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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

(Stock Code: 1053)

Announcement of Annual Results for the Year Ended 31 December 2010

The board of directors (the "Board") of Chongqing Iron & Steel Company Limited (the "Company") and directors hereby announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 prepared in accordance with the PRC GAAP. The annual results announcement (the "Announcement") is extracted from the full text of the annual report (the "Annual Report"). For details, investors are advised to read the full text of the Annual Report.

This announcement is published in Chinese and English respectively. If there is any difference between Chinese version and English version, the Chinese version shall prevail.

I. FINANCIAL SUMMARY

1. Major Financial data

Unit: RMB'000

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

I. FINANCIAL SUMMARY (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

I. FINANCIAL SUMMARY (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

3. Extraordinary gain and loss items

Unit: RMB'000

Extraordinary gain and loss item	Amount
Gain or 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 from 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. DIVIDENDS

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.

The Company recorded small amount of profit in 2010 due to lower profitability of steel industry and phased impact from environmental relocation of the Company. In order to reserve funds to conduct the environmental relocation 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.

III. 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%.

III. 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.

III. 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 1×360m² 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.

III. 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

III. 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.

Product	2010		2009		Year-on-year increase
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)	
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.

III. 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

III. 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)

III. 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)

- 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 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

III. 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稅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.

III. 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.

III. 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

III. 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 1780 hot rolling plate-strip project, 4100 wide-thick steel plate project, 2700 mid-plate production line project, 1 x 360M² 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.

III. 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 for major suppliers of the Company:

Percentage in total procurement for the largest supplier of the Company: 10.64%

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

Percentage in total sales for major customers of the Company:

Percentage in total sales for the largest customer of the Company: 5%

Percentage in total sales for the top five customers of the Company: 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 5% or more of equity interest in the Company) of the Company was beneficially interested in the top five suppliers or the top five customers of the Company.

III. 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	31 December		
				Registered capital	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.

III. 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	1098.58	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

III. 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.

III. 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

IV. 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.

V. SIGNIFICANT EVENTS

1. Compliance with Code on Corporate Governance Practices and the Code of Corporate Governance for Listed Companies

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

2. 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 Model Code concerning the securities transactions by Directors as at the date hereof.

3. Purchase, Sale or 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.

4. Audit Committee

The Audit Committee of the Company has reviewed with management the accounting principles, accounting standards and methods adopted by the Group and discussed auditing, internal controls and financial reporting matters. During the year, the Audit Committee convened two meetings for the purpose of reviewing of the audited accounts for 2009 and the unaudited interim accounts for 2010.

The Audit Committee convened a meeting on 24 March 2011 to review the audited accounts and results announcement for 2010.

V. SIGNIFICANT EVENTS (CONTINUED)

5. 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.

6. 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.

V. SIGNIFICANT EVENTS *(CONTINUED)*

7. Auditors

As approved at 2009 Annual General Meeting, the Board reappointed KPMG Huazhen and KPMG as the domestic and international 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 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.

8. Report of the Supervisory Committee

The Supervisory Committee is in the opinion that there was no problem in legality of the Company's operation, the Company's financial status, the use of proceeds, acquisition and disposal of assets by the Company and connected transactions.

**VI. THE ACCOMPANYINGS ARE AUDITED FINANCIAL STATEMENTS AND
SOME NOTES OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER
2010 PREPARED UNDER THE PRC GAAP**

The annual report of the Company for the year ended 31 December 2010 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.cqgt.cn) respectively on or before 8 April 2010.

By order of the Board
Chongqing Iron & Steel Company Limited
You Xiao An
Secretary to the Board

Chongqing, the PRC
25 March 2011

As at the date of this announcement, the Directors of the Company are: Mr. Deng Qiang (Non-executive Director), Mr. Yuan Jin Fu (Non-executive Director), Mr. Chen Shan (Executive Director), Mr. Chen Hong (Executive Director), Mr. Sun Yi Jie (Executive Director), Mr. Li Ren Sheng (Executive Director), Mr. Liu Xing (Independent Non-executive Director), Mr. Zhang Guo Lin (Independent Non-executive Director) and Mr. Liu Tian Ni (Independent Non-executive Director).

Consolidated Balance Sheet

As at 31 December 2010

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

Consolidated Balance Sheet (Continued)

As at 31 December 2010

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

Consolidated Balance Sheet (Continued)

As at 31 December 2010

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

Balance Sheet

As at 31 December 2010

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

Balance Sheet (Continued)

As at 31 December 2010

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

Balance Sheet (Continued)

As at 31 December 2010

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

Consolidated Income Statement

For the year ended 31 December 2010

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.44	35,664	16,428
Add: Gains from changes in fair value (Losses denoted with "-")	V.42	-8,642	—
Add: Investment income (Losses denoted with "-")	V.43	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 Including: Losses from disposal of non-current assets	V.46	1,819 1,329	797 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

Consolidated Income Statement (Continued)

For the year ended 31 December 2010

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 RMB 3,731,000.

Income Statement

For the year ended 31 December 2010

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

Consolidated Cash Flow Statement

For the year ended 31 December 2010

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 operation 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

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2010

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

Cash Flow Statement

For the year ended 31 December 2010

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 operation 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

Cash Flow Statement (Continued)

For the year ended 31 December 2010

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

Consolidated Statement of Changes in Shareholder's Equity

For the year ended 31 December 2010

Unit: RMB'000

Item	Notes	2010							2009							Total
		Attributable to shareholders of the Company							Attributable to shareholders of the Company							
		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		
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	

Statement of changes in equity

For the year ended 31 December 2010

Unit: RMB'000

						2009					
		2010									
				Surplus	Retained						
Item	Notes	Share capital	Capital reserve	reserve	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

Notes to the Financial Statements

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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 have 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 have 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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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)).

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.
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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.
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(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.
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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.
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Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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 (years)	Residual value rate (%)	Depreciation rate (%)
Plant and buildings	40 years	3%	2.43%
Machinery and equipment	8~20 years	3%	4.85%~12.13%
Motor vehicles	8 years	3%	12.13%

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

(3) For the method of impairment testing and measuring, refer to Note II.17.

(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).

Notes to the financial statements (Continued)

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(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)

(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).

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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 (years)
Land use right	50 years
Trademark	10 years

An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the 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.

Notes to the financial statements (Continued)

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(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

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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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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

27 Significant accounting estimates and judgments (Continued)

(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.

(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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

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

27 Significant accounting estimates and judgments (Continued)

(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.

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%).

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

III. TAXATION (CONTINUED)

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.

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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

III. TAXATION (CONTINUED)

2 Tax preferential and approval notice (Continued)

- (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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(Expressed in thousands of renminbi yuan unless otherwise indicated)

IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment or investment

RMB`000

														Amount in	
														current year's	
														minority	
														interests	
														used to	
														offset the	
														profit(loss)	
														attributable	
														to minority	
														shareholders	
														Organization co	

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

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	Net cash flow
					Jan 2010 to combination date	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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Item	Original currency	2010 Exchange rate	RMB	Original currency	2009 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

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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)).

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Category	note	2010				2009			
		Balance		Provision for bad and doubtful debt		Balance		Provision for bad and doubtful debt	
		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%

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

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

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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.

Notes to the financial statements (Continued)

For the year ended 31 December 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

Aging	Amount	2010		Amount	2009	
		Balance	Provision for bad and doubtful debt		Balance	Provision for bad and doubtful debt
		percentage			percentage	
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	—	—

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(Expressed in thousands of renminbi yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Accounts receivable (Continued)

(8) Actual written-off accounts receivable this year: (Continued)

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%

Notes to the financial statements (Continued)

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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

Ageing	2010		2009	
	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 whose 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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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	Relation- ship 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

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Category	Notes	2010		Provision for bad and doubtful debts	
		Gross carrying amount		Amount	Percentage
		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%

Notes to the financial statements (Continued)

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(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

Category	2009			
	Gross carrying amount		Provision for bad and doubtful debts	
	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 Trade 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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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		Balance at the end of the year
			Reversal	Written-off	
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

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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	the beginning of the year	Move-ment of addition and reduction	Balance at the end of the year	Share-holding percentage	Voting Rights (%)	Provision for impairment	Provision made during the year	Cash dividend for the year
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

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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	

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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.

Notes to the financial statements (Continued)

For the year ended 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).

Notes to the financial statements (Continued)

For the year ended 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 (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 2012. 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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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

Item	2010			2009		
	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%).

Notes to the financial statements (Continued)

For the year ended 31 December 2010
(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 field asset	Ending balance	Percentage of input to budget	Projects progress	Including:		Rate for capitalize	Sources of funds
									Accumulated capitalized interest	interest for this year		
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).

Notes to the financial statements (Continued)

For the year ended 31 December 2010

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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).

Notes to the financial statements (Continued)

For the year ended 31 December 2010
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Deferred tax assets

(1) Recognized deferred tax assets

Unit: RMB'000

Item	2010		2009	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	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 (see 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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

(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.

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Details of provisions for impairment

Unit: RMB'000

Item	Notes	Balance at the beginning of the year	Charge for the year	Decrease in the year		Balance at the end of the year
				Reversal	Written-off	
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

Notes to the financial statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Short-term loans

Unit: RMB'000

Bank loan	Annual interest rate	Principal	2010		RMB
			Currency	Exchange rate	
Loan on credit	5.35%~5.81% Libor+1.00% ~	120,000	RMB	1.0000	120,000
Loan with guarantee	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

Bank loan	Annual interest rate	Principal	2009		RMB
			Currency	Exchange rate	
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)).

Notes to the financial statements (Continued)

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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%.

Notes to the financial statements (Continued)

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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

Item	2010		2009	
	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	2,722,470	97%	1,408,596	95%
1 year-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.

Notes to the financial statements (Continued)

For the year ended 31 December 2010

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Accounts payable (Continued)

(3) Ageing analysis of accounts payable: (Continued)

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.

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.

Notes to the Financial Statements

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

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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

Bank loan	Annual interest rate	Principal	2010		RMB
			Currency	Exchange rate	
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

Bank loan	Annual interest rate	Principal	2009		RMB
			Currency	Exchange rate	
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)).

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

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.

Notes to the Financial Statements (Continued)

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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

Lending entity	Loan starting date	Loan ending date	Currency	Interest rate	2010	Amount in RMB
					Amount in foreign currency (USD)	
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).

Notes to the Financial Statements (Continued)

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(Expressed in Renminbi unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

27 Long-term loans

(1) Long-term loans by category

Unit: RMB'000

Bank loan	Annual interest rate	Principal	2010		RMB
			Currency	Exchange rate	
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

Notes to the Financial Statements (Continued)

31 December 2009
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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Long-term loans (Continued)

(1) Long-term loans by category (Continued)

Unit: RMB'000

Bank loan	Annual interest rate	Principal	2009		RMB
			Currency	Exchange rate	
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)).

Notes to the Financial Statements (Continued)

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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

Lending entity	Loan starting date	Loan ending date	Currency	Interest rate	2010	
					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

Notes to the Financial Statements (Continued)

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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.

Notes to the Financial Statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Long-term payables (Continued)

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 RMBquoted 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.

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

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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).

Notes to the Financial Statements (Continued)

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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.

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

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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).

Notes to the Financial Statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Retained earnings (Continued)

(1) Appropriation to surplus reserves (Continued)

The amount appropriated to discretionary surplus reserve 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).

Notes to the Financial Statements (Continued)

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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

Industry	2010		2009	
	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

Notes to the Financial Statements (Continued)

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V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Operating income, operating costs (Continued)

(3) Principal activities (by product)

Unit: RMB'000

Product	2010		2009	
	Operating income from principal activities	Operating cost from principal activities	Operating income from principal activities	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 Chengong Construction Machinery Co., Ltd	420,111	3%
Total	3,144,636	20%

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

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

Notes to the Financial Statements (Continued)

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(Expressed in Renminbi unless otherwise indicated)

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

	2010	2009
Loss for changes in fair value of derivatives held for trading during the year	-8,642	—

Notes to the Financial Statements (Continued)

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(Expressed in Renminbi unless otherwise indicated)

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.

Notes to the Financial Statements (Continued)

31 December 2009
(Expressed in Renminbi unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Notes to the Financial Statements (Continued)

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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	

Notes to the Financial Statements (Continued)

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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

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

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

Notes to the Financial Statements (Continued)

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VI. 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.

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

VI. 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:

Notes to the Financial Statements (Continued)

31 December 2009
(Expressed in Renminbi unless otherwise indicated)

VI. 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 (business segments)

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

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

VI. 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.

Notes to the Financial Statements (Continued)

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(Expressed in Renminbi unless otherwise indicated)

VI. 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.

Notes to the Financial Statements (Continued)

31 December 2009

(Expressed in Renminbi unless otherwise indicated)

VI. OTHER MATERIAL EVENTS (CONTINUED)

3 Risk analysis, sensitivity analysis, and determination of fair values for financial instruments (Continued)

(3) Interest rate risk

(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.

Notes to the Financial Statements (Continued)

31 December 2009
(Expressed in Renminbi unless otherwise indicated)

VI. 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.

Notes to the Financial Statements (Continued)

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(Expressed in Renminbi unless otherwise indicated)

VI. 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.

VII. 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.