per tonne, representing a rise of 14.14% from last year, which increased sales revenue by RMB1,743,956,000; (2) more production and sales volume: the Company sold 4,028,600 tonnes of steel products (billets), representing an increase of 1,055,800 tonnes, or 35.52% from last year, which increased sales revenue by RMB3,796,436,000.

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

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

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

Sales price by products

Item	2010 (RMB/tonne)	2009 (RMB/tonne)	Year-on-year increase (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	**4,042**	3,551	13.83	1,070,020
Steel billets	**3,563**	3,174	12.26	104,369
Steel sections	**3,756**	3,353	12.02	333,039
Wire rods	**3,700**	3,240	14.20	211,830
Hot rolled coil	**3,620**	—	N/A	N/A
Cool-rolled plates	**4,426**	3,882	14.01	24,698
Total	**3,891**	3,409	14.14	1,743,956

Sales volume by products

Item	2010 (0'000 tonnes)	2009 (0'000 tonnes)	Year-on-year increase (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	**217.78**	121.17	79.73	3,430,621
Steel billets	**26.83**	22.03	21.79	152,352
Steel sections	**82.64**	97.04	-14.84	-482,832
Wire rods	**46.05**	52.43	-12.17	-206,712
Hot rolled coil	**25.02**	—	N/A	905,724
Cool-rolled plates	**4.54**	4.61	-1.52	-2,717
Total	**402.86**	297.28	35.52	3,796,436

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

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

(2) Analysis on operation

- *Operating results of the Group*

In 2010, the Group's total profit was RMB14,132,000 and net profit was RMB10,009,000, down 86.35% and 89.07% from last year respectively.

Item	Amount for 2010 (RMB'000)	Amount for 2009 (RMB'000)	Year-on-year increase/ decrease (%)
Operating revenue	**16,617,840**	10,856,947	53.06
Operating costs	**(15,328,940)**	(9,654,214)	58.78
Business taxes and surcharges	**(13,735)**	(4,599)	198.65
Total expenses	**(1,403,419)**	(1,104,267)	27.09
Assets impairment loss	**(35,664)**	(16,428)	117.09
Gain from changes in fair value	**(8,642)**	—	N/A
Investment income	**1,093**	1,304	(16.18)
Operating profit	**(171,467)**	78,743	(317.76)
Non-operating income	**187,418**	25,610	631.82
Non-operating expenses	**(1,819)**	(797)	128.23
Total profit	**14,132**	103,556	(86.35)
Income tax expenses	**(4,123)**	(12,024)	(65.71)
Net profit	**10,009**	91,532	(89.07)

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

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

(2) Analysis on operation *(Continued)*

- *Operating results of the Group (Continued)*

1) Gross profit from principal operations amounted to RMB1,274,829,000, representing an increase of RMB77,517,000 as compared with last year, mainly attributable to increase in price and sales volume of steel products.

By industry	Revenue from principal operations *(RMB'000)*	Cost of Principal operations *(RMB'000)*	Gross profit margin *(%)*	Increase/ decrease in revenue from principal operations from last year *(%)*	Increase/ decrease in cost of principal operations from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Steel products (billets)	15,673,275	14,541,055	7.22	54.68	61.16	-3.73
Steel plates	8,802,753	8,015,648	8.94	104.59	115.07	-4.44
Steel billets	955,858	896,548	6.20	36.70	40.58	-2.60
Steel sections	3,103,872	2,906,801	6.35	-4.59	-1.29	-3.13
Wire rods	1,704,030	1,556,370	8.67	0.31	3.02	-2.39
Hot rolled coil	905,799	942,763	-4.08	N/A	N/A	N/A
Cool-rolled plates	200,963	222,925	-10.93	12.30	10.07	2.24
Others	874,215	731,606	16.31	24.19	18.64	3.91
Total	16,547,490	15,272,661	7.70	52.70	58.44	-3.35

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

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

(2) Analysis on operation *(Continued)*

- *Operating results of the Group (Continued)*

In 2010, the average selling price of the Group's steel products (billets) was RMB3,891 per tonne, representing an increase of 14.14% from the same period last year, which increased profit by approximately RMB1,743,956,000. The sales volume of steel products (billets) amounted to 4,028,600 tonnes, representing a year-on-year increase of 35.52%, which increased profit by RMB3,796,436,000. However, the gross profit margin of the Company decreased by 3.35% as compared with last year due to lower growth in the current profit from principal operations as a result of higher prices of raw materials including iron ore and coal and higher operation cost for the Company's production line in New District which just commenced production.

2) According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals（國務院關於統一內外資企業和個人城市維護建設税和教育費附加制度的通知）issued by the State Council, the Group made RMB8,636,000 of provision for urban maintenance and construction tax and education surcharge, representing an increase of RMB8,012,000 from last year.

3) According to relevant requirements of accounting standards, the decrease in the Group's current profit due to provision for assets impairment loss amounted to RMB35,664,000 in 2010, representing an increase of RMB19,236,000 from last year.

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

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

(2) Analysis on operation (Continued)

- *Operating results of the Group (Continued)*

4) The period expense incurred by the Group was RMB1,403,419,000, representing an increase of RMB299,152,000 from last year, mainly attributable to: (1) the increase in labor costs; (2) the increase in sales volume of steel products, which led to an increase of RMB72,059,000 in transportation charges; and (3) an increase of RMB44,281,000 in shipbuilding inspection expenses. (4) an increase of RMB169,017,000 in net interest expenses due to gradual increase of debt scale as a result of environmental relocation and rapid growth in production capacity of the Company.

5) The Group recorded investment income of RMB1,093,000, representing a decrease of RMB211,000 from last year, mainly attributable to RMB1,079,000 of cash dividends distributed by Xiamen Shipbuilding Industry Co., Ltd.

6) The Group recorded non-operating net income of RMB185,599,000, representing an increase of RMB160,786,000, mainly attributable to RMB153,194,000 of compensation provided by the Parent Company for loss incurred by the Company from environmental relocation, by way of use of the assets of steel smelting system in the New District by the Company for free.

- *Cash flow of the Group*

In 2010, as the Group's New District gradually put into production, the production scale expanded in a continuous manner, and use of working capital was increased substantially, net cash flow from operating activities was RMB-2,100,887,000. The net cash equivalents of the Company for the current period increased by RMB128,028,000 after taking into account the net cash flow from financing activities amounting to RMB3,771,237,000 as a result of new bank loans, issue of bonds and finance lease and deducting RMB1,542,322,000 of net cash outflow arising from the investment projects such as hot-rolled plates project and wide-thick plates project.

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

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

(2) Analysis on operation *(Continued)*

- *Liquidity, Financial Resources and Share Capital Structure*

As at 31 December 2010, cash at bank and on hand balances of the Group were RMB1,753,457,000; balance of short-term loans amounted to RMB3,139,509,000 which were mainly used for supplementing capital demand for daily production; Long term loans (excluding current portion of long-term loans) amounted to RMB2,698,476,000, which were mainly used for hot-rolled plates project and wide-thick plates project and supplementing relevant capital demand. The Company analyses the structure and maturity for liabilities on a regular basis to ensure the abundance of capital. The Company conducts negotiations for finance with financial institutions to maintain certain credit facilities so as to lower the liquidity risk, while striving to diversify finance channels and improve capital structure.

As at 31 December 2010, the share capital structure of the Group was as follows:

Item	Amount *(RMB'000)*	Item	Amount *(RMB'000)*
Current assets	11,961,975	Current liabilities	10,123,151
Non-current assets	10,530,376	Non-current liabilities	6,667,696
Total assets	22,492,351	Shareholders' equity	5,701,504

As at 31 December 2010, the total assets of the Group amounted to RMB22,492,351,000, representing a year-on-year increase of 40.02%. The total liabilities amounted to RMB16,790,847,000 while the gearing ratio was 74.65%. Current assets amounted to RMB11,961,975,000; current liabilities amounted to RMB10,123,151,000; current ratio was 1.18.

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

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

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

(2) Analysis on operation *(Continued)*

- *Pledge of Assets*

  No fixed asset was pledged by the Group as at 31 December 2010.

- *Capital Commitments and Contingent Liability*

  As at 31 December 2010, capital commitments of the Group amounted to RMB6,137,942,000, mainly attributable to the construction contracts entered into under performance or preparation of performance for 1,780 hot rolling plate-strip project, 4,100 wide-thick steel plate project, 2,700 mid-plate production line project, 1 x 360M^2 sintering project, coke furnace No. 5 and its auxiliary projects, special steel project contracts approved but not signed, as well as CCB Financial Leasing Agreement and Minsheng Financial Leasing Agreement entered into under performance or preparation of performance.

- *Foreign Exchange Risk*

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

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

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

(3) Major suppliers and customers of the Group

Percentage in total procurement of the Company for major suppliers of the Group:

Percentage in total procurement for the largest supplier: 10.64%

Percentage in total procurement for the top five suppliers: 30.81%

Percentage in total sales of the Company for major customers of the Group:

Percentage in total sales for the largest customer: 5%

Percentage in total sales for the top five customers: 20%

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

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

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

(4) The Operations and Results of the Group's Major Subsidiaries and Investees

RMB'000

No.	Name of Subsidiaries	Controlling Percentage	Major products and services	Registered capital	31 December 2010 Net assets	Net profit in 2010
1	Chongqing Iron & Steel Group Electronic Company Limited	100%	development, production and sale of computer software, electronic intelligence products; computer information network, automation system integration, and engineering design, installation and testing	10,626	30,983	4,289
2	San Feng Jingjiang Port Logistics Company Limited	51%	Cargo handling, lighterage, storage, traffic agent, storage, common carrier, sale of metal and metal mine, transportation technology consultant service	300,000	300,000	—

As San Feng Jingjiang Port Logistics Company Limited is under construction, no profit was recorded during the Reporting Period.

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

3. Analysis on financial position

(1) Items of balance sheet

Unit: RMB'000

Item	At the end of 2010	At the end of 2009	Year-on-year increase/ decrease (%)	Percentage in total assets for the year (%)
Bills Receivable	**1,531,832**	1,062,099	44.23	6.81
Accounts Receivable	**467,273**	220,627	111.79	2.08
Prepayment	**821,634**	357,845	129.61	3.65
Other receivables	**88,929**	27,716	220.86	0.40
Inventories	**6,752,583**	4,083,476	65.36	30.02
Other current assets	**546,267**	228,272	139.31	2.43
Long-term equity investment	**20,000**	5,500	263.64	0.09
Fixed assets	**8,949,966**	4,821,794	85.61	39.79
Construction in progress	**798,835**	2,908,862	-72.54	3.55
Short-term loans	**3,139,509**	2,280,313	37.68	13.96
Trading financial liabilities	**8,642**	—	N/A	0.04
Accounts payable	**2,807,121**	1,475,110	90.30	12.48
Advances from customers	**1,617,432**	953,492	69.63	7.19
Employee compensation payable	**119,106**	64,342	85.11	0.53
Interest payable	**14,383**	1,200	1,098.58	0.06
Other payables	**269,246**	138,425	94.51	1.20
Other current liabilities	**9,285**	6,541	41.95	0.04
Long-term loans	**2,698,476**	1,760,410	53.29	12.00
Bonds payable	**1,962,371**	—	N/A	8.72
Special accounts payable	**8,858**	—	N/A	0.04
Other non-current liabilities	**420,601**	700,010	-39.92	1.87

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

3. Analysis on financial position *(Continued)*

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

Explanations:

1) In 2010, as the Company's wide-thick plates project put into operation, production and sale scale expanded, and the inventory reserves increased accordingly, bills receivable, accounts receivable, prepayment, net value of inventories, accounts payable and advances from customers increased accordingly.

2) The increase in other receivables was due to the increase in input VAT recoverable.

3) The increase in other current assets was mainly attributable to reform of value added tax and the increase in value-added tax recoverable.

4) The increase in long-term equity investment was mainly attributable to the Company's additional investment of RMB15,000,000 in Jiangsu Huayuan Metalwork Company Limited.

5) The increase in net value of fixed assets and the decrease in net value of construction in progress was mainly attributable to transfer of hot-rolled plates project and wide-thick plates project into fixed assets.

6) Due to expansion of production capacity, the Group rationally optimized assets structure, issued corporate bonds and adjusted long and short term loans. Therefore, there were significant changes in short-term loans, trading financial liabilities, interest payable, other current assets, long-term loans, bonds payable and long term payables.

7) The increase in employee compensation payable was mainly attributable to 1) the deferred payment of employee pension insurance for 2010 pursuant to the Notice Regarding Temporarily Adjustment to the Contribution Rate of Social Insurances (Yu Ren She Fa No.[2009]208)(渝人社發[2009]208號《關於階段性調整企業社會保險繳費費率的通知》); and 2) provision of pension insurance for early retirement employees.

8) The increase in special accounts payable was mainly attributable to the unused compensation for house relocation received by the Chongqing Electronics.

9) The decrease in other non-current liabilities was mainly attributable to the decrease in other financial liabilities.

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

3. Analysis on financial position *(Continued)*

(2) Items of income statement

(please see the section headed "2. Operating results of the Group during the Reporting Period" under the "Analysis on principle operations and operating status during the Reporting Period")

(3) Items of cash flow statement

Unit: RMB'000

Item	2010	2009	Main Reasons for the changes
Net cash flow from operating activities	**-2,100,887**	-790,275	Expansion of production and sale, the increase in inventory turnover and reserves, accounts receivable and bills receivable.
Net cash flows from investing activities	**-1,542,322**	-1,137,228	No significant change in this item in 2010 compared to 2009
Net cash flows from financing activities	**3,771,237**	2,183,450	Issue of RMB2 billion of corporate bonds
Net increase of cash and cash equivalents	**128,028**	255,947	The decrease in net increase of cash and cash equivalents was mainly attributable to decrease in net cash flow from operating activities and increase in net cash flow from financing activities

(II) PROSPECTS

In 2011, the world economy will continue to recover slowly amid uncertainty and instability. The government implements a proactive fiscal policy and prudent monetary policy. The main tasks for macroeconomic regulation are preventing inflation and adjusting structure, and it is expected to see a slowdown in economic growth. More efforts will be put into the M&A and reorganisation, energy saving and emission reduction, elimination of outdated capacity and capacity control in the steel industry, which, coupled with urbanisation, regional economic development, infrastructure building for irrigation and water conservancy, construction of subsidised housing, will lead to the improvement of supply-demand relation, and the production of steel industry will grow at a low rate. Rise in prices of bulk materials such as ore and coal will increase the production cost of steel makers, and erode their profits.

In 2011, the Group will brace up for the change in external environment, seize market opportunities, go all out with enterprising and pioneering spirit to achieve the successful shutdown and relocation of the Old District and the production scale expansion of the New District. To achieve these ends, the Group will be focused on the following work: (1) ensure the safe and stable operation of the production equipment and make preparation for the shutdown of the production facilities in the Old District; (2) continue to implement and improve the production scheduling, planning and management systems, and facilitate the mass production in the New District; (3) continue to consolidate the existing resources supply base, expand new purchase channels to ensure resources supply; (4) continue to expand the market of wide-thick plates and hot-rolling thin sheets whilst strengthening the management on sale procedure and contract fulfilment rate; (5) provide training on the work in the New District, carry forward with the establishment and implementation of the "three systems" for quality, safety and environment management, and the system for testing center laboratory management, expand the range of product verification.

(III) INVESTMENT OF THE GROUP DURING THE REPORTING PERIOD

1. Use of raised proceeds

Use of proceeds by the Company as at 31 December 2010

Unit: RMB

Total proceeds raised	1,008,000,000.00	Total utilised proceeds in the year (including fees in relation to underwriting, issuance and other fees)	50.00
		Accumulated use of raised proceeds (including fees in relation to underwriting, issuance and other fees)	1,012,307,639.42

Projects undertaken	Change of project	Amount proposed to invest	Actual investment (excluding fees in relation to underwriting, issuance and other fees)	In line with schedule	Estimated earnings	Return generated
Technological renovation project of plate-strip project	No	2,038,110,000	2,980,897,857.03	Yes	Not applicable	No return was generated in the initial period of operation
Total	—	2,038,110,000	2,980,897,857.03	—	—	—

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

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

2. Use of Corporate Bonds

After deducting the undertaking expenses of RMB37,500,000, entrust management expenses of RMB500,000, and prepayment of RMB2,000,000 to sponsors, net proceeds amounted to RMB1,960,000,000 and actual amount received was RMB1,962,000,000, which was received in the Company's account on 16 December 2010. RMB1,184,020,794.5 was used in 2010. As at 31 December 2010, the balance was RMB778,072,130.99.

The Company undertook that RMB500 million out of the proceeds from the issue of corporate bonds will be used for replenishment of working capital and RMB1.5 billion will be used to repay bank loan. RMB453,040,094.5 was used to replenish working capital in 2010. Bank loan of RMB730,980,700 was repaid. As at the end of the reporting period, RMB1,184,020,794.5 was used in aggregate. Currently, proceeds used have not exceeded the undertaken amount.

Unused proceeds. As at 31 December 2010, balance of the proceeds of the Company was RMB778,072,130.99 (including RMB92,925.49 of interest). The proceeds will continue to be used as undertaken.

3. Use of proceeds for undertaken projects

Cold rolling plate-strip Project of the Company was operated smoothly at present. Affected by the completion and operation time of the front hot rolling plates (main raw material for cold rolling production) production lines, cost of purchased raw material surged leading to un-full load production. Therefore, losses occurred during the reporting period.

The Company's major work of 1780mm hot rolling production line was available for intended use in December 2010, and temporarily transferred into fixed assets.

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

4. Projects financed by non-raised proceeds (as at 31 December 2010)

Unit: RMB'000

Project name	Budget	Progress	Earnings
4100mm wide-thick plates project	1,918,000	82%	Initial stage of production, profit not available for the time being
2700mm rolling mill production line relocation project	876,880	19%	N/A

In April 2010, main work of 4,100mm wide-thick plate production line of the Company was available for intended use, and temporarily transferred into fixed assets.

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

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

(V) ONGOING WORK OF THE BOARD

1. **During the reporting period, the Board held 4 meetings and passed relevant resolutions.**

   (1) The third meeting of the fifth Board of the Company was held on 22 April 2010, the resolutions of which were published in China Securities Journal, Shanghai Securities News and Securities Times as well as on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 23 April 2010.

   (2) The fourth meeting of the fifth Board of the Company was held on 18 August 2010, at which the Company's 2010 interim financial statements, 2010 interim report and its summary, unaudited interim results announcement for six months ended 30 June 2010 were considered and approved.

   (3) On 19 October 2010, the Company held the first extraordinary meeting of the Board for 2010, at which the following resolutions were considered and approved:

   To approve the Company to start commissioning the steel smelting production line including coke oven No.4, No.1 sintering and blast furnace No.1(total investment for the assets amounted to RMB1,965,987,800). Entrusted commissioning period was from 20 October to 30 November 2010. Commissioning charge was RMB500,000. Any profit or loss generated from the commissioning will be undertaken by the Parent Company. Upon completion of the commissioning, the Parent Company will authorize the Company to use such assets without charge from 1 December 2010 to 31 March 2011. Any operating profit or loss incurred during the period will be undertaken by the Company.

   (4) On 27 December 2010, the Company held the second extraordinary meeting of the Board for 2010, at which the Proposal in Relation to Public Offering of Corporate Bonds and Proposal in Relation to Establishment of Special Account for the Proceeds were considered and approved.

2. **Some written resolutions passed by the Board during the reporting period**

   (1) On 5 February 2010, the written resolution in relation to Accountability System for Material Errors in Annual Report was passed at the 30th meeting of the fifth Board.

   (2) On 21 June 2010, the 38th meeting of the fifth Board passed the written resolution in relation to borrowing RMB500 million by the Company from China Railway Trust Co., Ltd.

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

2. Some written resolutions passed by the Board during the reporting period *(Continued)*

(3) On 10 September 2010, the 43rd meeting of the fifth Board passed written resolution in relation to dismissal of Ms. Song Ying from her position as the chief financial officer of the Company, and appointment of Ms. Gong Jun as the chief financial officer of the Company.

(4) On 15 October 2010, the 45th meeting of the fifth Board passed written resolution, approving that the Company proposed to invest RMB1,405,760,000 to construct special steel project in Changshou New District and authorized the management of the Company to be in charge of execution of the project.

(5) On 15 October 2010, the 46th meeting of the fifth Board passed written resolution, approving that the Company would contribute RMB15 million (10% of registered capital) to establish Chongqing Changhang Fenghuang Gangcheng Logistics Company Limited (重慶長航鳳凰鋼城物流有限公司) and construct harbor land project at Yanbashi Port in Changshou Yanjia Industrial Park.

(6) On 28 October 2010, the 49th meeting of the fifth Board passed written resolution, approving the unaudited third quarterly report of the Company prepared under PRC GAAP for the nine months ended 30 September 2010, and publication of the results announcement prepared under PRC GAAP for the nine months ended 30 September 2010 in compliance with applicable rules and codes.

(7) On 3 December 2010, the 52nd meeting of the fifth Board passed written resolution, approving that the Company would transfer 15 (units/sets) electrical equipments, including transformer, switch cubicle and power station control system in No. 8 power station of the Company's power plant in East Jianqiao Avenue in Jianqiao Industrial Park A District, Dadukou, Chongqing to the Parent Company at an appraised price of RMB4,245,200.

(8) In 23 December 2010, the 53rd meeting of the fifth Board passed written resolution, approving that the Company would invest RMB330 million and RMB400 million to construct the 1×360m2 sintering project and a recuperative 60-hole 6-meter top installed coke oven and its auxiliary projects.

(9) On 31 December 2010, the 56th meeting of the fifth Board passed written resolution Chongqing Iron & Steel Company Limited 2011 Production and Operation Plan.

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

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

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

The Company convened 2009 first EGM on 14 April 2009, at which the termination of issuance of bonds with warrants and the proposed issuance of corporate bonds were considered and approved. On 23 November 2010, the Company received the "Approval for the Public Issue of Corporate Bonds by Chongqing Iron & Steel Company Limited" (Zheng Jian Xu Ke [2010] No.1689) from CSRC, whereby the Company was permitted to issue corporate bonds. On 14 December 2010, the Company successfully issued RMB2 billion of corporate bonds on the Shanghai Stock Exchange.

4. Report on Performance of Duties of Audit Committee

The second meeting of the fourth Audit Committee was held on 21 April 2010, at which the audited financial reports prepared respectively under PRC GAAP and Hong Kong Financial Reporting Standards, the 2009 Annual Report, the 2009 Annual Results Announcement and the Summary of 2009 Annual Report were considered and approved; the Company's connected transactions for 2009 were confirmed; and the 2009 annual audit work report by KPMG was approved. The meeting also proposed to the Board to re-appoint KPMG and KPMG Huazhen as the Company's domestic and Hong Kong auditors for 2010, respectively. The report submitted to the Audit Committee by auditors was reviewed and a report regarding matters requiring management' attention was made to the Board at the meeting.

The third meeting of the fourth Audit Committee was held on 17 August 2010, at which the Company's unaudited financial report for the six months ended 30 June 2010, the 2010 Interim Report and its summary and the Announcement of Interim Results for the six months ended 30 June 2010 were considered and approved; the report submitted to the meeting by auditors was reviewed; and a report regarding matters requiring management's attention was made to the Board.

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

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

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

(1) According to announcement (2010) No.37 (announcement No. 37) issued by CSRC and Notice on Annual Report 2010 of Listing Companies in Chongqing, Yu Zheng Jian Fa (2011) No.22 Document issued by Chongqing Securities Regulatory Bureau, the Company communicated with the certified public accountants responsible for the annual audit and concluded written opinion in respect of the composition of audit team, audit plan, risks judgement, test and appraisal methods for risks and frauds and the audit focus prior to the commencement of annual audit by the auditor;

(2) After hearing the report on financial condition and operating results for the year by the Financial Controller of the Company, the Committee carefully reviewed the preliminary financial statements prepared by the Company and issued its opinion thereon in writing on 22 February 2011 prior to the commencement of annual audit by the auditor;

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

(4) After the auditor issued the preliminary audit opinion and before the Company convenes a Board meeting to consider the annual report, the Audit Committee, based on its communication with the auditor in respect of such preliminary opinion, reviewed the Company's 2010 Financial Statements again and issued a written review opinion thereon;

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

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

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

(6) Pursuant to the requirements of Supervisory Opinion on Related Issues of 2010 Annual Report of Chongqing Iron & Steel Company Limited (Yu Zheng Jian Shi Letter [2011] No. 1) by Chongqing Office of CSRC, in order to ensure successful progress of preparation and auditing of 2010 Annual Report of the Company, the Company has always paid high attention to operating risk and continuous operating capacity, capital risk, asset impairment risk, deposit and use of the proceeds from corporate bond, accounting treatment and information disclosure of environmental relocation, and solutions upon expiration of Agreement for Authorised Use of Assets. Meanwhile, the Company reviewed issues in the process of environmental relocation, considering that during the environmental relocation, the Company achieved independence in decision making, procedure compliance, clearly defined expense and asset ownership, standard handling of connected transactions. There was no impairment of independence or breach of regulation.

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

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

The second meeting of the third Salary and remuneration Review Committee was held on 30 December 2010, at which the following resolutions were passed:

(1) Remuneration for the Company's executive directors, the management and other senior management members in 2010 was designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different person. Remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different person. In the distribution of the above remuneration, basic remuneration, monthly bonus, project bonus, annual performance bonus each takes approximately one third. And distribution is made after strict performance assessment by the Company.

(2) The remuneration packages for Directors, Supervisors and senior management for year 2011 were approved.

(3) The Company was proposed to further improve and detail the effective internal incentive and restriction mechanism during the critical year of environmental relocation.

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

6. Report on Performance of Duties of Strategic Committee

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

The second meeting of the third Strategic Committee was held on 14 October 2010, at which the proposal concerning the establishment of Chongqing Changhang Fenghuang Gangcheng Logistics Company Limited (重慶長航鳳凰鋼城物流有限公司的) was considered and approved.

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

According to Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies (Zheng Jian Zi [2003] No.56) by CSRC, the Independent Directors of the Company carefully reviewed the Company's decision-making procedures for guarantees and status of guarantees. They are of the view that the Company's decision-making procedures for guarantee are in line with relevant laws, regulations and the Articles of Association; as at 31 December 2010, the Company did not provide any guarantee to its controlling shareholder, other related companies in which the Company holds less than 50% equity interest, any other non-legal entity or individuals.

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

8. Profit distribution in last three years and profit distribution proposal for 2010

(1) Profit distribution in last three years

Unit: RMB'000

Year	Cash dividend amount *(tax inclusive)*	Net profit in the year	Net profit margin *(%)*
2007	173,313	449,244	38.58
2008	173,313	598,298	28.97
2009	0	84,029	0

In last three years, the accumulative cash dividends accounts for 91.90% of the average annual net profit

Note: Net profit margin = Cash dividend amount / Net profit in the year ×100%

(2) Profit distribution proposal for 2010

As audited by auditors, the Company achieved net profit of RMB5,720,000 in 2010. After 10% statutory capital reserve was appropriated, together with the retained profit of the Company at the end of 2009, the total distributable profit for 2010 was RMB2,088,217,000.

In light of the small amount of profit for 2010 of the Company due to significant decline in profitability of steel industry, and that it is necessary for the Company to reserve funds to conduct the relocation in an environment friendly way and facilitate the Company's development of production and operation, the Board proposed neither to distribute profit for 2010 nor to transfer the capital reserve to share capital. The undistributed profit of the Company will mainly serve the liquidity needs for its production in the Changshou New District.

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

9. Work Program for Internal Control Standards of the Company

In order to implement the Basic Standards for Enterprise Internal Control and relevant guidance (the "Internal Control Standards"), Chongqing Iron & Steel Company Limited (the "Company") has formulated the following work program for implementing internal control standard in accordance with the Notice Regarding the Pilot Implementation of Internal Standards by Listed Companies (關於做好上市公司內部控制規範試點有關工作的通知) (Yu Zheng Jian Shi [2011] No. 49) (the "Notice") issued by Chongqing Securities Regulatory Bureau under the CSRC:

I. Basic Information of the Company

Company short name: Chongqing Iron, stock code: 601005, listing place: Shanghai Stock Exchange and the Hong Kong Stock Exchange. The Company was established by Chongqing Iron & Steel Group Company Limited ("Parent Group") as the sole promoter in August 1997, and was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 October 1997 and 28 February 2007, respectively. The business scope of the Company includes manufacture, processing and sale of steel plates, steel sections, wire rods, steel billets and coke and coal-chemical products, running water, comprehensive utilization of resources for power generation, pig iron and water granulated slag, steel slag and scrap iron. As at 25 March 2011, the share capital structure of the Company was as follows:

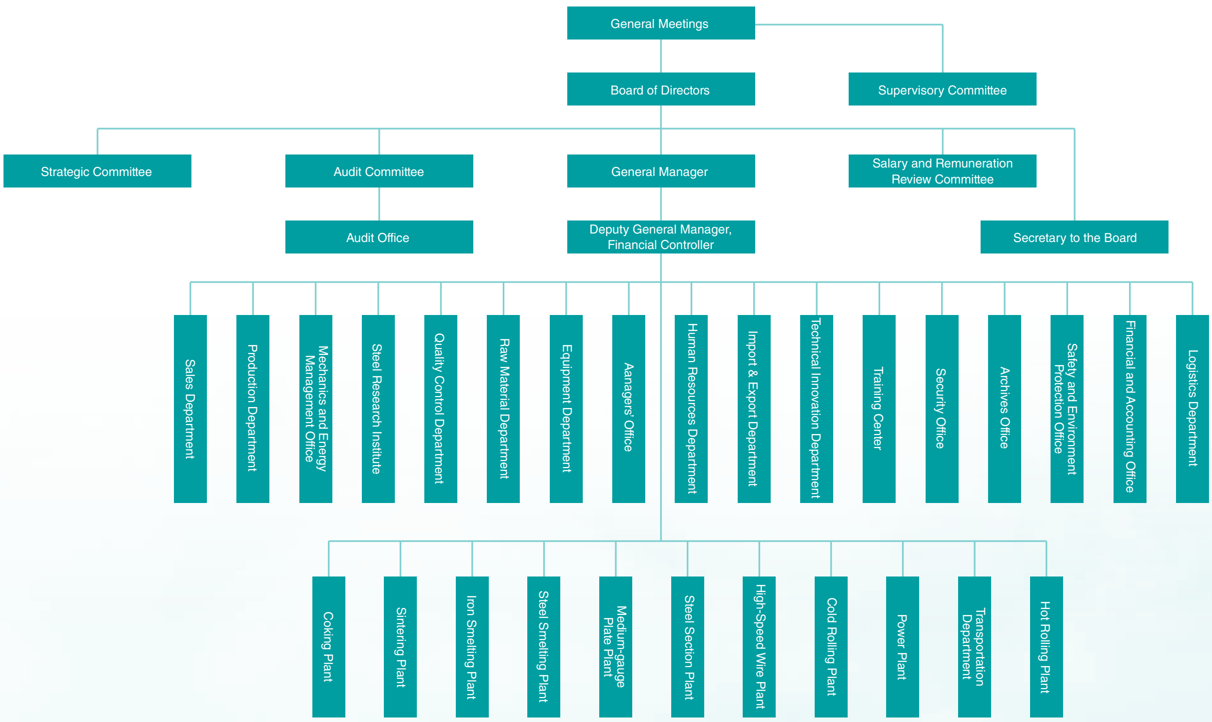
share capital structure	Nature of share capital	Number of shares held *(shares)*	Shareholding percentage *(%)*
A Shares	RMB-dominated ordinary shares	1,195,000,000	68.95
Including: Parent Group	State-owned legal person shares	835,800,000	48.23
H Shares	Foreign shares	538,127,200	31.05
Total	—	1,733,127,200	100.00

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

9. Work Program for Internal Control Standards *(Continued)*

I. Basic Information of the Company (Continued)

The organizational structure of the Company is as follows:



As at 31 December 2010, the total assets and net assets of the Company amounted to RMB22,492,351,000 and RMB5,701,504,000, respectively.

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

9. Work Program for Internal Control Standards *(Continued)*

II. Leadership for Implementing Internal Control

The Company is listed both in China and Hong Kong. In 2011, the Company shall pay efforts to accomplish the establishment of internal control for financial reports, self-assessment and auditing as required by Basic Norms of Corporate Internal Control and Complete Internal Control Guidelines for Enterprises. To ensure the establishment of internal control system, in accordance with the Notice, Basic Norms of Corporate Internal Control and Complete Internal Control Guidelines for Enterprises, the Company established leader team and working team for implementation of internal control, which are headed by the Chairman and Vice Chairman. Auditing Office of the Board is in charge of implementation of internal control, cooperating with functioning departments of the Company and subsidiaries to organize the establishment and self assessment. The Company will apply strict assessment system for internal control to ensure the execution of internal control system. Meanwhile, the Company will appoint qualified auditors and other consultancy agencies to assist the Company in designing the overall framework of internal control, help the Company to identify weak chain and major risks of internal control, to design key procedure and contents of control and help the Company to execute internal control and self-assessment.

1. Leader Team of Internal Control Implementation

Leader Team of Internal Control is the leading body of our internal control efforts, in charge of the formulation and supervision of implementation plan and supporting policies for internal control. The team decides whether to employ consultancy agency to assist the Company in relevant execution.

Team Leader:	Deng Qiang	the Chairman
Deputy Team Leader:	Chen Shan	Vice Chairman
Team members:	Chen Hong	Director, General Manager
	Sun Yi Jie	Director and Deputy General Manager
	Li Ren Sheng	Director and Deputy General Manager
	Guan Zhao Hui	Deputy General Manager
	Li Zheng	Supervisor
	Gong Jun	Financial Officer
	You Xiao An	Secretary to the Board

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

9. Work Program for Internal Control Standards *(Continued)*

II. Leadership for Implementing Internal Control (Continued)

2. Working Team of Internal Control Implementation

   Guided by the Leading Team, Working Team executes research, drafting and coordination of internal control, and to review, direct and supervise internal control of subsidiaries to ensure daily operation of internal control.

Team Leader:	Chen Shan	Vice Chairman
Deputy Team Leader:	You Xiao An	Secretary to the Board
	Gong Jun	Financial Officer
Team members:	Jia An Cai	Director of Sales Department
	Xiao Hua Gao	Director of Raw Material Department
	Li Hong Yu	Chief of Mechanics and Energy Management Office
	Liu Dong	Chief of Safety and Environment Protection Office
	Chang Xiao Dong	Director of Technical Innovation Department
	Yao Xiao Hu	Director of Equipment Department
	Luo Jian	Director of Human Resources Department
	Luo Jia Lin	Director of Party Work Department
	Peng Guo Ju	Securities Affairs Representative
	Tang Min	Chief of Accounting Office of Financial Department
	Liao Guang Jun	Chief of Capital Office of Financial Department

3. Instructor: internal control professional personnel of the Company or external agency.

4. Budget for implementation of internal control: in accordance with market and operation conditions, budget is formulated by working team and executed upon leader's approval.

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

9. Work Program for Internal Control Standards *(Continued)*

III. Work Plan for Establishment of Internal Control Systems

Phase 1: (before 31 May 2011)

Objective: To complete the organization and preparation work.

Peron-in-charge: Vice Chairman Chen Shan

Work content:

1. to make clear the respective duties of the responsible department and relevant departments for risk control, and to engage the consultant agency determined by the leading group.

2. to organize training on internal control standards, determine the scope in which internal control standards are applied (including all business processes), and to prepare a list of risks.

3. to review current policies and systems against the list of risks to identify defects in internal control.

4. to mobilize all the employees of all the departments throughout the Company to actively participate in the application of internal control standards, and to develop awareness of internal control throughout the organization.

Phase 2 (before 31 October 2011)

Peron-in-charge: Vice Chairman Chen Shan

Objective: To improve comprehensively the internal control system, complete the overhaul of the internal control system and repair identified defects.

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

9. Work Program for Internal Control Standards *(Continued)*

III. Work Plan for Establishment of Internal Control Systems (Continued)

Work content:

1. to further sort out defects in internal control systems of the Company and formulate overhaul plans;

2. to implement the overhaul plans, including adjustment of organizational structure and processes (if applicable) , modification of policies and systems and transfer of personnel, etc;

3. and to determine the accounting firm responsible for auditing internal control.

IV. Work Plan for Self Assessment of Internal Control

Objective: To complete the establishment of the internal control system in relation to financial report by the end of 2011, and to complete the self assessment one month before 2011 Annual Report is disclosed.

Peron-in-charge: You Xiao An

Work content:

1. to prepare the work plan for self assessment, determine the assessment criteria for internal control defects, determine the business processes to be incorporated in self assessment, determine the specific schedule , staff and division of duties for the assessment work.

2. to examine the effects of the overhaul, organize the implementation of self assessment, prepare working papers for internal control assessment and prepare self assessment reports on internal control.

3. to assess identified defects and prepare a summary list of defected assessment, offer advice for improvement and prepare a list of tasks for overhaul.

4. to disclose the self assessment report on internal control as required.

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

9. Work Program for Internal Control Standards *(Continued)*

V. Work Plan for the Audit of Internal Control

Objective: To complete the audit of internal control before 2011 Annual Report is disclosed, to disclose the self assessment report on internal control and the audit report on internal control together with 2011 Annual Report.

Peron-in-charge: Gong Jun

Work content:

1. to engage the accounting firm for internal control audit ;

2. to cooperate with the accounting firm for internal control audit in the audit of internal control;

3. to submit to the regulatory authority, as required by Circula Yuzhengjianshi [2011] No. 49, the work plan for applying internal control standards and relevant information regarding the implementation thereof;

4. to disclose the audit report on internal control as required.

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

10. Other Issues

(1) Fixed assets

For the year ended 31 December 2010, movements in the fixed assets of the Group are set out in Note V, 9 to the financial statements.

(2) Reserves

For the year ended 31 December 2010, movements in the reserves of the Group are set out in Note V, 33, Note V, 34 and Note V, 35 to the financial statements.

(3) Entrusted Deposits and Overdue Time Deposits

As at 31 December 2010, the Group did not have entrusted deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(4) Management Contract

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

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

10. Other Issues *(Continued)*

(5) Auditors and Their Remuneration

As approved at 2009 Annual General Meeting, the Board reappointed KPMG Huazhen and KPMG as the auditors of the Company respectively. On 18 march 2011, a resolution was passed at the 2011 first Extraordinary General Meeting of the Company, pursuant which the Company's international auditor KPMG("International Auditor"), which was appointed at the 2009 Annual General Meeting, was dismissed, and KPMG Huazhen was retained to audit the financial statements of the Group for the year 2010 prepared under the PRC Accounting Standards for Business Enterprises and issue audit opinion in accordance with PRC auditing standards and to undertake all such activities as required to be performed by overseas auditors under the Listing Rules (including preliminary announcement on annual results, annual review of continuing connected transactions, etc.).The dismissal of International Auditor helps to improve efficiency and reduce information disclosure costs. There are no disagreements between the Company and the International Auditor. The dismissal has gone through necessary procedures in compliance with relevant laws, listing rules of the listing place and the Articles of Association. KPMG Huazhen has audited the financial statements prepared under PRC GAAP. The Company paid RMB2.80 million for audit of such financial statements. As at the end of the Reporting Period, it had provided auditing service for the Company for 4 year.

ACKNOWLEDGEMENTS

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

For and on behalf of the Board
Chairman: **Deng Qiang**

Chongqing, PRC
25 March 2011

In 2010, the Supervisory Committee of the Company performed their supervision duties with due diligence and good faith in compliance with relevant laws, regulations, and in strict compliance with the Rules of Procedures for Supervisory Committee Meetings, so as to safeguard the lawful interests of the shareholders and the Company and improve the standard operation of the Company.

(I) MEETINGS HELD BY THE SUPERVISORY COMMITTEE

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

1. The fourth meeting of the fifth Supervisory Committee was convened on 21 April 2010, at which 2009 Work Report of the Supervisory Committee, 2009 Annual Report, annual results announcement and annual report summary, 2009 audited financial reports, profit distribution proposal for 2009, self-assessment report on the internal control of the Company by the Board and 2010 First Quarterly Report.

2. The fifth meeting of the fifth Supervisory Committee was convened on 17 August 2010, at which the Company's 2010 unaudited interim financial report and 2010 interim report and its summary were considered and approved.

3. The sixth meeting of the fifth Supervisory Committee was convened on 28 October 2010, at which the 2009 Third Quarterly Report was considered and approved.

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

1. Legality of the Company's operation

During the reporting period, the Supervisory Committee diligently performed their supervision duties by convening meeting of the Supervisory Committee, attending general meetings and Boarding meetings(as observer), supervising decision making of major issues of the Company, supervising the establishment and operation of internal control system, monitoring daily operation of the Company and potential risks, keeping close eyes on corporate governance activities, and supervising legal compliance of duty performance by the Directors and senior management. The Supervisory Committee was of the view that the Board worked in strict compliance with the laws and regulations and the Articles of Association of the Company by making reasonable and effective decisions through legal procedures; the Company further pushed forward its special campaign on corporate governance and actual governance was basically in line with requirement of Code of Corporate Governance for Listed Companies of China Securities Regulatory Commission and the Code on Corporate Governance Practices of Stock Exchange the Directors and other senior executives diligently performed their duties in good faith and no actions in violation of laws, regulations or the Articles of Association of the Company or against the interests of the Company and its shareholders were found.

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

2. Inspection of the Company's Financial Status

The Supervisory Committee reviewed the Company's daily production, operation and financial status on a timely basis according to the monthly financial analysis reports. It also earnestly reviewed the quarterly, interim and annual reports of the Company and heard the financial officer's explanations in respect of the preparation of the financial reports. The Supervisory Committee was of the view that the Company's financial statements were explicitly prepared under relevant rules and regulations, giving a true and objective picture of the Company's financial status and operating results. The comments included in the auditors' opinion issued by external auditor in respect of the Company's 2010 financial report are objective and fair.

3. Actual utilisation of Last Raised Proceeds

During the reporting period, the Company raised RMB1,960,000,000 through issue of corporate bonds, of which RMB1,184,020,794.5 has been utilised and the outstanding balance is RMB778,072,130.99. The Supervisory Committee is of opinion that the Company has managed and utilized the proceeds in strict compliance with the Management Rules on Utilisation of Proceeds and the undertakings of the Company, and no breach of regulations has been found.

4. Acquisition and disposal of assets by the Company

During the reporting period, the Company acquired 100% equity in Chongqing Iron & Steel Group Electronics Company Limited at Chongqing United Assets and Equity Exchange at a consideration of RMB37,861,900. The Supervisory Committee is of the view that: the acquisition was to meet the demand of future production and operation of the Company, to reduce connected transaction and improve independence of the Company. Terms and conditions of the transfer were determined by public bidding market price. The transaction was reasonable and in the interests of the Company and its shareholders as a whole.

During the reporting period, the Company transferred the complete equipments in No.8 transformer substation at Jianqiao Industrial Park, Dadukou District, Chongqing at an appraised price of RMB4,245,200. The Supervisory Committee was of the opinion that the procedure of transaction was lawful and the consideration was fair. There were no insider transactions and no actions that were against the interests of the Company and its shareholders or incurring loss to the assets of the Company were identified.

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

5. Connected transactions of the Company

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

6. Review of Self-Evaluation Report on Internal Control

The Supervisory Committee has reviewed Self-Evaluation Report on Internal Control of the Company for 2010, and is of the opinion that: The Company has established a reasonable and effective internal control system in compliance with the Company Law of the People's Republic of China and Securities Law of the People's Republic of China, and as required by CSRC and Shanghai Stock Exchange. The system extends to all levels and parts of the operation of the Company, ensuring functioning of the Company's operations and safeguarding the safety and integrity of the assets of the Company. Internal control system has complete structure, which ensures the full effectiveness of the execution and supervision of the Company's internal control activities. However, personnel of internal auditing staff needs to be replenished. Self-Evaluation Report on Internal Control of the Company is objective, true and accurately reflected the actual situation of internal control of the Company.

ACKNOWLEDGEMENTS

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

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

Chongqing, the PRC,
24 March 2011

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

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

(III) ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS COMBINATION BY THE GROUP DURING THE REPORTING PERIOD.

Acquisition and Disposal of Assets and Business Combination by the Group during the Reporting Period On 29 June 2010, the Parent Company listed 100% equity it held in Chongqing Iron & Steel Group Electronics Company Limited (the "Chongqing Electronics") on Chongqing United Assets and Equity Exchange at an appraised price of RMB37,861,900. On 9 July, a resolution was passed at the 39th meeting of the fifth Board of the Company by way of written resolution, approving the Company to participate in the bid for Chongqing Electronics. On 15 July, the Company submitted relevant application materials to Chongqing United Assets and Equity Exchange in respect of the bidding for Chongqing Electronics. On 13 August, the Company and the Parent Company entered into Equity Transfer Agreement, under which the Company acquired 100% equity interest in Chongqing Electronics at a consideration of RMB37,861,900, with 31 July as base date for the equity interest transfer. Chongqing United Assets and Equity Exchange issued Asset Ownership Transfer Certificate (No.201008230920026) to the Company. Relevant consideration was paid via settlement centre account of Chongqing United Assets and Equity Exchange. On 20 September, Chongqing Electronics went through relevant procedures for change of shareholder in Dadukou Branch of Chongqing Administration for Industry and Commerce. Chongqing Electronics contributed profit of RMB4,289,000 to the Company from the date of transfer to the end of 2010.

(IV) CONTRACTS WITH PARENT COMPANY

1. Service and Supply Agreement

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

2. Land Lease Agreements

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

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

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

2. Land Lease Agreements *(Continued)*

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

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

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

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

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

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

3. Agreement for Authorised Use of Assets

On 19 April 2010, the Company and the Parent Company entered into Agreement for Authorised Use of Assets ("Agreement for Authorised Use of Assets"). According to Agreement for Authorised Use of Assets, the Parent Company agreed to provide all technical material in relation to design, installation and related equipments of the production line and facilities, and coordinate technical support and service for installation, engineering and equipment suppliers, and to pay insurance for the assets. During the authorized use of assets, the Company independently arranges production, operation and management of relevant assets, undertakes profit and loss of the use of assets, undertakes safety and environment protection responsibilities caused by breach of regulation, and the amount that beyond the part undertaken by insurance company. The term of Agreement for Authorised Use of Assets is from 1 April 2010 to 31 March 2011 (temporarily set at 1 year). The Parent Company is not entitled to charge any fee for the use of assets by the Company.

4. Agreement for Trial Operation of Production Lines

On 19 October 2010, the Company and the Parent Company entered into an agreement for entrusted commissioning of production lines ("Agreement for Trial Operation of Production Lines"). According to Agreement for Trial Operation of Production Lines, the Company started commissioning of steel smelting production line including coke oven No.4, No. sintering and blast furnace No.1 from 20 October to 30 November 2010. Commissioning charge was RMB500,000. Any profit or loss that caused by the commissioning is undertaken by the Parent Company. Upon completion of the commissioning, the Parent Company will authorize the Company to use such assets without charge from 1 December 2010 to 31 March 2011. Any operating profit or loss incurred during the period is undertaken by the Company.

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

5. Asset Transfer Agreement for 35KV Power Station (No. 8 Station)

On 3 December 2010, the Company and the Parent Company entered into Asset Transfer Agreement for 35KV Power Station (No. 8 Station) ("Electrical Equipment Transfer Agreement"). Pursuant to the Electrical Equipment Transfer Agreement, the Company transferred 15 (units/sets) electrical equipments, including transformer, switch cubicle and power control system in No.8 power station of Company's power plant in East Jianqiao Avenue in Jianqiao Industrial Park A District, Dadukou, Chongqing to the Parent Company at an appraised price of RMB4,245,200 (Chongqing Jinhui Real Estate and Land Assets Assessment Company Limited, Yu jin hui ping bao zi [2010]No. 069 Assets Evaluation Report).

6. Equity Interest Transfer Agreement with the Parent Company

The Company acquired 100% equity interest in Chongqing Electronics via Chongqing United Assets and Equity Exchange. On 13 August 2010, the Company and the Parent Company entered into Equity Interest Transfer Agreement, under which the Company acquired 100% equity interest in Chongqing Electronics at a consideration of RMB37,861,900, with 31 July as base date for the equity interest transfer. Relevant consideration was paid via settlement centre account of Chongqing United Assets and Equity Exchange.

(V) MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Related Party transactions constituted by the Land Lease Agreements

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

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

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

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

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

3. Related Party transactions of the Group during the year ended 31 December 2010

Details of the major related party transactions entered into by the Group during the year ended 31 December 2009 are set out in Note VI to the financial statements prepared under PRC GAAP.

Related party	Products sold to related party		Products purchased from related party	
	Amount	Percentage in similar transactions	Amount	Percentage in similar transactions
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*
Chongqing Iron & Steel Group Mining Company Limited	17,558	2.50	765,624	8.20
Chongqing Iron & Steel Group Iron Company Limited	—	—	561,173	65.89
Chongqing Chaoyang Gas Company Limited	342,740	48.73	387,736	90.52
Chongqing Wuxia Mining Company Limited	—	—	303,387	11.41
Chongqing Iron & Steel Group Construction and Engineering Company Limited	102,330	0.62	199,223	12.10
Chongqing Iron & Steel Group Design and Research Institute	—	—	145,109	8.81
Chongqing Iron & Steel Group San Feng Industrial Company	—	—	57,144	2.21
Chongqing Iron & Steel Group San Feng Technology Company	—	—	31,104	1.51
Chongqing Iron & Steel Group Industrial Company Limited	143,434	0.88	26,427	0.28
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	19,897	19.96
Chongqing Si Gang Steel Company Limited	220,190	1.40	5,145	0.75
Chongqing San Gang Steel Company Limited	230,194	1.47	3,443	0.50
Chongqing Iron & Steel Group Steel Pipe Company Limited	262,767	1.68	—	—
Chongqing Iron & Steel (Group) Company Limited	144,160	0.91	—	—
Chongqing Iron & Steel Group Doorlead Realty Company Limited	22,412	0.14	—	—
Chongqing Donghua Special Steel Company Limited	11,876	0.02	—	—
Others	33,018	—	5,854	—
Total	1,530,679	—	2,511,266	—

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

3. Related Party transactions of the Group during the year ended 31 December 2010 *(Continued)*

In addition, during the reporting period, the amount of related party transactions in respect to the Company's provision of labour service to and receipt of labour services from the Parent Company and its subsidiaries amounted to RMB25,818,000 and RMB361,980,000, respectively, and the land rental and advance paid on behalf of the Parent Company was RMB19,822,000 and RMB90,189,000 respectively.

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

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

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

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

Related party transactions and balance all arose from normal business activities of products purchase and sale and had no adverse impact on the Company's production and operation. Relevant details are set out in Note VI.5 and Note VI.6 to the financial statements prepared under PRC GAAP.

Unit: RMB '000

Related party	Capital provided to related party (sales) Amount	Balance	Capital provided by related party (purchase) Amount	Balance
Chongqing Iron & Steel Group Mining Company Limited	17,558	—	765,624	493
Chongqing Iron & Steel Group Iron Company Limited	—	—	561,173	—
Chongqing Chaoyang Gas Company Limited	342,740	—	387,736	5,384
Chongqing Wuxia Mining Company Limited	—	—	303,387	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	102,330	23,333	199,223	—
Chongqing Iron & Steel Group Design and Research Institute	—	1,232	145,109	31,618
Chongqing Iron & Steel Group San Feng Industrial Company	—	1,331	57,144	—
Chongqing Iron & Steel Group San Feng Technology Company Limited	—	—	31,104	2,489
Chongqing Iron & Steel Group Industrial Company Limited	143,434	—	26,427	2,636
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	279	19,897	—
Chongqing Si Gang Steel Company Limited	220,190	121,363	5,145	—
Chongqing San Gang Steel Company Limited	230,194	64,380	3,443	—
Chongqing Iron & Steel Group Steel Pipe Company Limited	262,767	73,012	—	—
Chongqing Iron & Steel (Group) Company Limited	144,160	6,875	—	52,394
Chongqing Iron & Steel Group Doorlead Realty Company Limited	22,412	—	—	560
Chongqing Donghua Special Steel Company Limited	11,876	528	—	—
Others	33,018	10,315	5,854	3,523
Total	1,530,679	302,648	2,511,266	99,097

(VI) EMPLOYEE SOCIAL SECURITY AND BENEFITS

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

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

(VII) INCOME TAX

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

(VII) INCOME TAX *(CONTINUED)*

Enterprise Income Tax Law of the PRC ("new PRC EIT law") has been approved by the 5th Session of the 10th National People's Congress on 16 March 2007, and came into effect on 1 January 2008. According to the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Guo Fa [2007] No.39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the development of China's western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010. In 4 September 2008, Chongqing Electronics received Encouraged Industry Confirmation Letter ([Internal] Encourage Class Confirmation [2008]No. 287) from the Economic Committee of Chongqing, which confirmed that Chongqing Electronics is identified as a domestic company falling into the encouraged industry by the government. According to Notice on Publication of Policy and Measure for West Development by Chongqing Yuweifa [2001]26 issued by Chongqing Party Committee and Municipal Government, and Minutes of West Development Tax Preferential Policy for Industry Economic Development Conference (2003-No.125) issued by Chongqing Government, domestic enterprise which is identified as encouraged industry, is entitled to an EIT of 15% from 2001 to 2010. Therefore, Chongqing Electronics enjoys the 15% preferential tax rate as a west development enterprise from 2008 to 2010.

During the year, there was no change in tax rate and preferential tax policy enjoyed by the Company and its subsidiaries.

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

The applicable income tax rate for the Company was 15% (2009: 15%) during the year.

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

According to the requirements from relevant notices of CSRC, domestic auditors KPMG Huazhen reviewed the capital appropriation of Company, Chongqing Iron & Steel (Group) Company Limited (controlling shareholder of the Company) and other related parties; and stated that: as at 31 December 2010, the capital transactions between the Group and its controlling shareholder and other related parties mainly arose from connected transactions constituted in ordinary operation activities between the Group and its related parties. Save for the above capital transactions arose from connected transactions in ordinary operation activities, no violation of Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies was found in the Group.

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

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

(X) DURING THE REPORTING PERIOD, THERE WERE MATERIAL CUSTODY, CONTRACTING, LEASING OF ASSETS BETWEEN THE COMPANY AND OTHER COMPANIES, BUT THE COMPANY DID NOT APPOINT ANY CUSTODIAN FOR THE MANAGEMENT OF FUNDS.

On 24 December 2009, the Parent Company entrusted the Company to conduct trial operation on its steel smelting production lines with an investment amount of RMB3,990,097,300 in New District and the 4,100 mm wide-thick steel plate production line and 1,780 mm hot rolled thin steel plate production line which are newly built in New District by the Company. On 31 March 2010, the above-mentioned assets for trial operation reached design requirements and an expected available and stable status. The Parent Company authorized the Company to use the assets for free until 31 March 2011. On 19 October 2010, the Parent Company entrusted the Company to debug its steel smelting production lines with an investment amount of RMB1,965,987,800 which have been newly built in tandem since August 2010, including coke furnace No. 4, sintering No. 1 and blast furnace No. 1. After the debugging was completed on 1 December 2010, the Parent Company authorized the Company to use the production lines for free until 31 March 2011. As at the end of the Reporting Period, the Company has used steel smelting production lines of the Parent Company with an investment amount of RMB5,956,085,100 in aggregate for free in New District.

(XI) ELIMINATION OF OUTDATED CAPACITY AND ENVIRONMENTAL RELOCATION REQUIRED BY MINISTRY OF INDUSTRY AND INFORMATION TECHNOLOGY DURING THE REPORTING PERIOD

In 2010, In accordance with Notice on Division and Execution of Elimination of Outdate Capacity Targets for 2010 (Yu ban fa (2010) No. 196) from Chongqing Municipal Government and Announcement of Ministry of Industry and Information Technology (Gongchanye [2010] No.111), given the smooth progress in New District, the Company shut down one 1200m^3 blast furnace for iron smelting and one 80-tonne steel converter, reduced iron capacity of 1 million tonnes a year and steel capacity of 800,000 tonnes in Dadukou District.

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

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2010

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Steel output bulletin for December 2009	Lin 2010-001	8 January 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Estimated Profit Decrease for the Year 2009	Lin 2010-002	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	Lin 2010-003	8 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	Lin 2010-004	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	Lin 2010-005	8 March 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Connected Transactions	Lin 2010-006	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	Lin 2010-007	8April 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Board Meeting Notification	H Share Announcement	13 April 2010	Shanghai Stock Exchange: www.sse.com.cn
Announcement of 33rd written resolution of the fifth Board	Lin 2010-008	14 April 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Finance Lease by Way of Sale and Leaseback	Lin 2010-009	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	Lin 2010-010	14 April 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Connected Transactions	Lin 2010-011	20 April 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2010 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement for the 3rd Resolution of the Fifth Board of Directors	Lin 2010-012	23 April 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement for the 4th Resolution of the Fifth Board of Directors	Lin 2010-013	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	Lin 2010-014	4 Mary 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for April 2010	Lin 2010-015	6 May 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Clarification Announcement	H Share Announcement	11 May 2010	Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for May 2010	Lin 2010-016	8 June 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement	Lin 2010-017	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	Lin 2010-018	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	Lin 2010-019	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	Lin 2010-020	30 June 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Resignation of Supervisors, Proposed Election of Supervisors and Notice of 2010 First Extraordinary General Meeting	Shareholder Circular of H Shares	30 June 2010	Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2010 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Steel output bulletin for June 2010	Lin 2010-021	8 July 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Board Meeting Notification	H Share Announcement	5 August 2010	Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for July 2010	Lin 2010-022	5 August 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Connected Transaction — Acquisition of the Entire Issued Share Capital of Chongqing Iron & Steel Group Electronics company Limited	Lin 2010-023	17 August 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Clarification Announcement	H Share Announcement	18 August 2010	Shanghai Stock Exchange: www.sse.com.cn
Appointment of Supervisors and Resignation of Supervisors	H Share Announcement	19 August 2010	Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2010 First Extraordinary General Meeting	Lin 2010-024	19 August 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Board of Directors	Lin 2010-025	23 August 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for August 2010	Lin 2010-026	8 September 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the Intent for Finance Lease in Relation to the Environmental Relocation Project	Lin 2010-027	28 September 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for September 2010	Lin 2010-028	11 October 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Written Resolutions of The Board	H Share Announcement	15 October 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2010 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement of ChangShou New District Construction Project	Lin 2010-029	19 October 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for October 2010	Lin 2010-030	15 October 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Obtaining Approval for Issue of Corporate Bonds to the Public	Lin 2010-031	30 November 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Connected Transactions	Lin 2010-032	12 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Corporate Bond Issue in 2010	Lin 2010-033	7 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Roadshow for the Public Issue of Corporate Bonds	Lin2010-034	7 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Summary of Offering Memorandum for the Public Issue of Corporate Bonds	Lin2010-035	7 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Offering Memorandum for the Public Issue of Corporate Bonds		7 December 2010	Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for November 2010	Lin2010-036	8 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Coupon Rate for the Issue of Corporate Bonds	Lin2010-037	9 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Adjustment to Time for the Issue of Corporate Bonds in 2010	Lin2010-038	13 December 2010	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Corporate Bond Issue in 2010	Lin2010-039	2010-12-15	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Discloseable Transaction Construction Project	Lin2010-040	2010-12-24	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

All Shareholders of Chongqing Iron and Steel Company Limited:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited (the Company), which comprise the consolidated balance sheet and balance sheet as at 31 December 2010, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2010, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Gong Wei Li

Beijing, the People’s Republic of China

Lin Jian Kun

25 March 2011

Consolidated Balance Sheet

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
Current assets			
Cash at bank and on hand	V.1	**1,753,457**	1,593,491
Bills receivable	V.2	**1,531,832**	1,062,099
Accounts receivable	V.3	**467,273**	220,627
Prepayments	V.4	**821,634**	357,845
Other receivables	V.5	**88,929**	27,716
Inventories	V.6	**6,752,583**	4,083,476
Other current assets	V.7	**546,267**	228,272
Total current assets		**11,961,975**	7,573,526
Non-current assets			
Long-term equity investments	V.8	**20,000**	5,500
Fixed assets	V.9	**8,949,966**	4,821,794
Construction in progress	V.10	**798,835**	2,908,862
Construction materials	V.11	**276,134**	244,391
Intangible assets	V.12	**333,159**	340,268
Deferred tax assets	V.13	**115,692**	118,702
Other non-current assets	V.14	**36,590**	50,780
Total non-current assets		**10,530,376**	8,490,297
Total assets		**22,492,351**	16,063,823

The notes on pages 121 to 269 form part of these financial statements.

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
Current liabilities			
Short-term loans	V.17	**3,139,509**	2,280,313
Financial liabilities held for trading	V.18	**8,642**	—
Accounts payable	V.19	**2,807,121**	1,475,110
Advance from customers	V.20	**1,617,432**	953,492
Employee benefits payable	V.21	**119,106**	64,342
Taxes payable	V.22	**90,624**	69,779
Interest payable	V.23	**14,383**	1,200
Other payables	V.24	**269,246**	138,425
Non-current liabilities due within one year	V.25	**2,047,803**	1,900,118
Other current liabilities	V.26	**9,285**	6,541
Total current liabilities		**10,123,151**	6,889,320
Non-current liabilities			
Long-term loans	V.27	**2,698,476**	1,760,410
Debentures payable	V.28	**1,962,371**	—
Long term payables	V.29	**1,577,390**	1,130,793
Special payables	V.30	**8,858**	—
Other non-current liabilities	V.31	**420,601**	700,010
Total non-current liabilities		**6,667,696**	3,591,213
Total liabilities		**16,790,847**	10,480,533

The notes on pages 121 to 269 form part of these financial statements.

Consolidated Balance Sheet (Continued)

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
Shareholders' equity			
Share capital	V.32	**1,733,127**	1,733,127
Capital reserve	V.34	**1,141,708**	1,179,756
Specific reserve	V.33	**808**	166
Surplus reserve	V.35	**583,452**	582,880
Retained earnings	V.36	**2,095,409**	2,085,972
Total equity attributable to shareholders of the Company		**5,554,504**	5,581,901
Minority interests		**147,000**	1,389
Total equity		**5,701,504**	5,583,290
Total liabilities and shareholders' equity		**22,492,351**	16,063,823

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Balance Sheet

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
Current assets			
Cash at bank and on hand		**1,508,073**	1,590,937
Bills receivable		**1,528,778**	1,059,242
Accounts receivable	XII.1	**456,239**	194,863
Prepayments		**768,409**	341,905
Other receivables	XII.2	**85,794**	26,700
Inventories		**6,740,158**	4,066,174
Other current assets		**545,495**	227,518
Total current assets		**11,632,946**	7,507,339
Non-current assets			
Long-term equity Investments	XII.3	**202,745**	5,000
Fixed assets		**8,927,168**	4,797,858
Construction in progress		**784,721**	2,908,862
Construction materials		**276,134**	244,391
Intangible assets		**328,832**	335,841
Deferred tax assets		**115,244**	118,387
Other non-current assets		**36,590**	50,780
Total non-current assets		**10,671,434**	8,461,119
Total assets		**22,304,380**	15,968,458

The notes on pages 121 to 269 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	*Notes*	**2010**	2009
Current liabilities			
Short-term loans		**3,139,509**	2,280,313
Financial assets held for trading		**8,642**	—
Accounts payable		**2,774,757**	1,424,757
Advance from customers		**1,616,031**	951,578
Employee benefits payable		**115,067**	62,536
Taxes payable		**89,991**	68,924
Interest payable		**14,383**	1,200
Other payables		**276,649**	125,616
Non-current liabilities due within one year		**2,047,803**	1,900,118
Other current liabilities		**9,285**	6,541
Total current liabilities		**10,092,117**	6,821,583
Non-current liabilities			
Long-term loans		**2,698,476**	1,760,410
Debentures payable		**1,962,371**	—
Long term payables		**1,577,390**	1,130,793
Special payables		**160**	—
Other non-current liabilities		**420,601**	700,010
Total non-current liabilities		**6,658,998**	3,591,213
Total liabilities		**16,751,115**	10,412,796

The notes on pages 121 to 269 form part of these financial statements.

Balance Sheet (Continued)

As at 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	*Notes*	**2010**	2009
Shareholders' equity			
Share capital		**1,733,127**	1,733,127
Capital reserve		**1,156,267**	1,164,384
Surplus reserve		**575,654**	575,082
Retained earnings		**2,088,217**	2,083,069
Total equity		**5,553,265**	5,555,662
Total liabilities and shareholders' equity		**22,304,380**	15,968,458

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
I. Operating income	V.37	**16,617,840**	10,856,947
II. Operating costs	V.37	**15,328,940**	9,654,214
Business taxes and surcharges	V.38	**13,735**	4,599
Selling and distribution expenses	V.39	**410,858**	294,424
General and administrative expenses	V.40	**562,959**	534,050
Financial expenses	V.41	**429,602**	275,793
Impairment loss	V.42	**35,664**	16,428
Add: Gains from changes in fair value (Losses denoted with "-")	V.43	**-8,642**	—
Add: Investment income (Losses denoted with "-")	V.44	**1,093**	1,304
III. Operating profit (Loss denoted with "-")		**-171,467**	78,743
Add: Non-operating income	V.45	**187,418**	25,610
Less: Non-operating expenses	V.46	**1,819**	797
Including: Losses from disposal of non-current assets		**1,329**	10
IV. Profit before income tax (Loss denoted with "-")		**14,132**	103,556
Less: Income tax expenses	V.47	**4,123**	12,024
V. Net profit for the year (Net loss denoted with "-")		**10,009**	91,532
Attributable to:			
Shareholders of the Company		**10,009**	91,273
Minority shareholder		**—**	259

The notes on pages 121 to 269 form part of these financial statements.

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	*Notes*	**2010**	2009
VI. Earnings per share			
Basic earnings per share*(RMB)*	V.48	**0.006**	0.05
Diluted earnings per share*(RMB)*	V.48	**0.006**	0.05
VII. Other comprehensive income for the year		**—**	—
VIII. Total comprehensive income for the year		**10,009**	91,532
Attributable to:			
Shareholders of the Company		**10,009**	91,273
Minority interests		**—**	259

Note: The Group conducted a business combination under common control in 2010. The net profit of the acquiree prior to the combination is RMB3,731,000.

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Income Statement

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
I. Operating income	XII.4	**16,499,568**	10,654,115
Less: Operating costs	XII.4	**15,239,021**	9,479,256
Business taxes and surcharges		**8,434**	283
Selling and distribution expenses		**410,858**	293,790
General and administrative expenses		**548,224**	518,056
Financial expenses		**429,250**	275,760
Impairment loss		**32,676**	15,617
Add: Gains from changes in fair value (Losses denoted with "-")		**-8,642**	—
Investment income (Losses denoted with "-")	XII.5	**1,079**	1,304
II. Operating profit (Losses denoted with"-")		**-176,458**	72,657
Add: Non-operating income		**187,133**	23,134
Less: Non-operating expenses		**1,812**	763
Including: Losses from disposal of non-current assets		**1,322**	10
III. Profit before income tax (Losses denoted with "-")		**8,863**	95,028
Less: Income tax expenses		**3,143**	10,999
IV. Net profit for the year (Net loss denoted with "-")		**5,720**	84,029
V. Other comprehensive income for the year		**—**	—
VI. Total comprehensive income for the year		**5,720**	84,029

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**20,556,347**	12,979,392
Refund of taxes		**5,407**	8,540
Other cash received relating to operating activities	V.50(1)	**27,628**	26,946
Sub-total of cash inflows		**20,589,382**	13,014,878
Cash paid for goods and services		**21,251,166**	12,720,749
Cash paid to and for employees		**1,036,674**	708,752
Cash paid for all types of taxes		**356,819**	364,127
Other cash paid relating to operating activities	V.50(2)	**45,610**	11,525
Sub-total of cash outflows		**22,690,269**	13,805,153
Net cash outflow from operating activities	V.51(1)	**-2,100,887**	–790,275
II. Cash flows from investing activities:			
Cash received from disposal of investments		**514**	—
Cash received from return on investments		**1,079**	1,304
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**11,995**	1,241
Other cash received relating to investing activities	V.50(3)	**9,408**	11,343
Sub-total of cash inflows		**22,996**	13,888
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**1,510,881**	1,151,116
Cash paid for acquisition of investments		**54,437**	—
Sub-total of cash outflows		**1,565,318**	1,151,116
Net cash outflow from investing activities		**-1,542,322**	–1,137,228

The notes on pages 121 to 269 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
III. Cash flows from financing activities:			
Cash received from borrowings		**147,000**	—
Including: Cash received from minority shareholders of subsidiaries		**147,000**	—
Cash received from borrowings		**7,801,459**	4,600,603
Cash received from issuance of debentures		**1,962,000**	—
Cash received from sale and lease back financial lease		**491,350**	1,379,000
Sub-total of cash inflows		**10,401,809**	5,979,603
Cash repayments of borrowings		**6,111,649**	3,298,264
Cash paid for dividends, profit distribution or interest		**357,893**	463,540
Other cash paid relating to financing activities	V.50(4)	**161,030**	34,349
Sub-total of cash outflows		**6,630,572**	3,796,153
Net cash inflow from financing activities		**3,771,237**	2,183,450
IV. Net increase in cash and cash equivalents	V.51(1)	**128,028**	255,947
Add: Cash and cash equivalents at the beginning of the year		**1,407,502**	1,151,555
V. Cash and cash equivalents at the end of the year	V.51(2)	**1,535,530**	1,407,502

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	Notes	2010	2009
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**20,412,160**	12,763,221
Refund of taxes		**5,407**	7,410
Other cash received relating to operating activities		**18,646**	15,065
Sub-total of cash inflows		**20,436,213**	12,785,696
Cash paid for goods and services		**21,175,155**	12,596,880
Cash paid to and for employees		**968,192**	637,366
Cash paid for all types of taxes		**347,965**	349,926
Other cash paid relating to operating activities		**45,857**	11,406
Sub-total of cash outflows		**22,537,169**	13,595,578
Net cash outflow from operating activities	XII.6	**-2,100,956**	-809,882
II. Cash flows from investing activities:			
Cash received from return on investments		**1,079**	1,304
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**11,942**	1,241
Other cash received relating to investing activities		**9,402**	11,228
Sub-total of cash inflows		**22,423**	13,773
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**1,454,644**	1,133,474
Cash paid for acquisition of investments		**15,000**	—
Cash paid for acquisition of subsidiaries		**190,862**	—
Sub-total of cash outflows		**1,660,506**	1,133,474
Net cash outflow from investing activities		**-1,638,083**	–1,119,701

The notes on pages 121 to 269 form part of these financial statements.

Cash Flow Statement (Continued)

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

Item	*Notes*	2010	2009
III. Cash flows from financing activities			
Cash received from borrowings		**7,801,459**	4,600,603
Cash received from issuance of debentures		**1,962,000**	—
Cash received from sale and lease back financial lease		**491,350**	1,379,000
Sub-total of cash inflows		**10,254,809**	5,979,603
Cash repayments of borrowings		**6,111,649**	3,298,264
Cash paid for dividends, profit distribution or interest		**357,893**	459,512
Other cash paid relating to financing activities		**161,030**	34,349
Sub-total of cash outflows		**6,630,572**	3,792,125
Net cash inflow from financing activities		**3,624,237**	2,187,478
IV. Effect of foreign exchange rate changes on cash and cash equivalents	XII.6	**-114,802**	257,895
Add: cash and cash equivalents at the beginning of the year		**1,404,948**	1,147,053
V. Cash and cash equivalents at the end of the year		**1,290,146**	1,404,948

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

		2010							2009						
		Attributable to shareholders of the Company							Attributable to shareholders of the Company						
Item	Notes	Share capital	Capital reserve	Specific reserve	Surplus treasury	Retained earnings	Minority interests	Total	Share capital	Capital reserve	Specific reserve	Surplus treasury	Retained earnings	Minority interests	Total
I. Balance at 31 December 2009		1,733,127	1,164,384	–	575,082	2,083,069	–	5,555,662	1,733,127	1,164,384	–	566,679	2,180,756	–	5,644,946
Add: adjustment for business combination under common control		–	15,372	166	7,798	2,903	1,389	27,628	–	15,372	127	5,259	2,007	1,285	24,050
II. Balance at 1 January 2010		1,733,127	1,179,756	166	582,880	2,085,972	1,389	5,583,290	1,733,127	1,179,756	127	571,938	2,182,763	1,285	5,668,996
III. Changes in equity for the year (Reductions denoted with "-")															
(I) Net profit for the year		–	–	–	–	10,009	–	10,009	–	–	–	–	91,273	259	91,532
(II) Other comprehensive income for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total of (I)&(II)		–	–	–	–	10,009	–	10,009	–	–	–	–	91,273	259	91,532
(III) Appropriation of profits															
1. Appropriation for surplus reserve	V.35	–	–	–	572	-572	–	–	–	–	–	10,942	-10,942	–	–
2. Distributions to shareholders		–	–	–	–	–	–	–	–	–	–	–	-177,122	-155	-177, 277
(IV) Specific reserve															
1. Accrued		–	–	1,000	–	–	–	1,000	–	–	100	–	–	–	100
2. Utilised		–	–	–358	–	–	–	-358	–	–	–61	–	–	–	–61
(V) Adjustment of capital reserve for business combination under common control		–	-37,862	–	–	–	–	-37,862	–	–	–	–	–	–	–
(VI) Purchase of minority interest		–	-186	–	–	–	-1,389	-1,575	–	–	–	–	–	–	–
(VII) Investment in subsidiary		–	–	–	–	–	147,000	147,000	–	–	–	–	–	–	–
IV. Balance at 31 December 2010		1,733,127	1,141,708	808	583,452	2,095,409	147,000	5,701,504	1,733,127	1,179,756	166	582,880	2,085,972	1,389	5,583,290

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Renminbi unless otherwise indicated)

Unit: RMB'000

		2010					2009				
Item	*Notes*	**Share capital**	**Capital reserve**	**Surplus reserve**	**Retained earnings**	**Total**	Share capital	Capital reserve	Surplus reserve	Share capital	Total
I. Balance at 1 January 2010		**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 year (Decrease denoted with "-")											
(I) Net profit for the year		—	—	—	**5,270**	**5,270**	—	—	—	84,029	84,029
(II) Other comprehensive income		—	—	—	—	—	—	—	—	—	—
Sub-total of (I) & (II)		—	—	—	**5,270**	**5,270**	—	—	—	84,029	84,029
(III) Appropriation of profits		—	—	—	—	—	—	—	—	—	—
1. Appropriation for surplus reserve		—	—	**572**	**-572**	—	—	—	8,403	–8,403	—
2. Distributions to shareholders		—	—	—	—	—	—	—	—	-173,313	-173,313
(IV) Adjustment of capital reserve for business combination under common control		—	**-8,117**	—	—	**-8,117**	—	—	—	—	—
III. Balance at 31 December 2010		**1,733,127**	**1,156,267**	**575,654**	**2,088,217**	**5,553,265**	1,733,127	1,164,384	575,082	2,083,069	5,555,662

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Legal Representative: ______________ Chief Financial Officer: ______________

Chief Accountant: ______________ (Company stamp)

The notes on pages 121 to 269 form part of these financial statements.

I. COMPANY STATUS

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

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under State Council. For the implementation of a part of the restructuring, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda") under the Restructuring Agreement. As consideration, the Company issued 650,000,000 state-owned legal person shares of RMB1 each to the Parent Group. The assets and liabilities mentioned above have been assessed by Zhongzi Assets Appraisal Office, and the net assets were valued at RMB999,538,500. The legality of the valuation was reviewed and confirmed by the circular (Guo Zi Ping [1997] No. 706) issued by the State-owned Assets Supervision and Administration Bureau on 22 July 1997.

On 27 August 1997, the Company was approved by the circular (Zheng Wei Fa [1997] No.51) from the Securities Commission of the State Council to issue overseas listed foreign shares. The Company issued 410,000,000 ordinary shares and 3,944,000 ordinary shares for over-allotment on the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 15 October 1997 and 6 November 2007 respectively. Such shares, with a par value of RMB1, were listed on the Hong Kong Stock Exchange on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company's total shares capital were 1,063,944,000 shares, including 650,000,000 domestic shares and 413,944,000 overseas listed H shares.

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

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

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

I. COMPANY STATUS *(CONTINUED)*

As approved by the China Securities Regulatory Commission ("CSRC"), the Company issued 350,000,000 A shares (Renminbi-denominated domestic shares) and raised total proceeds of RMB1,008,000,000 on 29 January 2007. Such shares were listed on the Shanghai Stock Exchange on 28 February 2007. Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group conversed into A shares automatically upon the issuance of the above mentioned A shares. The Parent Group undertook that it would neither transfer or entrust any other parties to manage the shares held by it, nor agree to the Company to repurchase such shares within 36 months from the listing date of the Company's A shares. Upon the issuance of A shares, the Company's total shares increased to 1,733,127,200 shares from 1,383,127,200 shares, including 1,195,000,000 domestic A shares and 538,127,200 overseas listed H shares.

According to stipulations in Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund (Cai Qi No. 94[2009]), issued by the Ministry of Finance ("MOF"), State-owned Assets Supervision and Administration Commission ("SASAC"), CSRC and National Council for Social Security Fund ("NCSSF") on 19 June 2009, "an incorporated company shall transfer some state-owned shares (10 % of the shares actually issued) to the National Council for Social Security Fund at the time of initial public offering"; the No. 63 Announcement, also issued by the MOF, SASAC, CSRC and NCSSF, states "shares to be transferred should be frozen from the date of the announcement". The 35,000,000 shares of the Company held by the Parent Group have been frozen by China Securities Depository and Clearing Corporation, Ltd. As at the date of approval of the financial statements, Parent Group had not received any share transfer requirements from the related authorities, therefore these shares are still frozen. The 845,000,000 conditional shares, held by Parent Group at the time of the Company's listing on the A-share market, have been released since 1 March 2010, while 810,000,000 of their shares will be traded on the market.

Under the requirements of energy saving and emission reduction, industrial layout and planning of Chongqing Municipal Government, the Parent Group will need to launch environmental relocation to relocate its principal operations from Da Du Kou District of Chongqing to Yanjia Industry Zone, Jiangnan Town, Changshou District of Chongqing (Changshou New Zone). The Company is also included in the relocation. In September 2010, based on the approval of Chongqing Municipal Government aiming at the environmental relocation arrangement of the Parent Group, the production facilities of Da Du Kou District are beginning to shut down until 30 June 2011. During the period (from September 2010 to 30 June 2011), the relevant facilities of the Company will be shut down orderly according to the market condition and the production capacity of Changshou New Zone.

I. COMPANY STATUS *(CONTINUED)*

The Company had entered into a lease contract of land use right and its supplementary agreement ("lease agreement") with the Parent Group on 14 August 1997, 8 December 2002, 20 October 2005 and 12 January 2007 respectively. Based on the lease agreement, "the Company owns the right of first refusal under the same conditions, on condition that the Parent Group is willing to transfer the contractual land use right in the lease term. The Parent Group should pay for any losses, costs and expense to the Company due to the fully (or partly) rental of the land use right". As all the production land of the Company in Da Du Kou District is rented from the Parent Group, the preparation for the environmental relocation of the Parent Group may cause some fixed assets of the Company cannot be normally used. To ensure the stable production and operation of the Company, the Parent Group promised to make up losses of the fixed assets related by the items of some project in Changshou New Zone, including the facilities shut down according to the relevant approval of Ministry of Industry and Information Technology, and the losses are based on the book value less the profit/loss of disposal. Considering the extra expenses occurred in the environmental relocation of the Company, after the approval of SASAC, the Parent Group had authorized free use of the production line of RMB3.99 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 April 2010 to 31 March 2011 tentatively. And in December 2010, the Parent Group had also authorized free use of the production line of RMB1.97 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 December 2010 to 31 March 2011.

According to the construction schedule and production condition of Changshou New Zone until 31 December 2010, the Company has begun to shut down some equipment of Da Du Kou District and has gradually moved the operation to Changshou New Zone, under the condition of fulfilling the operation and production plan of 2010. As at 31 December 2010, the Company completed the trial operation of 4100mm wide plate production line and 1780mm hot rolled plate production line in Changshou New Zone and the production lines were put into operation in December 2010.

On 12 January 2010, the Company set up a new company, San Feng Jingjiang Port Logistics Company Limited ("San Feng Logistics"), as controlling shareholder.

On 30 September 2010, the Company consolidated 100% shares of Chongqing Iron & Steel Group Electronics Company Limited ("Chongqing Electronics") under the common control of the Parent Group.

The principal activities of the Company and its subsidiaries ("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 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 consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and 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 Accounting treatments for a 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 share premium in the capital reserve. If the balance of 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)*

6 Preparation of 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.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognized as investment income for the current period; the amount recognized in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

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.

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

6 Preparation of consolidated financial statements *(Continued)*

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the remaining equity investment is remeasured at its fair value at the date when control is lost. The difference between (1) the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and (2) the carrying amounts of the interest in the former subsidiary's net assets immediately before the loss of the control is recognized as investment income for the current period when control is lost. The amount recognized in other comprehensive income in relation to the former subsidiary's equity investment is reclassified as investment income for the current period when control is lost.

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.

When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

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 unrealized profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized 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.

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

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 recognized 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. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognized in capital reserve.

9 Financial instruments

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

(1) Financial assets and financial liabilities

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

The Group 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.

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

9 Financial instruments *(Continued)*

(1) Financial assets and financial liabilities (Continued)

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

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

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

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

— Receivables

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

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

— Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group 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) 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 (4)).

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

9 Financial instruments *(Continued)*

(1) Financial assets and financial liabilities *(Continued)*

— Other financial liabilities

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

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group 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.

Financial assets and financial liabilities are presented separately in the balance sheet and shall not be offset. However, a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when both of the following conditions are satisfied:

— the Group has a legal right to offset the recognized amounts and the legal right is currently enforceable; and

— the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

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 Group calibrates the valuation technique and tests it for validity periodically.

(3) Derecognition of financial assets and financial liabilities

A financial asset is derecognized if the Group's contractual rights to the cash flows from the financial asset expire or if the Group 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 recognized 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 Group derecognizes 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.

Objective evidence that a financial asset is impaired includes, but is not limited to, the following:

(a) significant financial difficulty of the issuer or borrower;

(b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(c) strong probability that the borrower will enter bankruptcy or go through another type of financial reorganisation;

(d) the disappearance of an active market for the financial asset due to serious financial difficulties on the part of the issuer;

(e) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(f) a significant or prolonged decline in the fair value of an equity instrument investment to below cost.

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

9 Financial instruments *(Continued)*

(4) Impairment of financial assets *(Continued)*

For the measurement of impairment of receivables, refer to Note II.10. The impairment of other financial assets is 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.

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

9 Financial instruments *(Continued)*

(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 recognized 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.

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.

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

10 Impairment of receivables *(Continued)*

(1) Criteria and method of provisioning for accounts receivable that are individually significant:

Criteria of provision for accounts receivable that are individually significant	Each amount due from the top five debtors.
Method of provisioning 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. All impairment losses are recognized in profit or loss.

(2) Criteria and method of provisioning for accounts receivable that are individually insignificant:

Criteria of provision for accounts receivable that are individually insignificant	Except for note (1) stated above of other receivable and accounts receivable from related party due to the special properties of the company and amount, the provision is recognized on a individual assessment basis.
Method of provisioning	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 recognized in profit or loss.

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

10 Impairment of receivables *(Continued)*

(3) *Method of provisioning for accounts receivable that is grouped:*

The Group will test provisioning for accounts receivable that are grouped based on their credit risk characteristics mentioned in above note (1) and (2) is as follows:

The determination of the group	Accounts receivable are divided into 2 groups according to the nature of company.
Group 1	Third party accounts receivable
Group 2	Related party accounts receivable

Method of provisioning for receivables that are grouped

Group 1	Aging analysis
Group 2	No provision

The proportions of provisioning for groups based on their respective aging analysis as follows:

Aging	Provision ration
Within 3 months (inclusive)	0%
4 - 12 months (inclusive)	5%
1 - 2 years (inclusive)	25%
2- 3 years (inclusive)	50%
Over 3 years	100%

(4) *For other receivables, the Group uses individual assessment for provisioning.*

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

11 Inventories

(1) Classification

Inventories include raw material, work in process, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

(2) Cost of inventories

Cost of inventories is calculated using the weighted average method.

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

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

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

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale. The net realizable value of inventories is determined based on objective evidence that has direct influence on it, such as the market selling price of finished or similar goods, information on production cost and related information provided by the sales department. The net realizable value of materials held for use in the production of inventories is measured based on the net realizable value of the finished goods in which they will be incorporated. The net realizable 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 realizable value of the excess portion of inventories shall be based on general selling prices.

Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

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

11 Inventories *(Continued)*

(4) Inventory system

The Group maintains a perpetual inventory system.

(5) Amortization of reusable material including low-value consumables and packaging materials

Reusable materials including low-value consumables and packaging materials are amortized in full when received for use. The amounts of the amortization are included in the cost of the related assets or profit or loss.

12 Long-term equity investment

(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.

— For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date. Any amounts recognized in other comprehensive income relating to the previously-held equity interest in the acquiree, are reclassified to profit or loss as investment income when the equity investment is disposed of.

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

12 Long-term equity investment *(Continued)*

(1) Initial investment cost (Continued)

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

— For other long-term equity investments obtained through business combinations involving enterprises not under common control, the initial investment cost represents the aggregate of the fair values of assets transferred, liabilities assumed, and equity securities issued by the Company, in exchange for control of the acquiree.

(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 recognized 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.

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

12 Long-term equity investment *(Continued)*

(2) Subsequent measurement (Continued)

(b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control (see Note II. 12(3)) in accordance with a contractual agreement between the Group and other parties.

An associate is an enterprise over which the Group has significant influence (see Note II. 12(3)).

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method, unless the condition of investment is in line with hold collection.

The Group makes the following accounting treatments when using the equity method:

— Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group investment is initially recognised at the initial investment cost at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

— After the acquisition of the investment, the Group recognises its share of the investee's identifiable net assets, and the difference is charged to profit or loss are not quoted in an active market recognised by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of investment accordingly. The debit balance of the equity investment difference is amortised using the straight-line method over the period which is determined in accordance with previous accounting standards. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

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

12 Long-term equity investment *(Continued)*

(2) Subsequent measurement (Continued)

(b) Investment in jointly controlled enterprises and associates *(Continued)*

The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

— The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(c) 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.

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

12 Long-term equity investment *(Continued)*

(3) Basis for determining the existence of joint control or significant influence over an investee

Joint control is the contractual agreed sharing of control over an investee's economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The following evidences shall be considered when determining whether the Group can exercise joint control over an investee:

— no single venturer is in a position to control the operating activities unilaterally;

— operating decisions relating to the investee's economic activity require the unanimous consent of the parties sharing the control;

— if the parties sharing the control appoint one venturer as the operator or manager of the joint venture through the contractual arrangement, the operator must act within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies. The following one or more evidences shall be considered when determining whether the Group can exercise significant influence over an investee:

— representation on the board of directors or equivalent governing body of the investee;

— participation in policy-making processes, including participation in decisions about dividends or other distributions;

— material transactions between the investor and the investee;

— interchange of managerial personnel; or

— provision of essential technical information.

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

12 Long-term equity investment *(Continued)*

(4) 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.

13 Fixed assets

(1) Recognition

Fixed assets represent the tangible assets held by the Group 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 Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognized as a separate fixed asset.

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

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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

13 Fixed assets *(Continued)*

(2) Depreciation

Fixed assets are depreciated using the straight-line method over their estimated useful lives.

Except the compensation the Group promised for those fixed assets stopped using (Note II.27 (3)), the depreciation period and residual value rate of each class of fixed assets are as follows:

Classification	Depreciation period	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.

(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).

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

13 Fixed assets *(Continued)*

(5) Disposal

The carrying amount of a fixed asset shall be derecognized:

— 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 recognized 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, capitalized 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).

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

15 Borrowing costs

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

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

During the capitalization period, the amount of interest (including amortization of any discount or premium on borrowing) to be capitalized 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 capitalized 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 capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalization 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 recognized amount of the borrowings.

During the capitalization period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalized 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 recognized as a financial expense in the period in which they are incurred.

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

15 Borrowing costs *(Continued)*

The capitalization period is the period from the date of commencement of capitalization of borrowing costs to the date of cessation of capitalization, excluding any period over which capitalization is suspended. Capitalization 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. Capitalization 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 amortization (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 amortized on the straight-line method over its estimated useful life.

The respective amortization periods for such intangible assets are as follows:

Item	Amortization period
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 Group. At the balance sheet date, the Group does not have any intangible assets with indefinite useful lives.

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

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

16 Intangible assets *(Continued)*

Expenditures on research phase are recognized in profit or loss when incurred. Expenditures on development phase are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalized development costs are stated at cost less impairment losses (see Note II.17). Other development expenditures are recognized 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 investments in subsidiaries, jointly controlled enterprises and associates

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.

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)*

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 recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized 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 recognized, it is not reversed in a subsequent period.

18 Provisions

A provision is recognized 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 recognized 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 recognized 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 Group 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 rendering of services is measured at the fair value of the considerations received or receivable under the 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 recognized in the income statement by reference to the stage of completion of the transaction based on the progress of work performed or the ratio of cost happened for proportion of total estimated cost.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognized 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 recognized in profit or loss and no service revenue is recognized.

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

19 Revenue recognition *(Continued)*

(3) Revenue from construction contracts

At the balance sheet date, where the outcome of a construction contract can be estimated reliably, contract revenue and contract expenses associated with the construction contract are recognized at the balance sheet date using the percentage of completion method.

The stage of completion of a contract is determined based on the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably:

— If the contract costs can be recovered, revenue is recognized to the extent of contract costs incurred that can be recovered, and the contract costs are recognized as contract expenses when incurred;

— If the contract costs cannot be recovered, the contract costs are recognized as contract expenses immediately when incurred, and no contract revenue is recognized.

(4) Interest income

Interest income is recognized 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 recognized 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 Group has joined a basic pension insurance arranged by local Labour and Social Security Bureaus for the employees. The Group 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 Group also participates in the non-social retirement benefit plans organized for employees by the Parent Group.

(2) Housing fund and other social insurance

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group 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 Group 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 recognized as cost of assets or charged to profit or loss on an accrual basis.

The Group makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance, unemployment insurance and maternity insurance organized 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 Group 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)*

20 Employee benefits *(Continued)*

(3) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

— The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly.

— The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

21 Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as an investor in the Group. 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 recognized when there is reasonable assurance that the grant will be received and that the Group 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 recognized initially as deferred income and amortized to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognized initially as deferred income and recognized in profit or loss in the same periods in which the expenses are recognized. A grant that compensates the Group for expenses incurred is recognized in profit or loss immediately.

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

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 recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is not recognized 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 recognized 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 utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

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

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

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

  — different taxable entities which either intend to settle the current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

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 recognized 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 Group'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 recognized 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 capitalized and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

(3) Assets acquired under finance leases

When the Group 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 recognized as unrecognized finance charges. Initial direct costs that are attributable to a finance lease incurred by the Group are added to the amounts recognized 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 Group 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.

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 (Continued)

Unrecognized finance charge under finance lease is amortized using an effective interest method over the lease term. The amortization 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 unrecognized 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 authorized and declared after the balance sheet date, are not recognized as a liability at the balance sheet date but disclosed in the notes separately.

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

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 Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and Company include, but are not limited to:

(a) the Company's parent

(b) the Company's subsidiaries

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

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

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

(f) joint ventures of the Group, including subsidiaries of joint ventures

(g) associates of the Group, including subsidiaries of associates

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

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

(j) key management personnel of the Company's parent

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

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

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

25 Related parties *(Continued)*

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

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

(n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares, supervisors for listed companies and their close family members.

(o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement.

(p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

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

26 Segment reporting

The Group 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 Group:

— that may earn revenue and incur expenses in daily business activities

— whose operating results are regularly reviewed by the Group'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 each product and service

— the nature of production process

— 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

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

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

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 recognized in the period in which the estimate is revised and in any future periods affected.

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

(1) Impairment of receivables

As described in Note II.10, receivables that are measured at amortization 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 Group 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 recognized 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 judgments are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

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

27 Significant accounting estimates and judgments *(Continued)*

(3) Depreciation and amortization

As described in Note II.13 and 16, fixed assets and intangible assets are depreciated and amortized 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 amortization 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 amortization, the amount of depreciation or amortization is revised.

As described in Note I, the Parent Group undertook to "compensate the impairment of fixed assets of the Company occurred during the relocation based on their net book loss (that is their carrying value at the time of suspension of production less net gains from disposal). This resulted in a significant change to the expected realisation of economic benefits of such fixed assets. That is the estimated net residual value of the fixed assets at the time of retirement included the compensation from the Parent Group. Therefore, the Group changed the estimated net residual value of its fixed assets suspended from production due to relocation to their carrying value at the time of suspension of production.

(4) Deferred income tax assets

As described in Note III.2, the Enterprise income tax ("EIT") rate for the Company and Chongqing Electronics is 15% due to the favor of western development policy, from 1 January 2008 to 31 December 2010. Up to the approval date of financial statement, State Administration of Taxation has not published relevant documents about the continuance of the western development EIT preferential policies. However, according to the Western Development Conference held by State Council at Beijing in July 2010, the EIT rate is still 15% for the companies of state-encouraged industry in western region. When the Group estimates the withdrawal and settlement of the deferred income tax assets and liabilities, the EIT rate is also 15%, which is applicable for the recognition of the deferred tax assets. If the preferential tax rate is not applicable, which means EIT tax rate is 25% from 2011, the net profit of the Group in 2010 will increase RMB77,128,000.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

III. TAXATION

1 Main types of taxes and corresponding rates

Tax Name	Tax basis	Tax rate
Value-added Tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	17%
Business tax	Based on taxable revenue	5%
City maintenance and construction tax	Based on business tax paid and VAT payable	7%
EIT	Based on taxable profits	15%,25%

The income tax rate applicable to the Company for the year is 15% (2009: 15%).

The income tax rate applicable to San Feng Logistics for the year is 25% (2009: Nil).

The income tax rate applicable to Chongqing Electronics for the year is 15% (2009: 15%).

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 new PRC EIT law (Guo Fa No. [2007] 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the development of China's western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010.

III. TAXATION *(CONTINUED)*

2 Tax preferential and approval notice *(Continued)*

In September 2008, Chongqing Electronics received the "Confirmation as a State-Encouraged Industry" ([Nei] Gu Li Lei Que Ren [2008] No.287) issued on 4 September 2008 from the Chongqing Municipal Development and Reform Committee, confirming Chongqing Electronics's status as a domestic enterprise in a state-encouraged industry. In accordance with the stipulations of the Circular on Issuance of Certain Policy Measures on Implementing the Western Development Program in Chongqing (Yu Wei Fa [2001] No.26) issued by Chongqing Municipal Party Committee and Chongqing Municipal Government, and the Minutes on Implementing Preferential Tax Policies for the Western Development Program to Promote Industrial and Economic Development ([2003] No.125) issued by the Chongqing Municipal Government, all types of domestic enterprises engaged in state-encouraged industries are entitled to a reduced EIT rate of 15% during the period 2001 to 2010. Therefore, Chongqing Electronics's tax rate was reduced to 15% from 2008 to 2010.

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.

(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 utilized to reduce the Company's EIT.

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 utilized 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 utilized.

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 recognize related income tax after 1 January 2008.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

III. TAXATION *(CONTINUED)*

3 Other explanations

(1) The Group 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.

(2) In accordance with the Circular on Tax Issues Concerning the Sale of Assets by Leasees in Sale Leaseback Financing ([2010] No.13) issued by the State Administration of Taxation on 8 September 2010, the sale of assets by leasees in sale leaseback financing are not subject to the value added tax and business tax. The sale of assets by leasees is not recognized as income from disposal. The tax payable for assets in financing leases are provided for based on their original carrying value before disposal. Payments made by leasees during the lease period are considered as part of financing interest, and deducted as financing expense before tax. The circular is effective from 1 October 2010. Any payment of taxes inconsistent with the circular will be refunded.

IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment or investment

RMB'000

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Closing amount of investment	Closing amount of other items that in substance from net investment in the subsidiary	Share-holding percentage (%)	Voting rights (%)	Included in consolidated financial statements (Y/N)	Closing amount of minority interests	Amount in current year's minority interests used to offset the profit/(loss) attributable to minority shareholders	Organization code
San Feng Jingjiang Port Logistics Company Limited	Company Limited	No. 1 Kangqiao Road, Xingang District, Jingjiang	Li Rensheng	Logistics	300,000	Goods-loading, lighterage, storage, traffic agent, stowage, common carrier	300,000	–	51%	51%	Y	147,000	–	202876786-0
Chongqing Iron & Steel Group Electronics Company Limited	Company Limited	No.5 Ganghua Road, Da Du Kou District, Chongqing	Xu Zhende	Construction and installation	10,626	Development,production and sale of computer software,electronic products; construction and installation of integrated computer network automation system	10,626	–	100%	100%	Y	–	–	50427800-6

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

2 Entities that newly consolidated during the year

(2) Subsidiaries that are newly consolidated during the year

Unit: RMB'000

Name	*Notes*	Rationale for conclusion as control	31 Dec 2010 Equity	2010 Net profits
Chongqing Electronics	IV,3	100% voting rights	30,983	4,289
San Feng Logistics		51% voting rights	300,000	—

The Company set up a new company, San Feng Logistics, 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. The registered capital of San Feng Logistics is RMB300,000,000. The Company is the controlling shareholder, holding 51% share of San Feng Logistics. The Company has fully subscribed the capital of RMB153,000,000 in January and March 2010. On 12 January 2010, San Feng Logistics obtained its operating license.

On consolidated date of 30 September 2010, the Company acquired 100% of the shares in Chongqing Electronics held by the Parent Group, with payment of RMB37,862,000 in cash.

3 Business combinations involving entities under common control during the year

Unit: RMB'000

Investee	*Note*	Rationale for conclusion as business combination under common control	Ultimate controller	Income from 1 Jan 2010 to combination date	Net profits from 1 Jan 2010 to combination date	Net cash flow from operating activities from 1 Jan 2010 to combination date
Chongqing Electronics	(1)	Chongqing Electronics and the Company are under the control of the Parent Group, and the control is not temporary	Parent Group	144,806	3,731	-2,025

(1) Chongqing Electronics is a company registered in Chongqing at April 1996,

Chongqing Electronics applies CAS (2006) before combination, which is the same accounting policy as those of the Company.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3 Business combinations involving entities under common control during the year

The carrying amounts of assets and liabilities of the investee are as follows:

Unit: RMB'000

Item	Combination date	31 Dec 2009
Cash at bank and on hand	108	2,554
Bills receivable	4,617	2,857
Accounts receivable	34,251	26,746
Other receivables	3,250	1,016
Prepayments	1,964	15,940
Inventories	16,977	17,302
Other current assets	2,514	754
Long-term equity investments	—	500
Fixed assets	22,428	23,936
Construction in progress	225	—
Intangible assets	4,352	4,427
Deferred tax assets	315	315
Total assets	91,001	96,347
Accounts payable	43,329	50,353
Advances from customers	1,486	1,914
Employee benefits payable	4,449	1,806
Taxes payable	483	855
Other payables	11,509	13,791
Total liabilities	61,256	68,719
Net assets	29,745	27,628

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

Unit: RMB'000

	2010			2009		
Item	**Original currency**	**Exchange rate**	**RMB**	Original currency	Exchange rate	RMB
Cash on hand						
RMB	**337**	**1.0000**	**337**	677	1.0000	677
Deposits with banks						
RMB	**1,527,481**	**1.0000**	**1,527,481**	1,397,492	1.0000	1,397,492
US Dollars	**1,118**	**6.6227**	**7,405**	947	6.8282	6,469
HK Dollars	**67**	**0.8509**	**57**	61	0.8805	54
Other monetary funds						
RMB	**216,240**	**1.0000**	**216,240**	188,757	1.0000	188,757
US Dollars	**292**	**6.6227**	**1,937**	6	6.8282	42
Total			**1,753,457**			1,593,491

Other cash and cash equivalents include:

Unit: RMB'000

Item	**2010**	2009
Restricted		
— Guarantees for letter of credit	**217,927**	185,989
Unrestricted		
— Cash in transit	**250**	2,810
Total	**218,177**	188,799

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

2 Bills receivable

(1) All bills receivables held by the Group 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.6 (1).

(2) At year end, the Group has no bills receivable for collateral or discounted.

(3) At the end of the year, no bills were transferred to accounts receivable due to the drawer's failure to honour agreement.

3 Accounts receivable

(1) Accounts receivable by clients:

Unit: RMB'000

Category	2010	2009
1. Third Party	**398,660**	235,660
2. Related Party	**227,394**	141,416
Sub-total	**626,054**	377,076
Less: Provision for bad and doubtful debt	**158,781**	156,449
Total	**467,273**	220,627

(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 accounts receivable (Note. VI (2)).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3 Accounts receivable *(Continued)*

(3) Accounts receivable by aging:

Unit: RMB'000

Category	2010	2009
Within 1 year (inclusive)	**463,164**	212,572
1 and 2 years (inclusive)	**3,242**	2,427
2 and 3 years (inclusive)	**1,646**	2,593
Over 3 years	**158,002**	159,484
Less: Provision for bad and doubtful debt	**158,781**	156,449
Total	**467,273**	220,627

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

(4) Accounts receivable by category:

Unit: RMB'000

		2010				2009			
		Balance		Provision for bad and doubtful debt		Balance		Provision for bad and doubtful debt	
Category	*note*	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually insignificant but provisioning individually	(5)	**10,358**	**2%**	**10,358**	**100%**	10,079	3%	10,079	100%
Provisioning for receivables that are grouped *(a)*									
Group 1	(6)	**398,660**	**64%**	**148,423**	**37%**	235,660	62%	146,370	62%
Group 2		**217,036**	**34%**	**—**	**—**	131,337	35%	—	—
Sub-total of groups		**615,696**	**98%**	**148,423**	**24%**	366,997	97%	146,370	40%
Total		**626,054**	**100%**	**158,781**	**25%**	377,076	100%	156,449	41%

(a) This category includes accounts receivables with no provision made on an individual basis.

(b) The Group holds no collaterals for the provision of accounts receivable stated above.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3 Accounts receivable *(Continued)*

(5) Provision for accounts receivable that are individually insignificant at the year end:

Unit: RMB'000

Content of accounts receivable	Balance	Provision for bad and doubtful debt	percentage
Provision for accounts receivable that are individually insignificant	10,358	10,358	100%

As at 31 December 2010, the Group's amounts due from related parties with ageing over 3 years mainly include the amount of RMB10,358,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited, Chongqing Iron & Steel Group Thermal Ceramics Company Limited and Chongqing Iron & Steel Group Refractory Material Company Limited. Due to unsatisfactory financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Group's management considered that it was unlikely to recover the amount. A provision of RMB2,710,000 was therefore 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 Group's management considered that it was unlikely to recover the amount. A provision of RMB7,369,000 was therefore made for bad debts in full in 2006. Due to unsatisfied financial conditions of Chongqing Iron & Steel Group Refractory Material Company Limited and meeting of creditors in 2010, the Group's management considered that it was unlikely to recover the amount. A provision of RMB279,000 was therefore made for bad debts in full in 2010.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3 Accounts receivable *(Continued)*

(6) Provisioning for accounts receivable in groups using aging analysis:

Unit: RMB'000

	2010			2009		
	Balance			Balance		
Aging	Amount	percentage	Provision for bad and doubtful debt	Amount	percentage	Provision for bad and doubtful debt
Within 1 year						
Including: within 3 months (inclusive)	**233,676**	**58%**	**—**	82,298	35%	—
4 to 12 months (inclusive)	**15,387**	**4%**	**770**	4,086	2%	203
Sub-total	**249,063**	**62%**	**770**	86,384	37%	203
1 to 2 years (inclusive)	**1,576**	**1%**	**394**	2,424	1%	606
2 to 3 years (inclusive)	**1,525**	**1%**	**761**	2,584	1%	1,292
Above 3 years	**146,496**	**36%**	**146,498**	144,268	61%	144,269
Total	**398,660**	**—**	**148,423**	235,660	—	146,370

(7) Actual written-off accounts receivable this year:

Unit: RMB'000

Name	Nature	Amount	Reason	Related party transaction
Chongqing Xinteng Metallurgy and Burden Company Limited	Payment for goods	5	debtor bankrupt	Yes
Total	—	5	—	—

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3 Accounts receivable *(Continued)*

(8) Accounts receivable due from the top five debtors of the Group:

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	77,585	within 3 months (inclusive)	12%
Chongqing Si Gang Steel Co., Ltd	Related party	32,054	4 to 12 months (inclusive)	5%
2. Guangzhou Shipyard International Co., Ltd	Third party	72,788	within 3 months (inclusive)	12%
3. Chongqing San Gang Steel Co., Ltd	Related party	38,994	within 3 months (inclusive)	6%
4. Ningbo Bao Yi Trade Co., Ltd	Third party	35,737	within 3 months (inclusive)	6%
5. Chongqing Iron & Steel Group Steel Pipe Company Limited	Related party	34,868	within 3 months (inclusive)	6%
Total		292,026		47%

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4 Prepayment

(1) The prepayments by category:

Unit: RMB'000

Item	2010	2009
Material prepayments	**743,503**	288,034
Prepayments for construction and equipment	**5,848**	39,642
Prepaid land premiums	**72,283**	30,169
Total	**821,634**	357,845

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

(3) Prepayments by ageing:

Unit: RMB'000

	2010		2009	
Ageing	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	**751,185**	**91%**	273,052	77%
1 and 2 years (inclusive)	**6,459**	**1%**	51,559	14%
2 and 3 years (inclusive)	**45,626**	**6%**	22,496	6%
Over 3 years	**18,364**	**2%**	10,738	3%
Total	**821,634**	**100%**	357,845	100%

The ageing is counted starting from the date prepayments is recognised. Payments which aged over one year are the prepayments for construction land for Jingxing Dolomite Expansion Phase II paid to Chongqing Wangsheng District Bureau of Land and Resource, and the amount of prepayment reclassification from long-term prepayment for raw materials.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4 Prepayment *(Continued)*

(4) Prepayment due from the top five debtors:

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Percentage of total prepayment	Recognition date	Reason for unsettlement
1. Chongqing Energy Investment Group	Third party	318,871	39%	2010	Goods not arrived
2. Jingjiang Huayu Investment and Construction Company Limited	Third party	42,000	5%	2010	Land cost not paid
3. Jiangsu Province Tenghong Trading Company Limited	Third party	35,808	4%	2010	Goods not arrived
4. Guanchi Coal Mining Company Limited in Xuanhan County	Third party	34,680	4%	2010	Goods not arrived
5. Chongqing Wansheng District Bureau of Land and Resources	Third party	30,169	4%	2008	Land cost not paid
Total		461,528	56%		

5 Other receivables

(1) Other receivables by category:

Unit: RMB'000

Category	2010	2009
Other receivables	**105,887**	34,464
Less: bad debt provision	**16,958**	6,748
Total	**88,929**	27,716

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5 Other receivables *(Continued)*

(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 receivable.

(3) Other receivables by aging:

Unit: RMB'000

Category	2010	2009
Within 1 year (inclusive)	**78,604**	20,545
1 and 2 years (inclusive)	**4,104**	2,492
2 and 3 years (inclusive)	**1,718**	4,273
Over 3 years	**21,461**	7,154
Less: Provision for bad and doubtful debt	**16,958**	6,748
Total	**88,929**	27,716

The aging is counted starting from the date other receivable is recognized.

(4) Other receivables by category:

Unit: RMB'000

		2010			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	Amount	Percentage	Amount	Percentage
Provision for other receivable that are individually significant	(6)	**62,758**	**59%**	**16,958**	**27%**
Provision for other receivable that are individually insignificant		**43,129**	**41%**	**—**	**—**
Total		**105,887**	**100%**	**16,958**	**16%**

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5 Other receivables *(Continued)*

(4) Other receivables by category: *(Continued)*

Unit: RMB'000

	2009			
	Gross carrying amount		Provision for bad and doubtful debts	
Category	Amount	Percentage	Amount	Percentage
Provision for other receivable that are individually significant	16,727	49%	6,718	40%
Provision for other receivable that are individually insignificant	17,737	51%	30	1%
Total	34,464	100%	6,748	20%

The Group holds no collaterals for the provision of other receivable stated above.

(5) For other receivables, provision for bad and doubtful debts is made on the basis of individual evaluation.

The Company paid Zhanjiang Economic Development Zone Chongqing Iron & Steel Company Zhanjiang Industrial & Trading Joint Group Company (Zhanjiang Industrial and Trading) in advance for raw materials of RMB10,240,000. The age of this amount payable is over 3 years. Zhanjiang Industrial and Trading has now ceased operations. Considering the ageing and the possibility of recovery in the future, the Company reclassified this balance as other receivables and made a provision for bad debt.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5 Other receivables *(Continued)*

(6) Other receivables due from the top five debtors

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Ageing	Percentage of total other receivables
1. Chongqing Customs	Third party	20,302	Within 1 year (inclusive)	19%
2. Tax Bureau of Da Du Kou District, Chongqing	Third party	14,422	With 1 year (inclusive)	14%
3. Tax Bureau of Changshou District, Chongqing	Third party	12,207	With 1 year (inclusive)	11%
4. Zhanjiang Industrial and Trading	Third party	10,240	Over 3 years	10%
5. People's Court of the Neijiang City in Sichuan Province	Third party	5,587	Over 3 years	5%
Total		62,758		59%

6 Inventories

(1) Inventories by category:

Unit: RMB'000

	2010			2009		
	Balance	**Provision**	**Net book value**	Balance	Provision	Net book value
Raw materials	**4,345,116**	**2,464**	**4,342,652**	2,155,769	2,346	2,153,423
Work in progress	**1,319,316**	**14,867**	**1,304,449**	923,141	29,755	893,386
Finished goods	**561,480**	**10,500**	**550,980**	307,093	18,243	288,850
Reusable materials	**613,838**	**59,336**	**554,502**	808,723	60,906	747,817
Total	**6,839,750**	**87,167**	**6,752,583**	4,194,726	111,250	4,083,476

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6 Inventories *(Continued)*

(2) Details of inventory movement:

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	2,155,769	17,013,990	14,824,643	4,345,116
Work in progress	923,141	15,536,945	15,140,770	1,319,316
Finished goods	307,093	15,436,985	15,182,598	561,480
Reusable materials	808,723	569,478	764,363	613,838
Sub-total	4,194,726	48,557,398	45,912,374	6,839,750
Less: Provision for diminution in value	111,250	505,302	529,385	87,167
Total	4,083,476	48,052,096	45,382,989	6,752,583

(3) Provision for diminution in value of inventories

Unit: RMB'000

Inventories category	Balance at the beginning of the year	Provision made for the year	Reductions during the year: Reversal	Reductions during the year: Written-off	Balance at the end of the year
Raw materials	2,346	118	—	—	2,464
Work in progress	29,755	87,298	—	102,108	14,867
Finished goods	18,243	417,544	—	425,287	10,500
Reusable materials	60,906	342	—	1,912	59,336
Total	111,250	505,302	—	529,385	87,167

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6 Inventories *(Continued)*

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

The 4100mm wide plate production line and the 1780mm hot roll production line underwent trial operation from January to March 2010 and from August to November 2010 respectively. The immaturity of the production technology has led to a low yield of finished products during the trial operation. The provision for losses arising from the excess of unit cost over the net realisable value, totaling RMB483,987,000 (2009: RMB35,526,000) has been capitalised and recognized as construction in progress.

7 Other current assets

Other current assets are deductible input VAT and prepaid EIT.

Unit: RMB'000

Item	2010	2009
Deductible input VAT	**543,754**	226,418
Prepaid EIT	**2,513**	1,854
Total	**546,267**	228,272

8 Long-term equity investments

(1) Long-term equity investments by category:

Unit: RMB'000

Item	2010	2009
Other long-term equity investments	**20,500**	6,000
Less: Provision for impairment	**500**	500
Total	**20,000**	5,500

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

8 Long-term equity investments *(Continued)*

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

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	Shareholding percentage	Voting Rights	Provision for impairment	Provision made during the year	Cash dividend for the year
Xiamen Shipbuilding Industry Co., Ltd. (Xiamen Shipbuilding)	Cost method	5,000	5,000	—	5,000	2%	2%	—	—	1,079
Jiangsu HuaYuan Metal Processing Company Limited (Jiangsu HuaYuan)	Cost method	15,000	—	15,000	15,000	5%	5%	—	—	—
Chongqing Ying Kang Company	Cost method	500	500	—	500	5%	5%	-500	—	—
Chongqing Iron & Steel Doorlead Property Management Company Limited (Doorlead Property Management)	Cost method	500	500	-500	—	10%	10%	—	—	—
Total	—	21,000	6,000	14,500	20,500	—	—	-500	—	1,079

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets

(1) Fixed assets

Unit: RMB'000

Item	Balance at the beginning of the year	Addition during the year	Reduction during the year	Balance at the end of the year
1. Total book value:	8,278,512	4,497,705	38,530	12,737,687
Including: Plant and buildings	2,348,982	1,527,850	2,814	3,874,018
Machinery and equipment	5,895,472	2,967,968	34,256	8,829,184
Motor vehicles	34,058	1,887	1,460	34,485
2. Total accumulated depreciation:	3,402,880	350,916	18,605	3,735,191
Including: Plant and buildings	896,389	64,998	1,159	960,228
Machinery and equipment	2,490,492	282,630	16,035	2,757,087
Motor vehicles	15,999	3,288	1,411	17,876
3. Total net book value:	4,875,632	4,146,789	19,925	9,002,496
Including: Plant and buildings	1,452,593	1,462,852	1,655	2,913,790
Machinery and equipment	3,404,980	2,685,338	18,221	6,072,097
Motor vehicles	18,059	-1,401	49	16,609
4. Total provision:	53,838	—	1,308	52,530
Including: Plant and buildings	4,687	—	—	4,687
Machinery and equipment	49,096	—	1,308	47,788
Motor vehicles	55	—	—	55
5. Total book value:	4,821,794	4,146,789	18,617	8,949,966
Including: Plant and buildings	1,447,906	1,462,852	1,655	2,909,103
Machinery and equipment	3,355,884	2,685,338	16,913	6,024,309
Motor vehicles	18,004	-1,401	49	16,554

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets *(Continued)*

(1) Fixed assets (Continued)

The Group recognized RMB350,916,000 as depreciation this year.

The Group recognized RMB4,492,225,000 as fixed assets transferred from construction in progress.

On 31 December 2010, the Group has no mortgage or guarantee of the fixed assets (2009: Nil).

(2) Fixed assets to be disposed and other idle fixed assets

Details of fixed assets to be disposed and other idle fixed assets as at 31 December 2010 are as follows:

Unit: RMB'000

Item	Book value	Accumulated depreciation	Impairment for provision	Net book value	Estimated disposal time
Plant and buildings	13,762	8,664	4,687	411	2011
Machinery and equipment	97,999	70,443	24,612	2,944	2011
Motor vehicles	225	164	55	6	2011
Total	111,986	79,271	29,354	3,361	

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets *(Continued)*

(3) Fixed assets suspended or to be suspended due to relocation

(a) Fixed assets suspension of production

As stated in Note II. 27 (3), the net residual value of those fixed assets suspended from production due to the environmental relocation was changed to their carrying value at the time of suspension of production. That is, full provision for depreciation had been made for those fixed assets at the year end, and no more provision would be required. As at 31 December 2010, the carrying value of the Group's fixed assets suspended from production due to environmental relocation was as follows:

Unit: RMB'000

Item	Book value	Accumulated depreciation	Impairment for provision	Net book value	Estimated disposal time
Plant and buildings	65,812	39,491	—	26,321	2011
Machinery and equipment	364,947	275,243	23,176	66,528	2011
Total	430,759	314,734	23,176	92,849	

(b) Fixed assets to be suspended

As stated in Note I, the Parent Group has agreed to compensate the Company for the impairment loss of fixed assets arising from the environmental relocation based on the net book value at the time the fixed assets were suspended less disposal proceeds. The Company therefore has not recognized any impairment of these fixed assets as at 31 December 2010.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets *(Continued)*

(4) Fixed assets acquired under finance leases

Unit: RMB'000

Item	Book value	Accumulated depreciation	Net book value
As at 31 December 2010			
Equipment from Jian Xin finance lease	**936,576**	**30,283**	**906,293**
Equipment from Min Sheng finance lease	**795,092**	**307,478**	**487,614**
Total	**1,731,668**	**337,761**	**1,393,907**
As at 31 December 2009			
Total	—	—	—

(a) Finance lease from Jian Xin

On 28 September 2009, the Company signed a transfer contract with Jian Xin Financial Leasing Co., Ltd. ("Jian Xin") and disposed of certain machinery equipment of the 4100mm steel plate production line which are awaiting commissioning ("the Equipment"), with a carrying amount of RMB1,230,672,000 to Jian Xin at a consideration of RMB1,400,000,000. On the same date, the Company signed a leasing contract with Jian Xin for the Equipment; the lease period 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 basis 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 lessee (the Company).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets *(Continued)*

(4) Fixed assets acquired under finance leases (Continued)

(a) Finance lease from Jian Xin *(Continued)*

At April 2010, the operation of main equipment in hot rolled operating line was finished and began normal production. According to the asset transfer contracts and the rental agreements, if no breach the contract, the ownership of equipment will automatically transfer to the lessee (the Company).

Based on the above lease agreement, the occurrence of any of the following would constitute a default on the lessee's part: (a) the lessee asset-liability level exceeds 70%; (b) the lessee defaults on agreements with any other financial institutions other than China Construction Bank, with an accumulated outstanding amount of more than RMB50,000,000; and (c) the lessee should inform the lessor in writing regarding a default event within three working days. The Company informed Jian Xin regarding its default on 28 October 2010. In its reply letter dated 29 October 2010, Jian Xin "exempts the responsibility of your company regarding the said default until 31 December 2010. A grace period is granted until 31 December 2011. Jian Xin will not terminate the lease, recover or remove the equipment leased under the lease agreement ("equipment") due to the said default in the grace period, and will not require your company to stop using or operating the equipment".

(b) Finance lease from Min Sheng

On 12 April 2010, the Company signed a transfer contract with Min Sheng Financial Leasing Co., Ltd. ("Min Sheng") and disposed of certain machinery equipment of the 2700mm rolling mill relocation production line which are awaiting commissioning ("the Equipment"), with a carrying amount of RMB510,221,000, to Min Sheng at a consideration of RMB510,000,000. On the same date, the Company signed a leasing contract with Min Sheng for the Equipment; the lease period is from 15 May 2010 to 15 May 2013, or 36 months. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB510,000,000, the lease rate is 5% lower than the interest rate for a 3-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 lessor at a price of RMB10,000.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9 Fixed assets *(Continued)*

(5) Fixed assets leased out under operating leases

Unit: RMB'000

Item	2010	2009
Plant and buildings	**17,855**	12,537
Machinery and equipment	**51**	62
Total	**17,906**	12,599

(6) Fixed assets with pending certificates of ownership

As at 31 December 2010, the Company was in the process of obtaining ownership certificates of certain plants and buildings with carrying amount of RMB631,157,000 and cost of RMB674,120,000 (2009: carrying amount of RMB218,663,000 and cost of RMB252,760,000).

10 Construction in progress

(1) Construction in progress

Unit: RMB'000

	2010			2009		
Item	Cost	Provision for impairment	Carrying amount	Cost	Provision for impairment	Carrying amount
Construction in progress	**798,835**	**—**	**798,835**	2,908,862	—	2,908,862

The book value of construction in progress capitalized at the end of year included capitalized borrowing costs of RMB30,795,000 (2009: RMB144,336,000). The capitalization rate used by the Group for determining the annual capitalization interest is 5.77% (2009: 5.45%).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10 Construction in progress *(Continued)*

(2) The Group's major constructions in progress as at 31 December 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 capitalized interest	Including: capitalized interest for this year	Rate for capitalize interest for the year	Sources of funds
1780mm hot-rolled plates	1,400,000	994,864	1,340,676	–	2,328,523	7,017	167%	83%	97,360	61,211	5.77%	Fund raised/ self-financing
4100mm wide-thick plates	1,918,000	1,876,509	759,102	–	2,135,012	500,599	137%	82%	156,269	48,110	5.77%	Bank loans/ self-financing
2700mm medium-size plates	876,880	–	169,764	–	–	169,764	19%	19%	7,292	7,292	5.77%	Bank loans/ self-financing
limestone transportation system	61,180	9,507	36,941	–	–	46,448	76%	75%	–	–		Bank loans/ self-financing
Others	–	27,982	61,383	14,332	28,690	75,007			14	–		
Total		2,908,862	2,367,866	14,332	4,492,225	798,835			260,935	116,613		

(3) Construction in process under finance lease

In April 2010, certain equipment of the principal part of 4100mm wide plate production line, the hot rolled line became ready for use and was transferred to fixed assets, including machinery equipment with net book value of RMB936,576,000 under Jian Xin finance lease (Note V. 9 (4)). As at 31 December 2010, the net book value of construction in progress under finance lease is RMB294,096,000 (2009: RMB1,230,672,000).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

11 Construction materials

Unit: RMB'000

Item	Balance at the end of the year	Balance at the beginning of the year
Construction materials for large equipment	**244,577**	242,977
Construction materials for special equipment	**31,557**	1,414
Total	**276,134**	244,391

12 Intangible assets

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
1. Total book value	358,657	—	—	358,657
Land use rights	352,179	—	—	352,179
Trademark	6,478	—	—	6,478
2. Total accumulated depreciation	18,389	7,109	—	25,498
Land use rights	11,911	7,109	—	19,020
Trademark	6,478	—	—	6,478
3. Total net book value	340,268	-7,109	—	333,159
Land use rights	340,268	-7,109	—	333,159
Trademark	—	—	—	—

The trademark was invested by the Parent Group during the restructuring of the Company. Its initial amount was determined based on the appraisal value issued by the independent valuer, Zhongzi Assets Assessment Co., Ltd. certified by the State-owned Assets Administration Department at the time of the restructuring of the Company.

As at 31 December 2010, the Company was in the process of obtaining ownership certificates of certain land use rights with carrying amount of RMB90,000,000 (2009: RMB90,000,000).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13 Deferred tax assets

(1) Recognized deferred tax assets

Unit: RMB'000

Item	2010 Deductible temporary differences	2010 Deferred tax assets	2009 Deductible temporary differences	2009 Deferred tax assets
Provision for impairment against assets	**155,892**	**23,384**	133,510	20,027
Unrealized income of sale and leaseback transactions	**—**	**—**	169,328	25,399
Amortization of finance costs	**—**	**—**	31,896	4,784
Deductible tax losses	**606,745**	**91,012**	456,612	68,492
Loss for changes in fair value of financial liability held for trading	**8,642**	**1,296**	—	—
Total	**771,279**	**115,692**	791,346	118,702

As at 31 December 2010, in considering the expected recovery or settlement of the deferred tax assets, the Company computed the book value of the deferred tax asset by adopting the applicable tax rate of 15% in respect of calculating the repossessing of the assets or discharging of the liabilities in the future (Note II. 27(4)).

In accordance with the Circular on Tax Issues Concerning the Sale of Assets by Lessees in Sale and Leaseback Financing ([2010] No.13) issued by the State Administration of Taxation on 8 September 2010 (Note III. 3(2)), the Company reversed deferred income tax assets of RMB30,183,000 in 2010 related to the unrealised gain or loss of Jian Xin's sale and leaseback financing and interest expenses of financing leases recognized in 2009.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13 Deferred tax assets *(Continued)*

(2) Unrecognized deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. As at 31 December 2010, the Company has not recognized deferred tax assets, in respect of impairment provision against assets, amounting to RMB24,006,000 (2009: RMB23,962,000).

14 Other non-current assets

Unit: RMB'000

Item	2010	2009
Prepayments for purchase of raw materials	**22,340**	50,780
Guarantee monies for finance lease	**14,250**	—
Total	**36,590**	50,780

Other non-current assets are long-term prepayments for purchase of raw materials and guarantee monies for finance lease. Long-term prepayments for purchase of raw materials will be settled between 2009 and 2013; guarantee monies for finance lease will be refunded from the lessor when the finance lease ends.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of other non-current assets.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15 Details of provisions for impairment

Unit: RMB'000

				Decrease in the year		
Item	*Notes*	Balance at the beginning of the year	Charge for the year	Reversal	Written-off	Balance at the end of the year
Provision for bad and doubtful debts of accounts receivable	V.3	156,449	2,337	—	5	158,781
Provision for bad and doubtful debts of other receivables	V.5	6,748	12,042	30	1,802	16,958
Provision for diminution in values of inventories	V.6	111,250	505,302	—	529,385	87,167
Provision for impairment against long-term equity investment	V.8	500	—	—	—	500
Provision for impairment against fixed assets	V.9	53,838	—	—	1,308	52,530
Total		328,785	519,681	30	532,500	315,936

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

16 Restricted assets

As at 31 December 2010, the restricted assets were as follows:

Unit: RMB'000

Item	*Note*	Balance of the beginning of the year	Charge for the year	Decrease during the year	Balance at the end of the year
Cash at bank - Restricted cash deposits for letters of credit	V.1	185,989	557,211	525,273	217,927

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17 Short-term loans

Unit: RMB'000

			2010		
Bank loan	**Annual interest rate**	**Principal**	**Currency**	**Exchange rate**	**RMB**
Loan on credit	5.35%~5.81%	120,000	RMB	1.0000	120,000
Loan with guarantee	Libor+1.00% ~ Libor+2.50%	39,185	USD	6.6227	259,509
Loan with guarantee	5.58%~6.33%	2,760,000	RMB	1.0000	2,760,000
Total					3,139,509

Unit: RMB'000

			2009		
Bank loan	**Annual interest rate**	**Principal**	**Currency**	**Exchange rate**	**RMB**
Loan with guarantee	Libor+1.20% ~ Libor+1.30%	22,892	USD	6.8282	156,313
Loan with guarantee	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.5 (3)).

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18 Financial liabilities held for trading

Unit: RMB'000

Item	Note	2010	2009
Foreign currency derivatives	(1)	**3,804**	—
Interest rate derivatives	(2)	**4,838**	—
Total		**8,642**	—

(1) The Company entered into two USD loan agreements with the Bank of China on 26 January 2010 and 11 August 2010 respectively. In relation to these two loans, the Company entered into long-term forward foreign exchange agreements with the Bank of China, pursuant to which the Company agreed to purchase USD at the rate of 6.8016 and 6.7273 respectively, with purchases of USD 11,392,000 and USD 17,805,000.

(2) On 23 April 2010, the Company entered into interest rate swap agreements with Standard Chartered Bank with total nominal principal amounts of USD 50,000,000. The Company agreed to pay at a fixed interest rate of 3.9% and receive at a floating interest rate of LIBOR + 2.5%.

On 29 September 2010, the Company entered into a US dollar interest rate swap agreement with HSBC with a nominal principal amount of USD 43,785,000. The Company agreed to pay at a fixed interest rate of 4.12% and receive at a floating interest rate of 3-month LIBOR + 3%.

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

19 Accounts payable

(1) Accounts payable by category:

Unit: RMB'000

Item	2010	2009
Raw material accounts payable	**1,938,907**	764,247
Accounts payable for construction and equipment	**868,214**	710,863
Total	**2,807,121**	1,475,110

(2) No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable. Accounts payable due to related party see Note VI.6 (5).

(3) Ageing analysis of accounts payable:

Unit: RMB'000

	2010		2009	
Item	**Amount**	**Percentage**	Amount	Percentage
Within 1 year (inclusive)	**2,722,470**	**97%**	1,408,596	95%
1year-2 years (inclusive)	**30,560**	**1%**	16,972	1%
2 year-3 years (inclusive)	**10,095**	**1%**	8,580	1%
Over 3 years	**43,996**	**1%**	40,962	3%
Total	**2,807,121**	**100%**	1,475,110	100%

The ageing is counted starting from the date accounts payable is recognized.

As at 31 December 2010, payables aged over three years mainly represented payables for construction equipment and other procurement payables of which construction payables mainly represents project quality deposit. Other procurement payables have not yet settled because of the quality of the goods. As at the date of approval of the financial statements, the above payables remained unsettled.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

20 Advances from customers

Advances are payments prepaid by customers of the Company. As at 31 December 2010, the ageing of advances from customers is all within one year.

Except for the payables shown in Note.VI.6(4), 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.

21 Employee benefits payable

Unit: RMB'000

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Salaries, bonus, allowances	23,286	651,318	664,191	10,413
Staff welfare fees	—	43,371	38,281	5,090
Social insurances				
Including:				
1. Medical insurance premium	—	84,746	84,746	—
2. Pension insurance premium	30,545	157,651	125,328	62,868
3. Unemployment insurance premium	2,880	5,118	7,983	15
4. Work injury insurance premium	—	5,092	5,092	—
5. Maternity insurance premium	—	2,928	2,857	71
Housing fund	—	49,293	49,293	—
Others	7,631	91,921	58,903	40,649
Including: union fund and employee education fund	5,430	19,622	19,507	5,545
Total	64,342	1,091,438	1,036,674	119,106

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22 Tax payable

Unit: RMB'000

Item	2010	2009
VAT	**79,528**	67,754
Business tax	**525**	540
EIT	**141**	167
Education surcharge	**2,412**	19
City maintenance and construction tax	**5,621**	44
Others	**2,397**	1,255
Total	**90,624**	69,779

23 Interests payable

Unit: RMB'000

Item	2010	2009
Interests payable for long-term loans installment interests and due principal	**4,050**	1,200
Interests payable for debentures	**10,333**	—
Total	**14,383**	1,200

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

24 Other payables

(1) Other payables by category:

Unit: RMB'000

Item	2010	2009
Payables to related parties *(Note.VI.6(3))*	**99,097**	70,924
Others	**170,149**	67,501
Total	**269,246**	138,425

(2) Except for the payables shown in Note.VI.6(3), 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.

25 Non-current liabilities due within one year

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

Unit: RMB'000

Item	2010	2009
Long-term loans due within one year	**1,716,240**	1,823,692
Long-term payables due within one year *(Note (5))*	**331,563**	76,426
Total	**2,047,803**	1,900,118

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

(2) Long-term loans due within one year

Unit: RMB'000

	2010				
Bank loan	**Annual interest rate**	**Principal**	**Currency**	**Exchange rate**	**RMB**
Credit loans	**5.85%**	**150,000**	**RMB**	**1.0000**	**150,000**
Guaranteed loans	**Libor+3.00%**	**61,500**	**USD**	**6.6227**	**407,296**
Guaranteed loans	**5.56%~7.56%**	**1,158,944**	**RMB**	**1.0000**	**1,158,944**
Total					**1,716,240**

Unit: RMB'000

	2009				
Bank loan	Annual interest rate	Principal	Currency	Exchange rate	RMB
Credit loans	5.40%	529,000	RMB	1.0000	529,000
Guaranteed loans	Libor+1.00%	60,000	USD	6.8282	409,692
Guaranteed loans	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.5 (3)).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

(3) Breach of loan covenants

On 2 September 2010, the Group entered into a loan agreement with the HSBC consortium ("HSBC loan agreement"). As of 31 December 2010, RMB499,944,000 and USD 61,500,000 had been extended to the Group, totaling RMB907,240,000.

According to the HSBC loan agreement, test on the financial covenants should be conducted "on a consolidated basis with reference to the audited annual consolidated financial statements submitted within 120 days after the financial year end and unaudited consolidated financial statements submitted within 90 days after the end of interim financial year". As at 31 December 2010, the Group has breached the financial covenants in the HSBC loan agreement. According to the HSBC loan agreement, the loans become immediately due and payable, and/or all or parts of the loans are repayable on demand in the case of breach. As a result, the Group reclassified the long-term loans with a carrying value of RMB907,240,000 as "Long-term loans due within one year" as at 31 December 2010. The Group is in the process of negotiation with the HSBC consortium in relation to the breach of covenants and is awaiting the formal reply from the HSBC consortium.

Any contingencies associated with default loan, see Note VII.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

(4) As at 31 December 2010, the top five long-term loans due within one year are:

Unit: RMB'000

					2010	
Lending entity	Loan starting date	Loan ending date	Currency	Interest rate	Amount in foreign currency (USD)	Amount in RMB
1. HSBC (China) Chongqing Branch	2010-09-17	2013-03-21	RMB	5.85%	—	471,015
2. HSBC (China) Chongqing branch	2010-09-17	2013-03-21	USD	Libor + 3.00%	43,785	289,973
3. HSBC (China) Chongqing Branch	2010-10-21	2013-01-21	USD	Libor + 3.00%	17,715	117,323
4. Industrial Bank Co., Ltd, Chongqing Jiulongpo Branch	2008-11-28	2011-11-27	RMB	5.85%	—	100,000
5. Hua Xia Bank Chongqing Branch	2009-12-24	2011-12-05	RMB	5.85%	—	100,000
Total					61,500	1,078,311

(5) Long-term payables due within one year

As at 31 December 2010, long-term payables due within one year included net obligations under finance leases of RMB331,563,000 (gross amount of RMB350,254,000 net of unrecognized finance charges of RMB18,691,000). As at 31 December 2009, long-term payables due within one year included net obligations under finance leases of RMB76,426,000 (gross amount of RMB81,618,000 net of unrecognized finance charges of RMB5,192,000).

26 Other current liability

Item	2010	2009
Deferred income — government allowance *(Note V.31)*	**893**	897
Deferred income — unrealized income of sale and leaseback transactions *(Note V.31)*	**8,392**	5,644
Total	**9,285**	6,541

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27 Long-term loans

(1) Long-term loans by category

Unit: RMB'000

	2010				
Bank loan	Annual interest rate	Principal	Currency	Exchange rate	RMB
Loan on credit	**Libor+2.30%**	**15,000**	**USD**	**6.6227**	**99,341**
Loan on credit	**5.56%**	**347,000**	**RMB**	**1.0000**	**347,000**
Loan with guarantee	**Libor+2.50%**	**50,000**	**USD**	**6.6227**	**331,135**
Loan with guarantee	**5.73%~5.85%**	**1,921,000**	**RMB**	**1.0000**	**1,921,000**
Total					**2,698,476**

Unit: RMB'000

	2009				
Bank loan	Annual interest rate	Principal	Currency	Exchange rate	RMB
Loan on credit	5.40%	100,000	RMB	1.0000	100,000
Loan with guarantee	Libor+2.50%	50,000	USD	6.8282	341,410
Loan with guarantee	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.5 (3)).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27 Long-term loans *(Continued)*

(2) As at 31 December 2010, long-term loans due to the top five lending entities are:

Unit: RMB'000

					2010	
Lending entity	Loan starting date	Loan ending date	Currency	Interest rate	Amount in foreign currency	Amount in original currency
1. Standard Chartered Bank (China) Company Limited Chongqing Branch	2009-09-10	2010-06-12	RMB	5.73%	—	300,000
2. Standard Chartered Bank (China) Company Limited Chongqing Branch	2009-12-10	2012-06-12	RMB	5.73%	—	300,000
3. Agriculture Bank Chongqing Dadukou Branch	2010-11-26	2013-11-25	RMB	5.85%	—	168,000
4. Industrial and Commercial Bank Chongqing Da Dukou Ganghualu Branch	2010-06-21	2012-06-11	RMB	5.85%	—	147,000
5. Industrial and Commercial Bank Chongqing Da Dukou Ganghualu Branch	2010-04-01	2012-03-31	RMB	5.85%	—	130,000
Total					—	1,045,000

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28 Debentures payable

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Decreases during the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	—	1,962,371	—	1,962,371
Total	—	1,962,371	—	1,962,371

The analysis of debentures payable is set out as follows:

Unit: RMB'000

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable at the beginning of the year	Interest accrued during the year	Interest paid during the year	Interests payable at the end of the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 September 2010	7 year	2,000,000	—	10,333	—	10,333	1,962,371

The Company used effective interest rate method to calculate bonds payable transaction costs and used amortized cost to calculate subsequent measurement. Actual annual interest rate is 6.55% in 2010.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

29 Long-term payables

Unit: RMB'000

Item	2010	2009
Obligations under finance leases - Jian Xin *(Note V.9(4))*	**1,255,767**	1,207,219
Obligations under finance leases - Min Sheng *(Note (4))*	**653,186**	—
Less: Due within one year *(Note V.25)*	**331,563**	76,426
Total	**1,577,390**	1,130,793

(1) As at 31 December 2010, the Company's unrecognized finance charges amounted to RMB400,973,000 (2009: RMB484,694,000).

(2) The long-term payables from Jian Xin were guaranteed by the Parent Group (Note VI.5 (3)).

(3) 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 payables.

(4) Except for NoteV.9 (4), on 12 April 2010, the Company signed a financing lease contract with Min Sheng for some machinery equipment for 2700mm rolling mill relocation production line from certain vendor. The lease period is from 15 May 2011 to 15 May 2014, or 36 months. Actual rent is calculated on the leasing cost and leasing rate; the initial leasing cost is RMB440,000,000, accumulated payment will be RMB482,309,000. The lease rate is 5% lower than the interest rate of a 4-year loan designated in RMB quoted by the PBOC. According to the lease, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the leaser at price of RMB10,000. Also according to the term of lease contract, "lessor would not take the responsibility if vendors cannot deliver or delay in delivery of leased equipment due to any reason. And lessee should make their own representations or claims directly to the vendors, even if the equipment cannot be delivered or delay in delivery. The lessee shall unconditionally fulfill its obligation under this contract, including but not limited to pay full rent and other payables", the buyer would transfer the right which belonged to the Company. On 31 December 2010, the Company recognized liability in accordance with the progress of payment, total amount of RMB220,000,000.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

29 Long-term payables *(Continued)*

(5) The Company using effective interest rate method calculated long-term payable transaction costs and using amortized cost to calculate subsequent measurement. 2010 actual annual interest rate is 5.13%~10.62% (2009: 10.62%).

30 Special payables

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Relocation compensation	—	8,698	—	8,698
Other	—	160	—	160
Total	—	8,858	—	8,858

(1) Relocation compensation represented temporary unused building relocation compensation of Chongqing Electronics.

31 Other non-current liabilities

Unit: RMB'000

Item	*Notes*	**2010**	2009
Other financial liabilities	(1)	**250,000**	520,000
Deferred income - government grants	(2)	**16,374**	17,223
Deferred income - unrealized income of sale and leaseback transactions	(3)	**163,512**	169,328
Less: expected to realized in one year *(Note V.26)*		**9,285**	6,541
Total		**420,601**	700,010

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

31 Other non-current liabilities *(Continued)*

(1) According to relevant agreements, the Company received a few advances from customers totaling RMB1,000,000,000 in 2008 and 2009. Such amounts were settled on a monthly basis during the period from August 2008 to December 2013. The customer was entitled to a certain amount of discount in selling prices every month. Such long-term advance was recognized as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the effective interest rate method. In 2010, the effective interest rate was 5.40~5.72% (2009: 5.40%~7.19%); interest expense for financial liabilities has been recognized at RMB40,494,000 (2009: RMB50,054,000).

(2) The Company received government grants of RMB18,625,000 from 2005 to 2010 relating to the construction of environmental protection equipment and facilities. These government grants were recognized as deferred income and evenly amortized over the estimated useful life of relevant assets. The amortization amount in 2010 accounted to RMB899,000 (2009: RMB985,000).

(3) In the sale and leaseback finance lease with Jian Xin in 2009 and Min Sheng in 2010 (Note V.9(4)), the excess of sale proceeds over the carrying amount which amounts RMB169,107,000 (2009: RMB169,328,000) is deferred and would be amortized as an adjustment of depreciation according to the depreciation percentage. The amortization amount in 2010 is RMB5,595,000 (2009: Nil).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32 Share capital

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share subject to trading restrictions				
— State-owned shares	835,800	—	835,800	—
— Other legal person holding shares	4,200	—	4,200	—
— Natural person holding shares	5,000	—	5,000	—
Shares not subject to trading restrictions				
— RMB - denominated ordinary share - domestically listed A shares	350,000	845,000	—	1,195,000
— Overseas listed foreign shares - Hong Kong listed H shares	538,127	—	—	538,127
Total	1,733,127	845,000	845,000	1,733,127

On 6 May 2009, the People's Court of Sichuan Neijiang City, Shizhong District informed the Parent Group that it had accepted the applications of Neijiang No.2 Construction Engineering Company, Neijiang Dong Xing Rural Credit Cooperative, and Sichuan Neijiang Building Construction Engineering Company holding that the executor for Special Steel's external debt would be the Parent Group. In accordance with the order, Shanghai Golden Gavel Commodity Auction Co., Ltd. was engaged to auction 9.2 million restricted shares of the Company, held by Parent Group, which had been frozen in compliance with law. Vendee Yao Jiankang bought 5 million shares and vendee Shanghai Zhenghai Asset Management Co., Ltd. bought 4.2 million shares. These vendees completed the related stock ownership transfer procedures on 12 May 2009.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32 Share capital *(Continued)*

The Parent Group has respected its agreement that, for a period of 36 months commencing from the listing date of the A shares of the Company, it would not transfer or entrust to others the management of the A shares which it holds, or allow such shares to be repurchased by the Company, and it released 845,000,000 conditional shares in March 2010, among which 810,000,000 shares have become tradable on the market. 35,000,000 shares of the Company held by the Parent Group, according to Implementing Measures for the Transfer of a Portion of State-owned Shares from the Domestic Securities Market to the National Social Security Fund, jointly issued by the MOF, SASAC, CSRS and the National Council for Social Security Fund, as well as Notice No. 63, have been frozen.

33 Capital reserve

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premiums	904,883	—	37,862	867,021
Other capital reserves	4,746	—	—	270,127
Transfer from items under previous standards	270,127	—	186	4,560
Total	1,179,756	—	38,048	1,141,708

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

34 Specific reserve

	Unit: RMB'000
Balance at the beginning of the year	166
Additions during the year	1,000
Settlements during the year	-358
Balance at the end of the year	808

The special provision is provided for production safety expenses and other similar expenses based on construction and installation project costs and sales of dangerous goods. The year-end balance of this account represents unutilized safety production expenses and other similar expenses.

35 Surplus reserve

Unit: RMB'000

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	582,880	572	—	583,452

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

36 Retained earnings

Unit: RMB'000

Item	*Notes*	Amounts	Appropriation rate
Retained earnings at the beginning of the year		2,085,972	
Add: net profits for the year attributable to shareholders of the Company		10,009	
Less: statutory surplus reserve	(1)	-572	10% of net profit
Retained earnings at the end of the year		2,095,409	—

According to the prospectus, the Extraordinary General Meeting convened on 16 April 2003 passed a resolution that all of its existing and new shareholders are entitled to the retained earnings before the date of issuance of A share in 2007 after the completion of issuance of A share in 2007. As at 31 December 2010, the Company's retained earnings amounted to RMB2,095,409,000, which shall be shared on a pro-rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

(1) Appropriation to surplus reserves

In accordance with the Articles of Association, the Company made appropriations to the following surplus reserve for 2010:

Statutory surplus reserve	10%

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the BOD, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital. In 2010, the Company appropriated 10% of the net profit to statutory surplus reserve, totalling RMB572,000 (2009: RMB8,403,000).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

36 Retained earnings *(Continued)*

(1) Appropriation to surplus reserves (Continued)

The amount appropriated to discretionary surplus reverse is proposed by the BOD and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. The Company did not appropriate any profit to the discretionary surplus reserve in 2010.

(2) Distribution of ordinary share dividends

During the BOD meeting on 25 March 2011, the directors of the Company resolved to declare no dividend in respect of 2010 (2009: Nil).

(3) Retained earnings at the end of the year

The Company's surplus reserve attributable to the Company for the year is RMB429,000 (2009: Nil).

As at 31 December 2010, the consolidated retained earnings attributable to the Company included an appropriation of RMB429,000 to surplus reserve made by the subsidiaries (2009: Nil).

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

37 Operating income, operating costs

(1) Operating income, operating costs

Unit: RMB'000

Item	2010	2009
Operating income from principal activities	**16,547,490**	10,836,828
Other operating income	**70,350**	20,119
Operating income	**16,617,840**	10,856,947
Operating costs from principal activities:	**15,272,661**	9,639,516
Other operating costs	**56,279**	14,698
Operating costs	**15,328,940**	9,654,214

(2) Principal activities (by industry)

Unit: RMB'000

	2010		2009	
Industry	**Operating income**	**Operating costs**	Operating income	Operating costs
Iron and steel	**16,429,218**	**15,182,741**	10,633,996	9,464,558
Electronic engineering design, construction and installation	**118,272**	**89,920**	202,832	174,958
Total	**16,547,490**	**15,272,661**	10,836,828	9,639,516

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

37 Operating income, operating costs *(Continued)*

(3) Principal activities (by product)

Unit: RMB'000

Product	2010 Operating income from principal activities	2010 Operating cost from principal activities	2009 Operating income from principal activities	2009 Operating cost from principal activities
Steel plates	**8,802,753**	**8,015,648**	4,302,653	3,726,976
Hot-rolled coil	**905,799**	**942,763**	—	—
Steel billets	**955,858**	**896,548**	699,230	637,732
Steel sections	**3,103,872**	**2,906,801**	3,253,359	2,944,824
Wire rods	**1,704,030**	**1,556,370**	1,698,686	1,510,790
Cool-rolled sheets	**200,963**	**222,925**	178,955	202,525
Others	**874,215**	**731,606**	703,945	616,669
Total	**16,547,490**	**15,272,661**	10,836,828	9,639,516

(4) The Company's operating income from the top five customers

Unit: RMB'000

Name of customer	Operating income	Percentage of total operating income
1. Guangzhou Shipyard International Co., Ltd	769,589	5%
2. Ningbo Bao Yi Trade Co., Ltd	749,602	5%
3. Guizhou Wire Rope Incorporated Company	647,676	4%
4. Jiangsu New Yangzijiang Shipbuilding Co., Ltd	557,658	3%
5. Sichuan Chengdu Chenggong Construction Machinery Co., Ltd	420,111	3%
Total	3,144,636	20%

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

38 Business taxes and surcharges

Unit: RMB'000

Item	2010	2009
Business tax	**5,099**	3,975
City maintenance and construction tax	**6,043**	437
Education surcharge	**2,593**	187
Total	**13,735**	4,599

39 Selling and distribution expenses

Unit: RMB'000

Item	2010	2009
Labor cost	**22,319**	22,203
Transportation fee	**241,377**	169,318
Ship inspection fee	**110,145**	65,864
Others	**37,017**	37,039
Total	**410,858**	294,424

40 General and administrative expenses

Unit: RMB'000

Item	2010	2009
Labor cost	**216,162**	168,948
Repair fee	**265,903**	277,731
Land using fee	**19,822**	18,010
Others	**61,072**	69,361
Total	**562,959**	534,050

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

41 Financial expenses

Unit: RMB'000

Item	2010	2009
Interest expenses from loans and payables	**563,354**	364,839
Less: Borrowing costs capitalised	**116,613**	87,139
Net interest expenses	**446,741**	277,700
Interest income from deposits and receivables	**-9,408**	-11,237
Exchange gains	**-28,612**	-566
Other financial expenses	**20,881**	9,896
Total	**429,602**	275,793

42 Impairments losses

Unit: RMB'000

Item	2010	2009
I. Loss for bad and doubtful debts	**14,349**	3,270
II. Loss for diminution in value of inventories	**21,315**	13,158
Total	**35,664**	16,428

43 Gains from changes in fair value (Losses denoted with "-")

Unit: RMB'000

Item	2010	2009
Loss for changes in fair value of derivatives held for trading during the year	**-8,642**	—

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

44 Investment income

Investment income by item

Unit: RMB'000

Item	*Note*	2010	2009
Income from long-term equity investments under cost method	(1)	**1,079**	1,304
Investment income from disposal of long-term equity investments	(2)	**14**	—
Total		**1,093**	1,304

(1) In 2010, the Company had obtained RMB1,079,000 as the cash dividends from Xiamen Shipbuilding.

(2) After the approval of SASAC of Chongqing on 29 March 2010, Chongqing Electronics sold its 100% shares of Doorlead Property Management to Chongqing Iron & Steel Group Doorlead Realty Company Limited and obtained RMB14,000 as investment income.

45 Non-operating income

(1) Non-operating income by item is as follows:

Unit: RMB'000

Item	*Notes*	2010	2009	Recorded in extraordinary gain and loss
Gains on disposal of fixed assets		**9,038**	1,109	9,038
Government grants	(2)	**10,715**	11,076	10,715
Received tax return		**5,407**	8,540	5,407
Income from gas emission reduction		**7,052**	—	7,052
Relocation compensation	(3)	**153,194**	—	153,194
Others		**2,012**	4,885	2,012
Total		**187,418**	25,610	187,418

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

45 Non-operating income *(Continued)*

(2) Details of government grants

Unit: RMB'000

Item	2010	2009	Notes
Social insurance fund to financial bureau	**9,816**	6,375	Subsidies to enterprises having difficulty stabilizing positions approved by the Chongqing Human Resource and Social Security Bureau, in line with the Notice on Further Enhancing Work regarding Position Stabilization Subsidies and Post-Job Training Subsidies (Yu Ren She Fa No.120[2009])
Compensation for special facilities	**—**	3,716	Compensation for Post-flood special facilities for the Three Gorges Project approved by Dadukou District Three Gorges Project Office, in line with the Notice on the Investment Plan for Compensation for Post-flood Special Facilities for the Three Gorges Project (Du Yi No.18[2009])
Special appropriation for environmental protection	**899**	985	Note V. 31(2)
Total	**10,715**	11,076	

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

45 Non-operating income *(Continued)*

(3) Relocation compensation

The Parent Group had authorized free use of the production line of RMB3.99 billion and RMB1.97 billion for steel production line and its auxiliary public facilities, please refer Note I. The charge for using the production line and its auxiliary facilities is regarded by the Parent Group as the compensation of relevant expense of the Group during the environmental relocation.

46 Non-operating expenses

Unit: RMB'000

Item	2010	2009	Recorded in extraordinary gain and loss
Losses on disposal of fixed assets	**1,329**	10	1,329
Donation expenses	**250**	200	250
Others	**240**	587	240
Total	**1,819**	797	1,819

47 Income tax

Unit: RMB'000

Item	*Note*	2010	2009
Current tax expenses for the period based on tax law and corresponding regulations		**1,113**	1,147
Deferred taxation adjustments	(1)	**3,010**	10,877
Total		**4,123**	12,024

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

47 Income tax

(1) The analysis of deferred tax adjustments is set out below:

Unit: RMB'000

Item	2010	2009
Origination and reversal of temporary differences *(Note V.13(1))*	**25,530**	79,369
Recognition of previously unrecognized tax losses	**-22,520**	-68,492
Total	**3,010**	10,877

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Unit: RMB'000

Item	2010	2009
Profit before taxation	**14,132**	103,556
Expected income tax expenses at a tax rate of 15%	**2,120**	15,533
Add: Unrecognized temporary differences	**44**	-3,978
Non-deductible expenses	**2,121**	1,033
Residential enterprise dividends income	**-162**	-564
Income tax expenses	**4,123**	12,024

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

48 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:

	2010	2009
Consolidated net profit of the Company attributable to ordinary shareholders *(RMB'000)*	**10,009**	91,273
Weighted average number of ordinary shares outstanding *('000 shares)*	**1,733,127**	1,733,127
Basic earnings per share	**0.006**	0.05

(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. As at 31 December 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. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

49 Supplement to income statement

Expenses are analysed by their nature as follows:

Unit: RMB'000

Item	2010	2009
Operating income	**16,617,840**	10,856,947
Less: Changes in inventories of finished goods and work in progress	**-650,562**	-334,203
Raw materials and consumables used	**15,261,502**	8,465,764
Employee benefits expenses	**1,083,157**	732,869
Depreciation and amortisation expenses	**352,430**	305,023
Impairment losses	**35,664**	16,428
Financial expenses	**429,602**	275,793
Others	**91,915**	1,291,717
Profit before income tax	**14,132**	103,556

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

50 Notes to cash flow statement

(1) Other cash received relating to operating activities

Unit: RMB'000

Item	Amount
Government grants	10,715
Others	16,913
Total	27,628

(2) Other cash paid relating to operating activities

Unit: RMB'000

Item	Amount
Bank charges	13,446
Others	32,164
Total	45,610

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

50 Notes to cash flow statement *(Continued)*

(3) Other cash received relating to investing activities

Unit: RMB'000

Item	Amount
Interest income on deposits of bank	9,408
Total	9,408

(4) Other cash paid relating to financing activities

Unit: RMB'000

Item	Amount
Payment for finance lease	161,030
Total	161,030

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

51 Supplement to cash flow statement

(1) Supplemental information to cash flow statement

Unit: RMB'000

Supplemental Information	2010	2009
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	**10,009**	91,532
Add: Impairment provisions for fixed assets	**35,664**	16,428
Depreciation of fixed assets	**345,321**	299,781
Amortization of intangible assets	**7,109**	5,242
Losses on disposal of fixed assets (gains denoted with '-')	**-7,709**	-1,099
Losses on changes in fair value (gains denoted with '-')	**8,642**	—
Financial expenses (income denoted with '-')	**396,839**	216,451
Investment losses (gain denoted with '-')	**-1,093**	-1,304
Decrease in deferred tax assets (increase denoted with '-')	**3,010**	10,882
Decrease in gross inventories (increase denoted with '-')	**-2,645,024**	-1,063,757
Decrease in operating receivables (increase denoted with '-')	**-1,850,428**	-822,381
Increase in operating payables (decrease denoted with '-')	**1,628,711**	587,332
Decrease in restricted cash (increase denoted with '-')	**-31,938**	-129,382
Net cash flow from operating activities	**-2,100,887**	-790,275
2. Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance leases	**220,000**	—
3. Change in cash and cash equivalents:		
Cash at the end of the year	**1,535,530**	1,407,502
Less: Cash at the beginning of the year	**1,407,502**	1,151,555
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents	**128,028**	255,947

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

51 Supplement to cash flow statement *(Continued)*

(2) Cash and cash equivalents

Unit: RMB'000

Item	2010	2009
Cash and cash equivalents	**1,535,530**	1,407,502
Including: Cash on hand	**337**	677
Bank deposits available on demand	**1,534,943**	1,404,015
Other monetary fund available on demand	**250**	2,810
Cash equivalents		
Closing balance of cash and cash equivalents	**1,535,530**	1,407,502

Note: Cash and cash equivalents disclosed above exclude cash with restricted usage and amount of investments with short maturity period.

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1 Information on the parent of the Company

Parent Company name	Organization code	Registered place	Business nature	Registered capital RMB'000	Shareholding percentage	Proportion of voting rights
Chongqing Iron & Steel Group Limited Company	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%

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

1 Information on the parent of the Company *(Continued)*

(1) Registered capital and changes therein

Unit: RMB'000

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Parent Group	1,650,706	—	—	1,650,706

(2) Shares of the Company held by the Parent Group and changes therein

Unit: RMB'000

	2010		2009	
	Amount	**Percentage**	Amount	Percentage
Parent Group	**835,800**	**48%**	835,800	48%

2 Information on the subsidiaries of the Company

Details of information on the subsidiaries of the Company, see note IV.

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

3 Transactions with its key management personnel

Unit: RMB'000

Remuneration of key management personnel	*Notes*	Fees	Basic salaries, housing allowances and other allowances	Bonuses	Pension	2010 Total
Director						
Mr. Dong Lin	(1)	—	—	—	—	—
Mr. Yuan Jinfu	(1)	—	—	—	—	—
Mr. Chenshan		—	29	229	15	273
Mr. Sun Yijie		—	29	219	15	263
Mr. Li Rensheng		—	27	219	15	261
Mr. Chen Hong		—	30	229	15	274
Mr. Liu Xing		60	—	—	—	60
Mr. Liu Tianni		60	—	—	—	60
Mr. Zhang Guolin		60	—	—	—	60
Supervisors						
Mr. Zhu Jianpai	(1)	—	—	—	—	—
Mr. Huang Youhe	(1)(3)	—	—	—	—	—
Ms. Gong Jun		—	25	139	15	179
Ms. Chen Hong		—	26	167	15	208
Mr. Gao Shoulun		—	—	—	—	—
Mr. Li Zheng	(4)	—	—	—	—	—
Mr. Li Meijun	(4)	—	—	—	—	—
Key management personnel						
Mr. You Xiaoan		—	26	169	15	210
Mr. Wu Zisheng		—	27	219	15	261
Ms. Gong Jun	(3)	—	17	13	5	35
Ms. Song Ying	(3)	—	16	151	11	178
Total		180	252	1,754	136	2,322

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

3 Transactions with its key management personnel *(Continued)*

Unit: RMB'000

Remuneration of key management personnel	*Notes*	Fees	Basic salaries, housing allowances and other allowances	Bonuses	Pension	2009 Total
Director						
Mr. Dong Lin	(1)	—	—	—	—	—
Mr. Luo Fuqin	(2)	—	32	142	6	180
Mr. Yuan Jinfu	(1)	—	—	—	—	—
Mr. Chenshan		—	29	202	18	249
Mr. Sun Yijie		—	29	198	18	245
Mr. Li Rensheng		—	27	196	18	241
Mr. Chen Hong		—	29	202	18	249
Mr. Wang Xiangfei	(2)	30	—	—	—	30
Mr. Liu Xing		60	—	—	—	60
Mr. Sun Yu	(2)	30	—	—	—	30
Mr. Liu Tianni	(2)	30	—	—	—	30
Mr. Zhang Guolin	(2)	30	—	—	—	30
Supervisors						
Mr. Zhu Jianpai	(1)	—	—	—	—	—
Mr. Huang Youhe	(1)(3)	—	—	—	—	—
Ms. Gong Jun	(3)	—	25	123	18	166
Ms. Chen Hong		—	26	147	18	191
Mr. Gao Shoulun		—	—	—	—	—
Key management personnel						
Mr. You Xiaoan		—	26	149	18	193
Mr. Wu Zisheng		—	27	195	18	240
Ms. Song Ying	(3)	—	24	164	18	206
Mr. Xu Gang	(5)	—	19	179	13	211
Total		180	293	1,897	181	2,551

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

3 Transactions with its key management personnel *(Continued)*

(1) According to contracts agreed with the Company in 2009, the salaries of Mr. Dong Lin, Mr. Yuan Jin Fu, Mr. Zhu Jian Pai and Mr. Huang You He will be paid by the Parent Group.

(2) During the annual general meeting held on 1 June 2009, Mr. Luo Fu Qin retired from the position of Director, Mr. Sun Yu and Mr. Wang Xiang Fei retired from the position of Non-executive Director, Mr Zhang Guo Lin and Mr. Liu Tian Ni were elected as Non-executive Director.

(3) During the first extraordinary general meeting held on 18 August 2010, the resignation of Mr. Huang You He and Ms. Gong Jun as a Supervisor, effective from 18 August 2010, was discussed and approved. During the 43rd written motion resolution of the fifth board of directors held on 10 September 2010, the resignation of Ms. Song Ying and the appointment of Ms Gong Jun as a Financial Administrator was approved.

(4) During the first extraordinary general meeting held on 18 August 2010, Mr. Li Zheng and Mr. Li Meijun were elected as Shareholder Supervisors of the fifth board of supervisors through cumulative voting. According to contracts agreed with the Company in 2010, the salaries of Mr. Li Zheng and Mr. Li Meijun will be paid by the Parent Group.

(5) During the 9th written text of the motion resolution of the fifth board of directors held on 29 July 2009, Mr. Luo Fu Qin resigned from the position of Deputy General Manager.

(Expressed in Renminbi unless otherwise indicated)

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

4 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 Yingsite Mould Company Limited	00928742-3	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 San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the same parent company
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construct 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

(Expressed in Renminbi unless otherwise indicated)

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

4 Related parties in which the Company has no control *(Continued)*

Name of related party	Organization code	Relationship with the 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 Huanya Construction Materials Company Limited	70936427-4	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 Iron & Steel Group Thermal Ceramics Company Limited	20288942-6	Under the same parent company
Chongqing Sanfeng Software Company Limited	70938458-2	Under the same parent company
Chongqing Iron & Steel (Hong Kong) Company Limited	16393102-000-10-08-0	Under the same parent company
Chongqing Iron &Steel Environment Protection Investment Company Limited	69925005-3	Under the same parent company
Chongqing Fengsheng Environment Protection Company Limited	69391416-2	Under the same parent company
Chengdu Jiujiang Environment Protection and Electricity Company Limited	67431581-8	Under the same parent company
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	75929686-3	Under the same parent company
Chongqing Tongxing Refuse Disposal Company Limited	73395998-0	Under the same parent company
Chongqing Sanfeng Xinke Steel Structure Ge Ban Company Limited	76594464-4	Under the same parent company
Chongqing Mining Investment Overseas Company Limited	1599001	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)*

5 Related-party transactions

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

The Group

Unit: RMB'000

		2010		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 accessories	**765,624**	**8.20%**	750,904	10.62%
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	**561,173**	**65.89%**	493,479	80.49%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Industrial gases	**387,736**	**90.52%**	254,635	84.84%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**303,387**	**11.41%**	82,816	3.83%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and project under construction	**199,223**	**12.10%**	138,354	9.53%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and project under construction	**145,109**	**8.81%**	16,507	1.14%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and industrial gases	**57,144**	**2.21%**	27,569	3.31%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**31,104**	**1.51%**	8,408	0.01%
Chongqing Iron & Steel Group Industrial Company Limited	Ore and accessories	**26,427**	**0.28%**	37,710	0.77%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**19,897**	**19.96%**	17,436	16.84%
Chongqing Si Gang Steel Company Limited	Scrap	**5,145**	**0.75%**	5,693	0.01%
Chongqing San Gang Steel Company Limited	Scrap	**3,443**	**0.50%**	2,109	0.33%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts	**–**	**–**	25,828	4.85%
Other		**5,854**		15,142	
Total		**2,511,266**		1,876,590	

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

5 Related-party transactions *(Continued)*

(1) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Group and Company from related parties: *(Continued)*

The Company

Unit: RMB'000

	Purchase of products	2010 Transaction amount	2010 Percentage in the total amount of similar transactions	2009 Transaction amount	2009 Percentage in the total amount of similar transactions
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**765,624**	**8.20%**	750,904	10.62%
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	**561,173**	**65.89%**	493,479	80.49%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Industrial gases	**387,736**	**90.52%**	254,635	84.84%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**303,387**	**11.41%**	82,816	3.83%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and the project under construction	**199,223**	**12.10%**	138,354	9.53%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and the project under construction	**145,109**	**8.81%**	16,507	1.14%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and industrial gases	**57,144**	**2.21%**	27,569	3.31%
Chongqing Iron & Steel Group San Feng Science & technology Company Limited	Fixed assets and accessories	**31,104**	**1.51%**	8,408	0.01%
Chongqing Iron & Steel Group Industrial Company Limited	Ore and accessories	**26,427**	**0.28%**	37,710	0.77%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**19,897**	**19.96%**	17,436	16.84%
Chongqing Electronics	Instrument accessories	**16,771**	**3.46%**	9,777	3.56%
Chongqing Si Gang Steel Company Limited	Scrap	**5,145**	**0.75%**	5,693	0.01%
Chongqing San Gang Steel Company Limited	Scrap	**3,443**	**0.50%**	2,109	0.33%
Chongqing Iron & Steel Group Machinery Manufacturing Company Limited	Spare parts	**—**	**—**	25,828	4.85%
Other		**5,854**		15,142	
Total		**2,528,037**		1,886,367	

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

5 Related-party transactions *(Continued)*

(1) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Group and Company from related parties: *(Continued)*

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

The price of raw materials and spare parts purchased from related parties were determined with reference to the price for similar transactions between such related and other third parties, sum of costs and profit premium or the bidding price of suppliers.

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

(2) Sales of products to related parties by the Group and the Company is summarized as follows:

The Group

RMB:'000

		2010		2009	
	Sale of products	Transaction amount	Percentage in the total amount of similar transactions	Transaction amount	Percentage in the total amount of similar transactions
Parent Group	Steel products, utilities and ancillary mate	144,160	0.91%	178,571	1.63%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Utilities and ancillary materials	342,740	48.73%	178,247	34.57%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	262,767	1.68%	193,560	1.91%
Chongqing San Gang Steel Company Limited	Steel products	230,194	1.47%	200,118	1.97%
Chongqing Si Gang Steel Company Limited	Steel products	220,190	1.40%	202,842	2.00%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	143,434	0.88%	152,247	1.43%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products, utilities and ancillary mate	102,330	0.62%	29,692	0.28%
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Steel products	22,412	0.14%	109	0.02%
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	17,558	2.50%	6,778	1.31%
Chongqing Donghua Special Steel Company Limited	Utilities and ancillary materials	11,876	0.02%	1,100	0.21%
Chongqing Iron & Steel Group Industrial Manufactory Company Limited	Utilities and ancillary materials	–	–	12,241	2.37%
Others		33,018		20,594	
Total		1,530,679		1,176,099	

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

5 Related-party transactions *(Continued)*

(2) Sales of products to related parties by the Group and the Company is summarized as follows *(Continued)*:

The Company

Unit: RMB'000

		2010		2009	
	Sale of products	Transaction amount	Percentage in the total amount of similar transactions	Transaction amount	Percentage in the total amount of similar transactions
The Parent Group	Steel products, utilities and ancillary mate	57,787	0.37%	40,025	0.37%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Utilities and ancillary materials	342,740	48.73%	178,247	34.57%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	262,767	1.68%	193,560	1.91%
Chongqing San Gang Steel Company Limited	Steel products	230,194	1.47%	200,118	1.97%
Chongqing Si Gang Steel Company Limited	Steel products	220,190	1.40%	202,842	2.00%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	143,434	0.88%	152,247	1.43%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products, utilities and ancillary materials	102,330	0.62%	29,692	0.28%
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Steel products	22,412	0.14%	109	0.02%
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	17,558	2.50%	6,778	1.31%
Chongqing Donghua Special Steel Company Limited	Utilities and ancillary materials	11,876	0.02%	1,100	0.21%
Chongqing Iron & Steel Group Industrial Manufactory Company Limited	Utilities and ancillary materials	–	–	12,241	2.37%
Others		34,402		21,251	
Total		1,445,690		1,038,210	

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

5 Related-party transactions *(Continued)*

(2) Sales of products to related parties by the Group and the Company is summarized as follows *(Continued)*:

Save for the sales stated aforesaid, the Group and 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 Group and the Company's loans provided by the Parent Group and other related parties:

As at 31 December 2010, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Group and the Company amounting to RMB3,019,509,000 and RMB3,818,375,000 (2009: RMB2,280,313,000 and RMB2,955,102,000) respectively were guaranteed by the Parent Group (Note V.17, 25 and 26).

All liabilities under the lease agreement between the Company and Jian Xin are guaranteed by Parent Group (Note V.9 (4)). The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

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

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

5 Related-party transactions *(Continued)*

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

The Group

Unit: RMB'000

		2010		2009	
	Note	**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 Parent Group	(a)	**90,189**	**34.82%**	62,630	36.43%
Fees paid for supporting services	(b)	**361,980**	**45.82%**	181,720	23.98%
Rental expenses for land use right	(c)	**19,821**	**100.00%**	18,010	100.00%
Fees received for supporting	(d)	**25,818**	**27.69%**	52,271	23.83%
Entrusted trial operation gains/losses settlement	(e)	**539,666**	**100.00%**	10,433	100.00%
Fees paid for purchasing ore	(f)	**1,334**	**100.00%**	—	—
Authorized using of assets	(g)	**153,194**	**100.00%**	—	—

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

5 Related-party transactions *(Continued)*

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

The Company

Unit: RMB'000

	Note	2010 Transaction amount	2010 Percentage in the total amount of similar transactions	2009 Transaction amount	2009 Percentage in the total amount of similar transactions
Social welfare expenses paid by Parent Group	(a)	**86,157**	**35.24%**	59,050	37.04%
Fees paid for supporting services	(b)	**409,027**	**49.49%**	209,275	26.81%
Rental expenses for land use right	(c)	**19,769**	**100.00%**	17,957	100.00%
Fees received for supporting	(d)	**863**	**2.64%**	2,874	52.28%
Entrusted trial operation gains/losses settlement	(e)	**539,666**	**100.00%**	10,433	100.00%
Fees paid for purchasing ore	(f)	**1,334**	**100.00%**	—	—
Authorized using of assets	(g)	**153,194**	**100.00%**	—	—

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

(a) Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions. No handling fee was charged by the Parent Group.

(b) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agency services provided by 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 Municipal 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 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.

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

5 Related-party transactions *(Continued)*

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

(e) According to the Production Line Trial Run Commissioning Contract signed between the Company and the Parent Group on 24 December 2009, the two parties shall make settlements on a monthly basis for the gains or losses incurred during the trial run of the Parent Group's steel smelting production line, while for the trial runs of the Company's 4100mm wide plate and 1780mm hot rolled plate production lines and auxiliary public facilities, the gains or losses shall be apportioned according to the proportional value of the assets held by each party; thus the Parent Group may need to pay or receive the difference calculated to the Company. The time period of the trial runs is tentatively set at the earlier of the six months from the effective date of the contract or the actual day of completion. Furthermore, the Parent Group shall pay RMB1 million each month to the Company as management fees during the trial runs. The Production Line Trial Run Commissioning Contract was terminated on 31 March 2010 and replaced by the Authorisation Agreement on the Use of Assets, signed between the Company and the Parent Group on 19 April 2010.

The Company signed the Production Line Debugging Commissioning Contract with the Parent Group on 19 October 2010 to test and adjust the steel smelting production line of the Parent Group in Changshou New District. During the debugging period, from 20 October 2010 to 30 November 2010, the Parent Group will bear all the related gains or losses and will pay a debugging management fee to the Company of RMB500,000. After the debugging, the Parent Company will authorize the Company free use of these assets, see Note VI.5 (4)(g).

(f) As at 5 May 2010, the Company entered into an agency agreement with Chongqing Iron & Steel (Hong Kong) Limited Company, engaging the latter to procure imported materials for the Company. Based on the Company's procurement plans, Chongqing Iron & Steel (Hong Kong) Limited Company negotiates with external parties and agrees on procurement prices with the Company. After the Company confirms the procurement prices, Chongqing Iron & Steel (Hong Kong) Limited Company signs procurement contracts with external parties. The Company pays Chongqing Iron & Steel (Hong Kong) Limited Company an agency fee of USD 0.1 per tonne of iron ore. In 2010, Chongqing Iron & Steel (Hong Kong) Limited Company procured RMB2,042,455,000 worth of iron ore for the Company for an agency fee of RMB1,334,000. As at 31 December 2010, the agency fee payable to Chongqing Iron & Steel (Hong Kong) Limited Company by the Company amounted to RMB218,370,000, see Note VI.5(4)(g).

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

5 Related-party transactions *(Continued)*

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

(g) All of the Company's land for production purpose in Da Du Kou District was rented from the Parent Group. In accordance with the requirements of Chongqing Municipal Government on emissions reduction, industry distribution and strategic planning, the Company will gradually shut down the equipment in the Da Du Kou District and move the main production lines to the Changshou New Zone before 30 June 2011. Pursuant to the undertaking of the Parent Group to compensate the Company for its related losses in the land lease agreement between the two (as stated in Note I), as well as the Parent Group's agreement with respect to the relocation issue on 19 December 2008 to fund construction within Changshou New Zone itself and then authorize the Company's operating management of projects or assets there related to iron and steel production (so as to fulfill the Parent Group's undertakings to the Company regarding the avoidance of horizontal competition), the Company issued a Letter on the Use of Assets in Changshou New Zone and Related Issues on 16 March 2010, requiring the Parent Group to authorize the Company to use at no cost the iron and steel refinery production line, as well as related auxiliary public facilities belonging to the Parent Group in the area, to compensate for the extra expenses incurred to the Company in its preparation for the relocation. As calculated by the Company and the Parent Group, the costs of using the assets are roughly equivalent to the extra expenses incurred in relation to the relocation. Subsequent to the approval of the State-owned Assets Supervision and Administration Commission of Chongqing on 19 March 2010 (Shou Wen Ban Zi No.157), the Parent Group replied to the Company on 26 March 2010, agreeing that it would authorize the Company to use at no cost the iron and steel refinery production line, along with related auxiliary public facilities in working condition belonging to the Parent Group in Changshou New Zone (with a value of RMB3.99 billion). The Agreement on the Authorization of the Use of Assets was signed on 19 April 2010, granting an initial one-year usage period from 1 April 2010 to 31 March 2011. On 19 April 2010, the Company released its Opinion of Independent Directors on Related-Party Transactions. The Company's independent directors, Mr. Liu Xing, Mr. Zhang Guolin and Mr. Liu Tianni, stated that "the terms of the Agreement on the Authorization of the Use of Assets were made on normal commercial terms and were fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned". In December 2010, the Parent Group further authorized the Company to use at no cost additional iron and steel refinery equipment of working condition in Changshou New Zone belonging to the Parent Group (valued at RMB1.97 billion) from 1 December 2010 to 31 March 2011. As calculated by the Parent Group and the Company on 6 January 2011, the actual additional expenses of preparation environmental relocation incurred in 2010 to the Company amounted to RMB147,125,000, while the costs should be measured related to the authorized use in 2010 of the above assets amounted to RMB153,193,000.

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

6 Balance of accounts due from and due to related parties

(1) Bills receivable

The Group and the Company

Unit: RMB'000

Related party	2010	2009
Chongqing San Gang Steel Company Limited	**25,386**	41,698
Chongqing Si Gang Steel Company Limited	**11,724**	14,830
Chongqing Iron & Steel Group Steel Pipe Company Limited	**38,144**	48,195
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**—**	1,000
Total bills receivable	**75,254**	105,723

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

6 Balance of accounts due from and due to related parties

(2) Receivables

The Group

Unit: RMB'000

Related party	2010	2009
Chongqing Si Gang Steel Company Limited	**109,639**	63,208
Chongqing San Gang Steel Company Limited	**38,994**	19,531
Chongqing Iron & Steel Group Steel Pipe Company Limited	**34,868**	20,768
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**23,333**	1,237
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,369**	7,383
Parent Group	**6,875**	17,662
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,758**	2,758
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**1,331**	5,661
Chongqing Iron & Steel Group Design and Research Institute	**1,232**	1,840
Chongqing Donghua Special Steel Company Limited	**528**	31
Chongqing Iron & Steel Group Fireproof Material Company Limited	**279**	266
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	**161**	27
Others	**27**	1,044
Total accounts receivable	**227,394**	141,416
Provision for bad and doubtful debts	**10,358**	10,079
Total net accounts receivable	**217,036**	131,337

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

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

(2) ***Receivables*** *(Continued)*

The Company

Unit: RMB'000

Related party	2010	2009
Chongqing Si Gang Steel Company Limited	**109,539**	63,109
Chongqing San Gang Steel Company Limited	**38,990**	19,531
Chongqing Iron & Steel Group Pipe Company Limited	**34,868**	20,768
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**22,159**	—
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,369**	7,369
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	2,756
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**1,331**	5,661
Others	**667**	142
Total accounts receivable	**217,679**	119,336
Provision for bad and doubtful debts	**10,079**	10,079
Total net accounts receivable	**207,600**	109,257

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

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

(3) Other payables

The Group

Unit: RMB'000

Related party	2010	2009
Parent Group *(Note(a))*	**52,394**	27,838
Chongqing Iron & Steel Group Design and Research Institute	**31,618**	7,395
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**5,384**	—
Chongqing Iron & Steel Group Industrial Company Limited	**2,636**	6,267
Chongqing Iron & Steel Group Transportation Company Limited	**1,786**	25
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**2,489**	628
Chongqing Iron & Steel Group Mining Company Limited	**—**	16,175
Chongqing Wuxia Mining Industry Incorporated Company	**—**	9,675
Other	**2,790**	2,921
Total	**99,097**	70,924

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

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

(3) Other payables (Continued)

The Company

Unit: RMB'000

Related party	2010	2009
Parent Group *(Note (a))*	**52,394**	27,838
Chongqing Iron & Steel Group Design and Research Institute	**31,618**	7,395
Chongqing Electronics	**19,137**	981
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**5,384**	—
Chongqing Iron & Steel Group Industrial Company Limited	**2,636**	6,176
Chongqing Iron & Steel Group Transportation Company Limited	**1,786**	25
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**1,587**	628
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**—**	16,175
Chongqing Wuxia Mining Industry Incorporated Company	**—**	9,675
Others	**2,564**	1,822
Total	**117,106**	70,715

(a) The Company settles its payments to Parent Group's subsidiaries through Parent Group. Parent Group did not charge any handling charges in this regard. As at 31 December 2010, the Company has not settled the above procurement payments.

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

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

(4) *Advances from customers*

The Group and the Company

Unit: RMB'000

Related party	2010	2009
Chongqing Huanya Construction Materials Company Limited	—	872
Parent Group *(Note(a))*	**6,942**	63,979
Total	**6,942**	64,851

(5) *Account payables*

The Group and the Company

Unit: RMB'000

Related party	2010	2009
Chongqing Iron & Steel (Hong Kong) Company Limited *(Note VI.5(4)(f))*	**218,370**	—
Total	**218,370**	—

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

VII. CONTINGENCIES

As at 31 December 2010, the Company has the following disclosable significant or contingent events as follows:

(1) Pending litigation

On 22 June 2007, the Company and Beijing Wei Xin Tong Li Trade Company Limited ("Beijing Wei Xin") signed a steel sale contract, stipulating that the Company shall supply a batch of normalized steel plates to Beijing Wei Xin. On the same day, Beijing Wei Xin signed a Future Procurement Agreement with Shanghai Dongdi Company Limited ("Shanghai Dongdi") on the same contract object; while Shanghai Dongdi signed a Steel Sales Contract with Zhejiang Feiting Pipe Industry Company ("Zhejiang Feiting") on 18 June 2007 to sell the same object.

In December 2007, Zhejiang Feiting took legal proceedings against Shanghai Dongdi, Beijing Wei Xin and the Company on the quality problems of the steel plates in the Shanghai Hongkou District People's Court ("Hongkou Court"). The Hongkou Court handed down its judgment "(2009) Hong Min Er (shang) Chu Zi No. 14" to the Company on 25 February 2010. The Company filed an appeal with Shanghai No.2 Intermediate People's Court on 1 March 2010. The Shanghai No.2 Intermediate People's Court in its judgment (2010) Hu Er Zhong Min Si (Shang) Zhong Zi No. 591, judged that the Company to bear joint and several liabilities for the compensation of RMB3,729,000 due to Zhejiang Feiting from Shanghai Dongdi. The Company appealed to the Shanghai High People's Court for a retrial. On 7 January 2011, Shanghai High People's Court dismissed the Group's request for a retrial in its judgment (2010) Hu Gao Min Er (Shang) Shen Zi No.259.

Up to the approval date of these financial statements, the Company is in the process of preparing the relevant documents for filing an appeal to the Supreme Court to safeguard the legal rights and interests of the Company. The Company obtained legal advice from its lawyers, and were advised that because of the joint and several liability of three defendants, Zhejiang Feiting could enforce its claim against any of the three defendants, including the Company. Since the Company has yet to receive any enforcement order from the court, the Company is unable to evaluate the loss arising from this claim.

(2) Breaches on financial covenants

Regarding Note V.25(3), breaches on certain financial covenants pursuant to the HSBC loan agreement, the Group considered that whether there were any breaches prior to 31 December 2010 is being discussed with HSBC consortium. The Group therefore considers that any potential penalty interest or other outflow of economic benefits could not be measured reliably.

VIII. COMMITMENTS

1 Capital commitments

Unit: RMB'000

Item	*Note*	**2010**	2009
Investment contracts contracted for but not yet performed or performed partially		**15,000**	15,000
Significant construction contracts contracted for but not yet performed or prepared to perform		**2,139,148**	1,638,623
Significant construction contracts authorized but not yet contracted for	(1)	**1,411,549**	78,792
Finance leases contracted for and being performed or to be performed.		**2,572,245**	1,691,913
Total		**6,137,942**	3,424,328

(1) Subsequent to the 45th written motion resolution of the fifth board of directors held on 15 October 2010, the Company intended to invest RMB1,405,760,000 for the construction of special steel project in Changshou New Zone, and will authorize the management for the relevant details.

(2) The Group paid RMB883,867,000 in 2010 for construction and equipment under capital commitment of 2009.

VIII. COMMITMENTS *(CONTINUED)*

2 Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Unit: RMB'000

Item	2010	2009
Within 1 year (inclusive)	**19,821**	19,821
After 1year but within 2 years (inclusive)	**17,627**	19,821
After 2 years but within 3 years (inclusive)	**17,627**	17,627
After 3 years	**65,246**	82,873
Total	**120,321**	140,142

The lease payments for land use right paid by the Group amounted to RMB19,821,000 in 2010.

IX. POST BALANCE SHEET EVENTS

1 Profit appropriation after the balance sheet date

On 31 January 2011, the Company entered into a finance lease contract with Unismart International Leasing Co, Ltd ("Unismart"). The lease is a direct lease, that is, Unismart will pay the full price of the leased items to the Company, and the Company should purchase the equipment from the Company's designated supplier China Sino Steel Equipment & Engineering Co., Ltd in accordance with the entrust purchase agreement entered into between the two parties. The equipment is for the construction of 3 # sintering machine and 5 # coke oven in Changshou New Zone, and the financing amount is RMB491,000,000.

2 Profit appropriation after the balance sheet date

During the BOD meeting on 25 March 2011, the directors of the Company resolved to declare no dividend in respect of 2010 (2009: Nil).

X. OTHER MATERIAL EVENTS

1 Lease

Minimum lease payments to be paid of the Group as lessee under finance leases in next years:

Unit: RMB'000

Rest of lease term	Minimum lease payments
Within 1 year (inclusive)	430,638
After 1year but within 2 years (inclusive)	780,238
After 2 years but within 3 years (inclusive)	868,788
After 3 years	492,581
Total	2,572,245

Details of finance lease, see Note V. 9(4) and 29(4).

2 Segment reporting

The Group has three reportable segments, which are iron and steel, electronic construction and installation and logistics segment, determined based on the structure of its internal organization, 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 is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance. Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses will allocate to each segment based on revenue.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

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, prepayments and bank borrowings attributable to the individual segments.

Results of operations is revenue after deducting expenses, depreciation, amortization and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the 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.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

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

Primary segment reporting

Unit: RMB'000

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Operating income from external transaction	16,499,568	10,654,115	118,272	202,832	—	—	—	—	16,617,840	10,856,947
Operating income from inter-segment transaction	—	—	73,256	51,535	—	—	-73,256	—51,535	—	—
Operating income	16,499,568	10,654,115	191,528	254,367	—	—	-73,256	—51,535	16,617,840	10,856,947
Operating expenses	16,493,848	10,570,086	187,239	246,864	—	—	-73,256	-51,535	16,607,831	10,765,415
Operating profit	5,720	84,029	4,289	7,503	—	—	—	—	10,009	91,532
Supplementary information:										
— interest income from bank loan	9,402	11,228	6	9	—	—	—	—	9,408	11,237
— interest expense from bank loan	446,741	277,700	—	—	—	—	—	—	446,741	277,700
— depreciation and amortization expenses	350,571	303,132	1,859	1,891	—	—	—	—	352,430	305,023
— impairment loss for the year	32,676	15,617	2,988	811	—	—	—	—	35,664	16,428
Total assets	22,304,380	15,968,458	89,059	96,347	300,804	—	-201,892	-982	22,492,351	16,063,823
Total liabilities	16,751,115	10,412,796	58,073	68,719	803	—	-19,144	-982	16,790,847	10,480,533

X. OTHER MATERIAL EVENTS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments

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

The Group's financial instrument risks mainly include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

These are analyzed below:

(1) Credit risk

The failure to perform contract duty by customers of other parties involved in financial instruments is identified as credit risk. If transactions involve financial derivatives, counterparty must have good credit rating, and has signed net settlement agreement with the Group. In view of the counterparty credit rating is good, management of the Group does not expect the counterparty will be unable to perform their duties. Credit risk is primarily attributable to receivables.

The Group requires prepayment by cash or bills from most of its customers prior to delivery. As for accounts receivable and other receivables, the limit on sales credit is determined by the Group's credit assessment on customers. In the normal course, the Group does not obtain collateral from its customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in Note V.3 and Note V.5 respectively.

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

X. OTHER MATERIAL EVENTS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(2) Liquidity risk

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

The Group's banking facility was granted by certain financial institutions in China. As at 31 December 2010, it had an undrawn standby credit of RMB3,691,502,000. Drawn borrowing facilities were recorded in non-current borrowings and current borrowings respectively. The maturity analysis of long-term loans is disclosed in Note V.27.

(3) Interest rate risk

Interest-bearing financial instruments at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Group has achieved an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. Interest rates for short-term and long-term liabilities are set out in Note IV.17, 25, 27, 28 29 and 31. As at 31 December 2010, the fair value of derivative financial instruments recorded as financial liability is RMB4,838,000. As at 31 December 2009, the Group held no forward exchange contracts. The changes in the fair value of derivative financial instruments is recognized in profit and loss, see Note V.43.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(3) Interest rate risk (Continued)

(a) Sensitivity analysis

As at 31 December 2010, it is estimated that a general increase of 100 basis points with all other variables held constant, would decrease the Group's net profit by RMB57,273,000 (2009: RMB42,377,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied to all financial instruments of the Group. Percentage of change was made on reasonable estimate of interest rate change between balance sheet date and next such date. The analysis is performed on the same basis for 2009.

(4) Foreign currency risk

As the Group's sales of products and purchases of raw material for production are mainly carried out in Renminbi, foreign currency risk is primarily attributable to the foreign currency deposits and loans. In order to avoid foreign currency risk related to US dollar loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. As at 31 December 2010, the fair value of derivative financial instruments recorded as financial liability is RMB3,804,000. As at 31 December 2009, the Group did not hold any forward exchange contracts. The changes in the fair value of derivative financial instruments is recognized in profit and loss, see Note V.43.

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

X. OTHER MATERIAL EVENTS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(4) Foreign currency risk (Continued)

Unit: RMB'000

Item	2010 USD	2009 USD
Deposits with bank	**7,405**	6,469
Short-term loans	**-259,509**	-156,313
Long-term loan due within one year	**-407,296**	-409,692
Long-term loans	**-430,476**	-341,410
Net amount	**-1,089,876**	-900,946

Major foreign exchange rates applied by the Group:

	Average rate		Reporting date middle mid-spot	
	2010	2009	2010	2009
USD	**6.7255**	6.8314	**6.6227**	6.8282

Assuming other variables remain unchanged, a 5% strengthening of the Renminbi against the US dollar as at 31 December 2010 would increase the Group's profit after tax by approximately RMB46,237,000 (2009: RMB38,288,000).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2009.

(5) Price risks

As the Group sells steel and iron products at market prices it is exposed to market price fluctuations.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(Continued)*

(6) Fair values

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Group's bank loans are evaluated at discounted cash flow based on similar financial instruments' prevailing market interest rates, and approximate to the book value.

The fair value of forward exchange contracts is either based on their listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar interest rate instrument at the measurement date.

The Group's other long-term equity investments without public quotations do not have a significant impact on the financial condition and operating result of the Group.

There were no significant differences between the book value and fair value of the Group's financial assets and financial liabilities as at 31 December 2010.

XI. COMPARATIVE FIGURES

The comparative figures of 2010 represented figures for the year from 1 January 2009 to 31 December 2009. Due to business combination under common control shall be regarded as the current state of existence at the beginning of the combination parties, the Group has adjusted comparative statements of 2009.

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

1 Accounts receivable

(1) Accounts receivable by clients:

Unit: RMB'000

Category	2010	2009
1.Third party	**394,501**	230,346
2.Related party	**217,679**	119,336
Sub-total	**612,180**	349,682
Less: Provisions for bad and doubtful debt	**155,941**	154,819
Total	**456,239**	194,863

(2) Accounts receivable by aging:

Unit: RMB'000

Category	2010	2009
Within 1 year (inclusive)	**456,013**	189,109
1 and 2 years(inclusive)	**992**	605
2 and 3 years(inclusive)	**340**	594
Over 3 years	**154,835**	159,374
Less: Provisions for bad and doubtful debt	**155,941**	154,819
Total	**456,239**	194,863

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

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

1 Accounts receivable *(Continued)*

(3) Accounts receivable by category:

Unit: RMB'000

		2010				2009			
		Balance		Bad debt provision		Balance		Bad debt provision	
	Note	amount	percentage	amount	percentage	amount	percentage	amount	percentage
Individually insignificant but provisioning individually	(4)	**10,079**	**2%**	**10,079**	**100%**	10,079	3%	10,079	100%
Provisioning for receivables that are grouped	(a)								
Group 1	(5)	**394,501**	**64%**	**145,862**	**37%**	230,346	66%	144,740	63%
Group 2		**207,600**	**34%**	**—**	**—**	109,257	31%	—	—
Sub- total of groups		**602,101**	**98%**	**145,862**	**24%**	339,603	97%	144,740	43%
Total		**612,180**	**100%**	**155,941**	**25%**	349,682	100%	154,819	44%

(a) Including no provisioning for accounts receivable individually.

(b) The Company holds no collaterals for the provision of accounts receivable stated above.

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

1 Accounts receivable *(Continued)*

(4) Individually insignificant but provisioning individually:

Unit: RMB'000

Content	balance	Bad debt provision	Percentage
Individually insignificant but provisioning individually	10,079	10,079	100%

As at 31 December 2010, the Company's amounts due from related parties with ageing over 3 years mainly include the amount of RMB10,079,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to unsatisfactory financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that it was unlikely to recover the amount. A provision of RMB2,710,000 was therefore made for bad debts in full in 2005. Due to cessation of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company's management considered that it was unlikely to recover the amount. A provision of RMB7,369,000 was therefore made for bad debts in full in 2006.

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

1 Accounts receivable *(Continued)*

(5) Provisioning for accounts receivable by aging in groups:

Unit : RMB'000

	2010			2009		
	Balance			Balance		
Aging	Amount	Percent-age	Bad debt provision	Amount	Percent-age	Bad debt provision
Within 1 year						
Including: within 3 months (inclusive)	233,676	58%	—	82,233	35%	—
4 to 12 months (inclusive)	14,789	4%	739	2,766	1%	137
Sub- total	248,465	62%	739	84,999	36%	137
1 to 2 years (inclusive)	992	1%	248	603	1%	151
2 to 3 years (inclusive)	340	1%	170	585	1%	293
Above 3 years	144,704	36%	144,705	144,159	62%	144,159
Total	394,501	—	145,862	230,346	—	144,740

(6) Accounts receivable written-off during this year:

In 2010, the Company did not have any accounts receivable written off and related provision (2009: RMB2,281,000).

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

1 Accounts receivable *(Continued)*

(7) Accounts receivable due from the five largest 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	77,485	within three months (inclusive)	12%
Chongqing Si Gang Steel Co., Ltd	Related party	32,054	four to twelve months (inclusive)	5%
2. Guangzhou Shipyard International Co., Ltd	Third parry	72,788	within three months (inclusive)	12%
3. Chongqing San Gang Steel Co., Ltd	Related party	38,990	within three months (inclusive)	6%
4. Ningbo Bao Yi Trade Co., Ltd	Third parry	35,737	within three months (inclusive)	6%
5. The Parent Group steel Pipe Co., Ltd	Related party	34,868	within three months (inclusive)	6%
Total		291,922		47%

(8) 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 accounts receivable (Note. VI (2)).

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

2 Other receivables

(1) Other receivables by category:

Unit: RMB'000

Category	2010	2009
Other receivables	**102,752**	33,418
Less: bad debt provision	**16,958**	6,718
Total	**85,794**	26,700

(2) The prepayments by ageing:

Unit: RMB'000

Category	2010	2009
Within 1 year (inclusive)	**75,564**	19,535
1 to 2 years (inclusive)	**4,019**	2,472
2 to 3 years (inclusive)	**1,715**	4,269
Above 3 years	**21,454**	7,142
Less: bad debt provision	**16,958**	6,718
Total	**85,794**	26,700

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

2 Other receivables *(Continued)*

(3) Other receivables by category:

Unit: RMB'000

		2010			
		Gross carrying amount		Provision for bad and doubtful debts	
Category	*Notes*	**Amount**	**Percentage**	**Amount**	**Percentage**
Provision for other receivables that are individually significant	(5)	**62,758**	**61%**	**16,958**	**27%**
Provision for other receivables that are individually insignificant		**39,994**	**39%**	**—**	**—**
Total		**102,752**	**100%**	**16,958**	**17%**

Unit: RMB'000

	2009			
	Gross carrying amount		Provision for bad and doubtful debts	
Category	Amount	Percentage	Amount	Percentage
Provision for other receivables that are individually significant	16,727	50%	6,718	40%
Provision for other receivables that are individually insignificant	16,691	50%	—	—
Total	33,418	100%	6,718	20%

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

2 Other receivables *(Continued)*

(4) 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.

(5) Other receivables due from the top five debtors

Unit: RMB'000

Name of enterprise	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable
1. Chongqing Customs	Third party	20,302	With 1 year (inclusive)	20%
2. Bureau Da Du Kou in Chongqing	Third party	14,422	With 1 year (inclusive)	14%
3. Tax Bureau of Changshou District, Chongqing	Third party	12,207	With 1 year (inclusive)	12%
4. Zhanjiang Industrial & Trading	Third party	10,240	Over 3 years	10%
5. People's Court of the Neijiang City in Sichuan Province	Third party	5,587	Over 3 years	5%
Total		62,758		61%

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

3 Long-term equity investment

(1) Long-term equity investments by category:

Unit: RMB'000

Item	2010	2009
Investments in subsidiaries	**182,745**	—
Other long-term equity investments	**20,000**	5,000
Sub-total	**202,745**	5,000
Less: Provision for impairment	**—**	—
Total	**202,745**	5,000

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

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	Pro-vision made during the year	Cash dividend for the year
Xiamen Shipbuilding	Cost method	5,000	5,000	—	5,000	2%	2%	—	—	1,079
Jiangsu Huayuan	Cost method	15,000	—	15,000	15,000	5%	5%	—	—	—
San Feng Logistics	Cost method	153,000	—	153,000	153,000	51%	51%	—	—	—
Chongqing Electronics	Cost method	29,745	—	29,745	29,745	100%	100%	—	—	—
Total	—	202,745	5,000	197,745	202,745	—	—	—	—	1,079

Details of information on the subsidiaries of the Company, note IV.

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

4 Operating income, operating costs

(1) Operating income, operating costs

Unit: RMB'000

Item	2010	2009
Operating income from principal activities	**16,429,074**	10,633,996
Other operating income	**70,494**	20,119
Operating income	**16,499,568**	10,654,115
Operating costs from principal activities:	**15,182,598**	9,464,558
Other operating costs	**56,423**	14,698
Operating costs	**15,239,021**	9,479,256

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

4 Operating income, operating costs *(Continued)*

(2) Principal activities (by product)

Unit: RMB'000

Product	2010 Operating income from principal activities	2010 Operating cost from principal activities	2009 Operating income from principal activities	2009 Operating cost from principal activities
Steel plates	**8,802,753**	**8,015,648**	4,302,653	3,726,976
Hot-rolled coil	**905,799**	**942,763**		
Steel billets	**955,858**	**896,548**	699,230	637,732
Steel sections	**3,103,872**	**2,906,801**	3,253,359	2,944,824
Wire rods	**1,704,030**	**1,556,370**	1,698,686	1,510,790
Cool-rolled sheets	**200,963**	**222,925**	178,955	202,525
Others	**755,799**	**641,543**	501,113	441,711
Total	**16,429,074**	**15,182,598**	10,633,996	9,464,558

(3) Details of information on the Company's operating income from top five customers, see note V.37 (4).

5 Investment income

Investment income by item

Unit: RMB'000

Item	2010	2009
Income from long-term equity investments under cost method *(Note V.44)*	**1,079**	1,304
Total	**1,079**	1,304

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

6 Supplement to cash flow statement

Unit: RMB'000

Supplemental Information	2010	2009
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	**5,720**	84,029
Add: Impairment provisions for fixed assets	**32,676**	15,617
Depreciation of fixed assets	**343,562**	297,923
Amortization of intangible assets	**7,009**	5,209
Losses on disposal of fixed assets (gains denoted with '-')	**-7,716**	-1,099
Financial expenses (income denoted with '-')	**396,845**	216,418
Investment losses (gain denoted with '-')	**-1,079**	-1,304
Loss on change of fair value (gain denoted with '-')	**8,642**	—
Decrease in deferred tax assets (increase denoted with '-')	**3,143**	10,999
Decrease in gross inventories (increase denoted with '-')	**-2,649,901**	-1,057,125
Decrease in operating receivables (increase denoted with '-')	**-1,855,199**	-809,995
Increase in operating payables (decrease denoted with '-')	**1,647,280**	558,827
Decrease in restricted cash (increase denoted with '-')	**-31,938**	-129,381
Net cash flow from operating activities	**-2,100,956**	-809,882
2. Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance lease	**220,000**	—
3. Change in cash and cash equivalents:		
Cash at the end of the year	**1,290,146**	1,404,948
Less: Cash at the beginning of the year	**1,404,948**	1,147,053
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents	**-114,802**	257,895

Supplementary Information to Financial Statement

1 EXTRAORDINARY GAIN AND LOSS

Unit: RMB'000

Item	*Note*	**2010**	2009
Disposal of non-current asset		**7,709**	1,099
Tax refunds, exemptions and reductions on an occasional basis		**5,407**	8,540
Government grants recognized through profit or loss		**10,715**	11,076
Profit or loss of subsidiaries generated before combination date of a business combination involving entities under common control		**3,731**	7,503
The fee measured for free use of the assets provided by the Parent Group	(1)	**-147,125**	
The actual additional expenditure for preparation of environmental relocation	(1)	**153,194**	—
Other non-operating income and expenses besides items above		**8,574**	4,098
Amount of effect on taxation		**-6,348**	4,896
Total		**35,857**	27,420

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

(1) In accordance with the requirements of Chongqing Municipal Government on emissions reduction, industry distribution and strategic planning, the Company will move to Changshou New Zone with the Parent Group before 30 June 2011. Considering the extra relocation-related expenses of the Company, the Parent Group authorized the Company to use at no cost the iron and steel refinery production line (as stated in Note I). As calculated by the Parent Group and the Company, the actual additional expenses of preparation environmental relocation incurred in 2010 to the Company amounted to RMB147,125,000, while the costs should be measured related to the authorized use in 2010 of the above assets amounted to RMB153,193,000 (as stated in Note. V.5(4)).

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 Group'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	Earnings per share: Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	0.18%	0.006	0.006
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	-0.47%	-0.015	-0.015

Documents Available For Inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. Original copy of the auditor's report prepared under PRC GAAP which has been signed by certified public accountants, Mr. Lin Jian Kun and Mr. Gong Wei Li, and stamped by KPMG Huazhen.

3. The original copies of all documents and announcements of the Company which have been publicly disclosed during the reporting period in China Securities Journal, Shanghai Securities News and Securities Times.

4. Summary of the Annual Report which was published in China Securities Journal, Shanghai Securities News and Securities Times.