



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

(H Share Stock Code: 1053)

(A Share Stock Code: 601005)

# 2011 Interim Report



## IMPORTANT NOTICE

1. The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”), and directors, supervisors and senior management of Chongqing Iron & Steel Company Limited (the “Company”) warrant that there are no false representations, misleading statements contained in or material omissions from this report and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.
2. Mr. Deng Qiang, the Chairman of the Company, and Ms. Gong Jun, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness and completeness of the financial statements in the interim report.
3. The interim financial statements of the Company and its subsidiaries (the “Group”) are unaudited, but have been reviewed by the Audit Committee of the Board of the Company.
4. The financial data in this interim report are prepared under PRC GAAP.
5. This interim report is prepared in Chinese and English. If there is any difference between the Chinese version and the English version, the Chinese version shall prevail.

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# COMPANY PROFILE

## (I) BASIC INFORMATION

Chinese name of the Company:	慶鋼鐵股份有限公司(「重鋼股份公司」)
English name of the Company:	Chongqing Iron & Steel Company Limited (“CISL”)
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Name of newspapers designated for information disclosure of the Company: PRC:	China Securities Journal, Shanghai Securities News, Securities Times
Hong Kong:	Wen Wei Po, China Daily
Website for publishing the interim report:	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> and <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Place for preparation and reference of the interim report:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place(s) of listing of the Company’s shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Abbreviated name of shares:	重慶鋼鐵(A shares)/Chongqing Iron (H shares)
Stock code:	601005 (A shares)/1053 (H shares)

## (II) THE GROUP'S KEY FINANCIAL DATA AND INDICES DURING THE REPORTING PERIOD

### 1. The Group's Key Financial Data and Indices

Unit: RMB'000

Items	At the end of the reporting period	At the end of last year	Increase/decrease at the end of reporting period from the end of last year (%)
Total assets	<b>25,527,386</b>	22,668,458	12.61%
Owner's equity (or shareholders' equity)	<b>5,552,322</b>	5,599,897	-0.85%
Net asset per share attributable to shareholders of the Company (RMB)	<b>3.20</b>	3.23	-0.93%

  

	The reporting period (Jan-Jun)	The same period last year	Increase/decrease in the reporting period from the same period last year (%)
Operating profit	<b>-193,732</b>	-390	N/A
Total profit	<b>15,103</b>	7,825	93.01%
Net profit	<b>14,998</b>	6,320	137.31%
Net profit after extraordinary gain and loss	<b>-162,512</b>	-663	N/A
Basic earnings per share (RMB)	<b>0.009</b>	0.004	125%
Diluted earnings per share (RMB)	<b>0.009</b>	0.004	125%
Net cash flow from operating activities	<b>-825,850</b>	-1,697,064	51.34%
Net cash flow per share from operating activities (RMB)	<b>-0.48</b>	-0.98	51.02%
Return on net assets (weighted average) (%)	<b>0.27</b>	0.11	Increased by 0.16 percentage points

## (II) THE GROUP'S KEY FINANCIAL DATA AND INDICES DURING THE REPORTING PERIOD (CONTINUED)

### 2. Extraordinary gain and loss items

Unit: RMB'000

<u>Extraordinary gain and loss item</u>	<u>Amount</u>
Gain on disposal of non-current asset	1,245
Government grants recognized through profit or loss	2,702
Other non-operating income and expenses except items above	204,888
Less: Amount of effect on taxation	31,325
Total	177,510

# CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

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

During the Reporting Period, there were no changes in the total number of shares or in the share capital of the Company.

## (II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

- As at the end of the reporting period, the total number of shareholders of the Company was 104,990, of which 104,679 shareholders were the holders of A shares and 311 shareholders were holders of H Shares.
- Shareholdings of the top ten shareholders at the end of the reporting period:

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

Unit: share

Name of shareholder	Type of shareholders	Shareholding percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State-owned legal person shareholder	46.21%	800,800,000	0	47,600,000
HKSCC NOMINEES LIMITED	Holder of foreign shares	30.37%	526,332,870	0	Unknown
National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) ("NCSSEF")	Holders of domestic state-owned legal person shareholders	2.02%	35,000,000	0	Unknown
Zhou Yong (周勇)	Domestic natural person shareholder	0.09%	1,600,000	0	Unknown
Chongqing International Trust Co., Ltd. - Runfeng No.7 Portfolio Investment Fund Trust Plan (重慶國際信託有限公司 - 潤豐榮號證券投資集合資金信託計劃)	Holders of domestic non-state owned legal person shareholders	0.06%	1,070,000	0	Unknown

# CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

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

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

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

Unit: share

Name of shareholder	Type of shareholders	Shareholding percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
You Jianjun (遊建軍)	Domestic natural person shareholder	0.06%	1,068,341	0	Unknown
Xin Yu (辛渝)	Domestic natural person shareholder	0.06%	1,063,400	0	Unknown
Cinda Securities - CCB - Cinda Mantanghong Fund Select Collective Asset Management Plan (信達證券－建行－信達滿堂紅基金優選集合資產管理計劃)	Holders of domestic non-state owned legal person shares	0.06%	1,024,827	0	Unknown
IP KOW	Holder of foreign shares	0.04%	725,200	0	Unknown
Xing Yizhi (邢焜之)	Domestic natural person shareholder	0.04%	662,455	0	Unknown

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

Note 2: At the end of the reporting period, 47,600,000 shares held by Chongqing Iron & Steel (Group) Company Limited (the "Parent Company") were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding not less than 5% shares in the Company were pledged, frozen or in custody.

Note 3: The 526,332,870 H shares held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

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

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

Unit: share

Name of shareholder	Number of shares not subject to trading moratorium	Class of shares
Chongqing Iron & Steel (Group) Company Limited	800,800,000	Renminbi denominated ordinary shares
HKSCC NOMINEES LIMITED	526,332,870	Overseas listed foreign shares
National Council for Social Security Fund ("NCSSF") (全國社會保障基金 理事會轉持二戶)	35,000,000	Renminbi denominated ordinary shares
Zhou Yong (周勇)	1,600,000	Renminbi denominated ordinary shares
Chongqing International Trust Co., Ltd. - Runfeng No.7 Portfolio Investment Fund Trust Plan (重慶國際信託 有限公司－潤豐柒號證券投資集合 資金信託計劃)	1,070,000	Renminbi denominated ordinary shares
You Jianjun (遊建軍)	1,068,341	Renminbi denominated ordinary shares
Xin Yu (辛渝)	1,063,400	Renminbi denominated ordinary shares
Cinda Securities -CCB -Cinda Mantanghong Fund Select Collective Asset Management Plan (信達證券 － 建行－信達滿堂紅基金優選集合 資產管理計劃)	1,024,827	Renminbi denominated ordinary shares
IP KOW	725,200	Overseas listed foreign shares
Xing Yizhi (邢滄之)	662,455	Renminbi denominated ordinary shares

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



# CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

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

4. Save as disclosed above, as at 30 June 2011, the Board was not aware of any person or its associates whose interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong (the “SFO”).

## (III) OTHER ISSUES IN RELATION TO LISTED SECURITIES

### 1. Repurchase, Sale and Redemption of Securities

During the reporting period, the Company or its subsidiaries did not repurchase, sell or redeem any listed securities of the Company.

### 2. Rating of Listed Bonds

In June 2011, based on its comprehensive analysis and evaluation of the Company’s operation status since 2010 and relevant industries, China Cheng Xin International Credit Rating Co. Ltd. carried out a follow-up rating of the RMB2 billion corporate bonds issued by the Company in 2010. As reviewed and finalized by the China Cheng Xin International Credit Rating Committee, the Company’s bonds were maintained its AA+ credit rating after this follow-up rating.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares (shares)</b>
Yuan Jin Fu	Individual	2,400
Chen Shan	Individual	800
Sun Yi Jie	Individual	800
Chen Hong	Individual	1,600

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

Save as disclosed above, as at 30 June 2011, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Group or its connected corporations.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

1. On 21 January 2011, Mr. Guan Zhao Hui was appointed as Deputy General Manager of the Company through the 59th written resolution of the fifth Board of the Company.
2. On 18 March 2011, at the 2011 first extraordinary general meeting of the Company, Mr. Dong Lin was approved to resign his positions as director, Chairman of the Board, and Chairman of the Strategic Committee of the Company. Meanwhile, Mr. Deng Qiang was appointed as a director of the fifth session of the Board of the Company.
3. On 18 March 2011, at the 5th meeting of the fifth session of the Board, Mr. Deng Qiang was elected Chairman of the Board of the Company, and appointed as Chairman of the third session of the Strategic Committee.
4. On 30 March 2011, being unsuitable for his work due to personal health reasons, Mr. Wu Zi Sheng resigned from the position of Deputy General Manager of the Company as approved through the 69th written resolution of the fifth Board of the Company.

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD

### 1. Overall operation status of the Group during the reporting period

In the first half of 2011, China's macro economy ran on a steady track, with economic growth rate somewhat slowing down and the GDP posting a year-on-year increase of approximately 9.6%. Driven by domestic economic growth, the steel industry continued to maintain rapid development during the reporting period. However, due to the combined impact of such factors as relatively fast capacity utilization in the sector, slower growth in downstream steel-consuming industries, and substantial rises in the price of raw materials, the steel market has shown fluctuation of prices, which caused operation difficulties for iron and steel enterprises and left their profitability at low levels.

During the reporting period, according to relevant requirements for eliminating outdated capacity and implementing environmental relocation, the Group carried out relocation and upgrade of the 2700mm rolling mill production line, in accordance with the environmental relocation plan. Thanks to the coordination and support from Dadukou District, Chongqing (the "Old District"), and Jiangnan Town, Changshou District, Chongqing (the "New District"), the Group saw steel production in the Old District stabilized and capacity of the New District utilized. The parallel operations in both the New District and the Old District enabled the Group to enhance its production scale considerably, but somewhat increasing the operating costs at the same time. During the reporting period, the Group produced 1,390,000 tonnes of coke, 2,900,000 tonnes of pig iron, 3,140,000 tonnes of steel and 2,870,000 tonnes of steel products (billets), representing an increase of 38.36%, 36.42%, 38.95% and 50.71% respectively as compared with the same period of last year. The Group recorded operating revenues of RMB13,039,290,000, representing a year-on-year increase of 84.73%, and pre-tax profit of RMB15,103,000, representing a year-on-year increase of 93.01%.

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

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

During the reporting period, as a result of simultaneous production in both the New District and the Old District, and expansion of the Group's production scale, consumption of various raw materials increased substantially; so did the difficulty in the supply and procurement of raw materials. By establishing and improving relevant raw materials procurement systems, strengthening management of suppliers, broadening the procurement scope and supply channels, stepping up analysis of raw materials markets, adjusting procurement strategies when necessary, and combining both direct supply and internal allocation, the Group managed to ensure satisfaction of the demands of both the two districts for and stable supply of raw materials.

During the reporting period, the Group stepped up search for and analysis of market information, accurately grasped changes in market conditions, and overcame the adverse impact of the relocation of the 2,700mm rolling mill production line on the sale of 2,700mm medium-gauge plates, by advance stocking and using the 4,100mm production line to produce medium-gauge plates in line with the Old District's specifications. At the same time, by categorizing the products of the 1,780mm production line, and adopting varied pricing & sales models, the Group realized smooth sales of the related products. In addition, by putting in place the products sales and delivery coordination mechanism, the Group boosted the fulfilment rate of contracts. In the first half of 2011, the Group sold 2,877,200 tonnes of steel products (billets), representing a year-on-year increase of 68.55%.

During the reporting period, the Group set respective quality assessment indicators for production in both the New District and the Old District: for the 20 quality indicators included in the assessment and monitoring of the Old District, the completion rate reached 100%; and for the 29 quality indicators included in the assessment and monitoring of the New District, the completion rate reached 93.10%. All this helped the Group achieve the overall target of basically stable quality indicators in the Old District and improving quality indicators by month in the New District. Furthermore, the Group proactively pressed ahead with the establishment and implementation of the quality/safety/environment management system and the inspection center management system, and completed the certification of the normalized shipbuilding plates produced by 4100mm production line in the New District and obtained simultaneous certifications from five classification societies, namely, CCS, DNV, GL, RINA and NK and another three classification societies, namely, LR, BV and KR, as well as the certification of steel plates for shipbuilding with raised specifications.

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

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

During the reporting period, by properly formulating product ingredients, optimizing smelting and rolling processes and parameters of the production technology, the Group reinforced development of the 4100mm products and 1780mm products in the New District. As for the 4100mm production line, the Group completed development of thick plates for shipbuilding, low-alloy high-strength steel plates Q550D, weather-resistant steel plates Q295NHA and alloy vessel plates. As for the 1780mm production line, the Group completed development of cold rolled base material products, hot-continuous-rolling automobile steel and hot rolled silicon steel as well as trial production of oriented silicon steel. In the first half of 2011, the Group completed development and trial production of 345,400 tonnes of new products and special-purpose products with an output value of RMB1.518 billion.

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

As at 30 June 2011, the Group's operating revenue amounted to RMB13,039,290,000 representing a year-on-year increase of 84.73%; revenue from principal operations amounted to RMB12,997,128,000, representing a year-on-year increase of 84.58%; and total profit amounted to RMB15,103,000, representing a year-on-year increase of 93.01%.

In the first half of 2011, the Group's revenue from principal operations in south-western region amounted to RMB7,889,729,000, representing a year-on-year increase of 121.46% while revenue from principal operations in other regions amounted to RMB5,107,399,000, representing a year-on-year increase of 46.82%.

Region	Revenue from principal operations (RMB'000)	Year-on-year increase/ decrease in revenue from principal operations (%)
South-western region	7,889,729	121.46
Other regions	5,107,399	46.82
<b>Total</b>	<b>12,997,128</b>	<b>84.58</b>

# REPORT OF THE BOARD OF DIRECTORS

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

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

In the first half of 2011, the Group's revenue from sales of steel products (billets) amounted to RMB12,338,201,000, representing 94.93% of the total revenue, up 86.43% year on year; and revenue from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and water, electricity and gas as well as provision of electronic engineering design and installation services amounted to RMB658,927,000, which accounted for 5.07% of the total revenue, up 55.72% year on year.

Product	For the first half of 2011		For the first half of 2010		Year-on-year increase/ decrease (%)
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)	
Steel plates	4,216,921	32.45	3,510,557	49.86	20.12
Steel billets	592,818	4.56	562,729	7.99	5.35
Steel sections	2,213,130	17.03	1,663,840	23.63	33.01
Wire rods	1,080,446	8.31	805,704	11.44	34.10
Hot rolled coil	4,011,165	30.86	—	—	N/A
Cool rolled plates	223,721	1.72	75,313	1.07	197.05
Subtotal	12,338,201	94.93	6,618,143	93.99	86.43
Others	658,927	5.07	423,155	6.01	55.72
<b>Total</b>	<b>12,997,128</b>	<b>100.00</b>	<b>7,041,298</b>	<b>100.00</b>	<b>84.58</b>

In the first half of 2011, the sales revenue of the Group's steel products (billets) increased by RMB5,720,058,000 as compared with the same period of last year. The increase was attributable to (1) the rebound in steel product prices driven by surging raw material costs: the average selling price of steel products (billets) was RMB4,288 per tonne, representing a year-on-year rise of 10.60%, which increased sales revenue by RMB959,509,000; (2) larger production scale, and higher production and sales volume: the Group sold 2,877,200 tonnes of steel products (billets), representing a year-on-year increase of 68.55%, which increased sales revenue by RMB4,760,549,000.

# REPORT OF THE BOARD OF DIRECTORS

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

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

#### Sales price

Item	First half of 2011 (RMB/tonne)	First half of 2010 (RMB/tonne)	Year-on-year increase/ decrease (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	4,488	4,036	11.20	423,458
Steel billets	4,144	3,587	15.53	79,707
Steel sections	4,337	3,756	15.47	296,484
Wire rods	4,265	3,648	16.91	156,286
Hot rolled coil	4,083	—	N/A	N/A
Cool rolled plates	4,634	4,560	1.62	3,574
<b>Total</b>	<b>4,288</b>	<b>3,877</b>	<b>10.60</b>	<b>959,509</b>

#### Sales volume

Item	2011 (0'000 tonnes)	2010 (0'000 tonnes)	Year-on-year increase/ decrease (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	93.97	86.97	8.05	282,520
Steel billets	14.31	15.69	-8.80	-49,501
Steel sections	51.03	44.30	15.19	252,779
Wire rods	25.33	22.09	14.67	118,195
Hot rolled coil	98.25	—	N/A	4,011,548
Cool rolled plates	4.83	1.65	192.73	145,008
<b>Total</b>	<b>287.72</b>	<b>170.70</b>	<b>68.55</b>	<b>4,760,549</b>



# REPORT OF THE BOARD OF DIRECTORS

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

### 3. Operating results during the reporting period

In the first half of 2011, the Group's total profit amounted to RMB15,103,000, representing a year-on-year increase of RMB7,278,000, of which:

By industry	Revenue from principal operations (RMB'000)	Cost of principal operations (RMB'000)	Gross profit margin (%)	Increase/decrease in revenue from principal operations from last year (%)	Increase/decrease in cost of principal operations from last year (%)	Increase/decrease in gross profit margin from last year (%)
Steel plates	4,216,921	3,944,286	6.47	20.12	23.28	-2.39
Steel billets	592,818	567,410	4.29	5.35	10.08	-4.11
Steel sections	2,213,130	2,094,870	5.34	33.01	36.28	-2.27
Wire rods	1,080,446	1,005,341	6.95	34.10	36.18	-1.42
Hot rolled coil	4,011,165	3,939,985	1.77	N/A	N/A	N/A
Cool rolled plates	223,721	237,619	-6.21	197.05	191.51	2.02
Others	658,927	516,286	21.65	55.72	49.59	3.21
Total	12,997,128	12,305,797	5.32	84.58	91.77	-3.55

- (1) In the first half of 2011, the Group's gross profit from principal operations amounted to RMB691,331,000, representing an increase of RMB67,066,000 over the same period last year, mainly due to the enlarged scale, adjustment of products structure and rising sales prices of steel products.

In the first half of 2011, the average selling price of the Group's steel products (billets) was RMB4,288 per tonne, representing a year-on-year increase of 10.60%, which increased profit by approximately RMB959,509,000. The sales volume of steel products (billets) amounted to 2,877,200 tonnes, representing a year-on-year increase of 68.55%, which increased profit by approximately RMB4,760,549,000. However, the gross profit margin decreased by 3.55% year on year due to lower growth in the current profit from principal operations as a result of higher prices of fuel and raw materials including iron ore, coal, pig iron and scrap steel, and increase in additional cost expenses incurred from the Group's environmental relocation.

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

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

- (2) In the first half of 2011, expenses increased by RMB260,139,000 as compared with the same period of last year, which was mainly due to (i) the increase in equipment repair charges, product sales and transportation charges upon expansion of production scale; and (ii) an increase in interest expenses of RMB175,286,000 as a result of rapid growth in the Company's capacity, gradual increase in total liabilities and utilization of assets after environmental relocation.
- (3) In the first half of 2011, the Group recorded non-operating income of RMB210,985,000, representing a year-on-year increase of RMB202,338,000, mainly attributable to RMB189,125,000 of compensation provided by the Parent Company for the loss incurred by the Company from environmental relocation, by way of use for free of the steel smelting production line and relevant supporting public facilities in the New District by the Company.

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

- (1) As at 30 June 2011, the Group's total assets amounted to RMB25,526,508,000 and total liabilities amounted to RMB19,828,064,000, with a gearing ratio was 77.68%. Current assets amounted to RMB13,974,190,000; current liabilities amounted to RMB12,639,875,000; current ratio was 110.56%.
- (2) In the first half of 2011, the Group's net cash inflow from financing activities amounted to RMB1,279,770,000, which was financed from bank borrowings and finance leases. After deduction of the net cash outflow from operating activities (RMB924,096,000) owing to expanded production scale and the increase in inventory reserves, and net cash outflow from investment projects such as hot rolled plates and wide-thick plates projects (RMB1,378,877,000), the Group's cash and cash equivalents for the period decreased by RMB1,023,203,000.

# REPORT OF THE BOARD OF DIRECTORS

## III. REVIEW OF THE GROUP'S OPERATION DURING THE REPORTING PERIOD (CONTINUED)

### 4. Analysis on financial position during the reporting period (Continued)

(3) Items of cash flow statement

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010	Main Reasons for the changes
Net cash flow from operating activities	<b>-924,096</b>	-1,697,064	Expansion of production scale, increase in inventory reserves etc.
Net cash flow from investing activities	<b>-1,378,877</b>	-589,884	Subsequent expenses for hot rolled plates and wide-thick plates projects, and expenses on such new investment projects as 3# sintering machine, 5# coke oven, and long steel products production line.
Net cash flow from financing activities	<b>1,279,770</b>	2,118,315	Issue by the Group of RMB2 billion of corporate bonds at the end of 2010 resulted in less funds raised for the current period in 2011.
Net increase in cash and cash equivalents	<b>-1,023,203</b>	-168,633	Expansion of production after environmental relocation, increase in inventory reserves, and more capital investment in construction projects.

## (II) PROSPECTS

In the second half of 2011, as a result of rising inflation, the government will continue to adjust economic structure and implement stringent monetary policies, and the national economic growth will slow down in a steady manner. Infrastructure construction for irrigation and water conservancy, and the construction of subsidised housing will enable the fixed asset investment to maintain rapid growth while demands will remain robust for steel products for building purposes. As a result of gradual utilization of capacity and slowdown in the growth of downstream steel-consuming industries including shipbuilding, automobile and engineering machinery, market competition for steel plate-strip products will become even fiercer. Rising prices of such raw materials as iron ore and coal driven by higher demands will keep the production cost of steel makers at high levels and thus erode their profits. In the second half of 2011, the Group will continue with environmental relocation and make full preparation for the safe and stable shutdown of the Old District and commencement of the 6.5-million-tonne production in the New District. In addition, the Group will continue to expand resources procurement and stabilize procurement channels for raw materials, enhance the New District's capability of direct supply of raw materials, continually strengthen market analysis, proactively explore the market for 4,100mm and 1,780mm products, further advance relevant certifications in the New District, vigorously push forward the establishment and implementation of the three systems in the New District, continue development of new products relating to the 4,100mm and 1,780mm production lines, and boost marketing and sales of products in the New District.

## (III) INVESTMENT DURING THE REPORTING PERIOD

### 1. Use of corporate bonds

*Unit: RMB'000*

Total proceeds raised		2,000,000
Undertaking expenses		37,500
Entrust management expenses		500
Prepayment to sponsors		2,000
Actual amount received		1,962,000
Used proceeds in aggregate	Replenishment of working capital	462,393
	Repayment of bank loans	1,500,000
Total used proceeds for the year	Replenishment of working capital	9,353
	Repayment of bank loans	769,019
Interest income from deposits		422
Balance of the proceeds		29

# REPORT OF THE BOARD OF DIRECTORS

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

### 1. Use of corporate bonds (Continued)

As at 30 June 2011, the Company had made provision for bond interest of RMB72,333,000. It is agreed that the first payment for bond interest should be on 9 December 2011 and the payment for the bond principal should be on 9 December 2015. Therefore, the Company had no breaches of interest or principal payment in respect of the issued bonds during the reporting period.

With the gradual progression and completion of the environmental relocation, the Company's competitiveness will be greatly enhanced, with profitability and risk-resistant capability further improved. As production scale and cash flow both increase, the Company has ample capital turnover and deployment capability to ensure timely and full payment of bond interests upon expiry. As at 30 June 2011, it had unused bank facilities of RMB3.3 billion (from several banks including China Development Bank), which can be used to replenish working capital. Meanwhile, Chongqing Yufu Assets Management Co., Ltd. has guaranteed the RMB2 billion corporate bonds issued by the Company, thus there were no risks regarding payment of the bond principal and interest as scheduled.

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

*Unit: RMB'000*

<u>Project name</u>	<u>Budget</u>	<u>Progress</u>	<u>Earnings</u>
2,700mm rolling mill production line relocation project	876,880	86%	Under construction, N/A
3# sintering machine	330,000	25%	Under construction, N/A
5# coke oven	400,000	22%	Under construction, N/A
Long steel products production line	2,200,000	21%	Under construction, N/A

## (I). CORPORATE GOVERNANCE

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

On 6 January and 9 May of 2011, the Chongqing Office of China Securities Regulatory Commission (the “CSRC Chongqing Office”) issued to the Company the Regulatory Letter of Opinions on Relevant Issues Concerning the 2010 Annual Report of Chongqing Iron & Steel Company Limited (《關於重慶鋼鐵股份有限公司2010年年報相關問題的監管意見函》) (Yu Zheng Jian Shi Han [2011] No. 1) and the Enquiry Letter on the 2010 Annual Report of Chongqing Iron & Steel Company Limited (《關於重慶鋼鐵股份有限公司2010年年報問詢函》) (Yu Zheng Jian Shi Han [2011] No. 48). On 16 February 2011, Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni (independent directors of the Company) presented the Inspection Opinions of Independent Directors of Chongqing Iron & Steel Company Limited on Relevant Issues during Environmental Relocation (《重慶鋼鐵股份有限公司獨立董事對環保搬遷過程中有關問題的核查意見》), and the Company, on 15 June, submitted the Reply Letter On Subsequent Review Opinions Concerning the 2010 Annual Report in response to the regulatory opinions of the CSRC Chongqing Office. There were no irregularities with the Company in terms of operation, accounting treatment and information disclosure.

In accordance with the requirements of the Notice Regarding Pilot Implementation of Internal Control Standards by Listed Companies (《關於做好上市公司內部控制規範試點有關工作的通知》) (Yu Zheng Jian Shi [2011] No. 49) issued on 4 March 2011 by the CSRC Chongqing Office, the plan for the implementation of internal control standards was considered and passed at the sixth meeting of the fifth session of the Board and was disclosed in the 2010 Annual Report of the Company. On 29 June 2011, the Company reported to the CSRC Chongqing Office on the establishment of a steering team for the implementation of internal control, implementation status of the internal control work plan, and the agendas thereof in the second half of 2011, by way of a Work Report of the Board of Chongqing Iron & Steel Company Limited on Internal Control of the Company in the First Half of 2011 (《重慶鋼鐵股份有限公司董事會關於2011年上半年公司內部控制的工作報告》) (CI&S Wen Fa [2011] No. 180).

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

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

# SIGNIFICANT EVENTS

## (II) INTERIM DIVIDEND FOR 2011

The Board does not propose the distribution of 2011 interim dividend.

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

On 27 May 2011, a resolution was considered and passed at the 2010 annual general meeting of the Company, pursuant to which the Company would not distribute profit for 2010 nor transfer the capital reserve into share capital. Therefore, there was no profit distribution during the reporting period.

## (IV) MATERIAL LITIGATION OR ARBITRATION

During the reporting period, the Company was not involved in any material litigation or arbitration.

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

Counterparty	Assets acquired	Date of acquisition	Transaction price (RMB'000)	Contribution in net profit to the Company from date of acquisition to the end of reporting period (RMB'000)	Contribution in net profit to the Company from beginning of the year to the end of the period (RMB'000)	Connected transaction (Yes/No) and pricing principle	Asset ownership concerned completely transferred or not (Yes/No)	Creditor's rights and debts concerned completely transferred or not (Yes/No)
Chongqing Iron & Steel (Group) Company Limited	100% equity in Chongqing Iron & Steel Group Transportation Company Limited	1 April 2011	62,954	507	2,925	Yes, the bid price in a public auction by Chongqing United Assets and Equity Exchange	Yes	Yes

Save as stated above, the Group was not involved in any material assets acquisitions, sale or disposal and merger and acquisition during the reporting period or any of such occurring in previous periods but extending to the reporting period.

## (VI) MATERIAL RELATED PARTY TRANSACTIONS

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

On 31 January 2011, the Company and the Parent Company entered into a Service and Supply Agreement (the “Service and Supply Agreement”), with a term of three years from 1 January 2011 to 31 December 2013.

Pursuant to the Service and Supply Agreement, the Group agreed to provide products and services to the Parent Company as summarized below:

- (1) production materials such as water, electricity, natural gas, steel billets, steel section, and auxiliary materials (including cement, hardware, timber, and etc.);
- (2) railway transportation services, technical services (software development service) and other services (including measuring, testing, quality control and technical consulting services).

Pursuant to the Service and Supply Agreement, the Parent Group agreed to provide products and services to the Group as summarized below:

- (1) raw materials such as pig iron, iron ore, coal, scrap steel, refractory materials and auxiliary materials (including dolomite and limestone);
- (2) motor transportation, sanitation and technical services (including construction, design supervision and labor services);
- (3) oxygen, electricity, water, equipment and parts;
- (4) social welfare services (mainly including medical insurance and pension funds management services); the aforesaid fees will be paid by the Company through the Parent Company but the Parent Company does not charge for such management fees from employees of the Company.

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



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

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

The pricing basis for the Service and Supply Agreement: (i) steel, steel billets, pig iron, iron ore, coal, scrap steel and refractory materials are determined with reference to the market price; (ii) oxygen, ancillary products, lease of factory premises, labour, motor transportation, railway transportation and sanitation are determined with reference to profit mark-up above the cost of providing such products or services as agreed between the Group and the Parent Group; (iii) equipment and spare parts, and technical services (software development service) are determined with reference to the tender price offered by suppliers of such equipment and services; (iv) public utilities (water, electricity and natural gas) and social welfare services are determined with reference to the prices or amounts as prescribed by the relevant Chongqing governmental departments; (v) design supervision, engineering construction and other services including measuring, testing, quality inspection and technical consulting are determined with reference to the prices prescribed by state or government documents; (vi) entrusted supply of water and electricity is determined with reference to a mark-up above the cost of water and electricity.

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

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

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

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

### 3. Related party transactions constituted by authorized use of assets

On 31 March 2011, the Company and the Parent Company entered into Agreement for Authorized Use of Assets (“Agreement for Authorized Use of Assets”), pursuant to which the Company can use for free the steel smelting production line and relevant auxiliary public facilities of the Parent Company with investment amounts of RMB10.84 billion commencing from 1 April 2011 to 31 March 2012. During this period, if the Parent Company transfers or injects certain or all of the assets under authorized use to the relevant operations of the Company, and completes the legal proceedings of such transfer or injection, the term of authorized use of that part or all of the said assets shall be: from 1 April 2011 to the date of completion of delivery of such relevant assets.

### 4. Related party transactions constituted by acquisition of Chongqing Iron & Steel Group Transportation Company Limited

On 12 February 2011, the Parent Company offered to sell the 100% equity interest it held in Chongqing Iron & Steel Group Transportation Company Limited (the “Transportation Company”) on the Chongqing United Assets and Equity Exchange. On 1 April 2011, through the bidding process as prescribed by the rules and regulations of the Chongqing United Assets and Equity Exchange, the Company won the bid and entered into agreement with the Parent Company to acquire the 100% equity in the Transportation Company held by the latter for a consideration of RMB62,954,200. Acquisition of the Transportation Company can meet the production and operation requirements of the Company, reduce connected transactions with the Parent Company and enhance the independence of the Company. By the end of April 2011, the transfer formalities regarding the aforesaid equity interest were completed.

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

From 1 January 2011 to 30 June 2011, all the continuing connected transactions carried out in the ordinary course of business between the Company and the Parent Group were settled by cash and had no adverse impacts on the Company’s profit.

The connected transaction on sales and services provided to the Parent Group by the Company and procurement made and services received from the Parent Group during the reporting period amounted to RMB966,250,000 and RMB1,493,019,000.

# SIGNIFICANT EVENTS

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

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

Related party	Products sold to related party		Products purchased from related party	
	Amount (RMB'000)	Percentage in the total amount of similar transactions (%)	Amount (RMB'000)	Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Mining Company Limited	17,147	2.75%	968,455	9.78%
Chongqing Iron & Steel Group Iron Company Limited	—	—	25,544	4.36%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	84,837	0.65%	12,887	0.81%
Chongqing Chaoyang Gas Company Limited	221,523	35.56%	194,543	88.82%
Chongqing Wuxia Mining Industry Company Limited	—	—	202,230	6.22%
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	9,365	6.03%
Chongqing Iron & Steel Group Design and Research Institute	—	—	7,244	0.46%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	—	—	27,170	1.32%
Chongqing Iron & Steel Group Industrial Company Limited	109,134	0.84%	10,166	0.10%
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	—	—	735	—
Chongqing Si Gang Steel Company Limited	125,944	1.02%	2,111	0.24%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	—	—	29,000	1.58%

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

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

Related party	Products sold to related party		Products purchased from related party	
	Amount (RMB'000)	Percentage in the total amount of similar transactions (%)	Amount (RMB'000)	Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Steel Pipe Company Limited	172,990	1.40%	—	—
Chongqing San Gang Steel Company Limited	182,927	1.48%	—	—
Chongqing Iron & Steel (Group) Company Limited	36,936	0.28%	—	—
Chongqing Iron & Steel Group Doorlead Realty Company Limited	3,878	0.03%	—	—
Others	10,934		3,569	—
<b>Total</b>	<b>966,250</b>		<b>1,493,019</b>	<b>—</b>

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

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

### 4. Material contracts entered into with the Parent Company

As at 30 June 2011, except the Service and Supply Agreement, Land Lease Agreements and Agreement for Authorized Use of Assets as described above, no material contract has been entered into between the Company and the controlling shareholders.

# SIGNIFICANT EVENTS

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

As at 30 June 2011, except the ordinary course of business between the Company and related parties, there are no other creditor's rights or debt between the Company and related parties. Also, no controlling shareholders and its subsidiaries appropriated the Company's funds for non-operating purpose.

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

On 31 March 2011, the Company and the Parent Company entered into Agreement for Authorized Use of Assets ("Agreement for Authorized Use of Assets"), pursuant to which the Company can use for free the steel smelting production line and relevant auxiliary public facilities of the Parent Company with investment amounts of RMB10.84 billion commencing from 1 April 2011 to 31 March 2012. During this period, if the Parent Company transfers or injects certain or all of the assets under authorized use to the relevant operations of the Company, and completes the legal proceedings of such transfer or injection, the term of authorized use of that part or all of the said assets shall be: from 1 April 2011 to the date of completion of delivery of such relevant assets.

Pursuant to the Agreement for Authorized Use of Assets, the Parent Company agreed to provide the design and installation of the relevant production lines and facilities, and all the technical information of the relevant equipment, coordinate the relevant installation, construction, technical support and services of the facilities' suppliers for the Company's use, and pay insurance fees for such assets. During the period of authorized use of assets, the Company may independently arrange for the production and operation of relevant assets and shall bear losses arising from the use of the assets, assume liabilities on safety and environmental protection arising from violation of standard operations and undertake losses in excess of the part covered by insurance companies.

The entering into the Agreement for Authorized Use of Assets can help maintain sustained and steady operation of the Company, avoid horizontal competition with the steel smelting production line of the Parent Company in the New District, and at the same time, allow the smelting production line to provide billets to the Company for production, thus reducing the large amounts of connected transactions arising therefrom.

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

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

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

## **(X) SECURITIES INVESTMENT**

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

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

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

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

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

## **(XIII) STAFF**

As at 30 June 2011, the Company had 11,609 staffs, including 9,165 production staffs, 192 sales staffs, 908 technical and engineering staffs, 86 finance staffs, and 1,258 administrative staffs.

The Company has placed emphasis on staff skill training and knowledge upgrade. During the reporting period, a total of 6,188 staffs received training, covering 49.30% of the staffs.

# SIGNIFICANT EVENTS

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES

Name of announcements	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Steel output bulletin for December 2010	Lin 2011-001	2011-1-8	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of 59th written resolution of the fifth Board	Lin 2011-002	2011-1-22	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Notice of 2011 First Extraordinary General Meeting	Lin 2011-003	2011-1-28	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Resignation of Directors, Proposed Appointment of Directors and Proposed Dismissal of Overseas Auditor	Shareholder Circular of H Shares	2011-1-28	Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of 60th written resolution of the fifth Board	Lin 2011-004	2011-2-1	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of Continuing Connected Transactions	Lin 2011-005	2011-2-1	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Steel output bulletin for January 2011	Lin 2011-006	2011-2-11	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Notice of 2011 Second Extraordinary General Meeting	Lin 2011-007	2011-2-22	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Continuing connected transactions	Shareholder Circular of H Shares	2011-2-22	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES (CONTINUED)

Name of announcements	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Steel output bulletin for February 2011	Lin 2011-008	2011-3-8	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Board Meeting Notification	H Share Announcement	2011-3-17	Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement on Voting Results of 2011 First Extraordinary General Meeting	Lin 2011-009	2011-3-19	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of resolutions passed at 5th meeting of the fifth Board	Lin 2011-010	2011-3-19	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of resolutions passed at 7th meeting of the fifth Supervisory Committee	Lin 2011-011	2011-3-28	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of resolutions passed at 6th meeting of the fifth Board	Lin 2011-012	2011-3-28	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Supplementary Announcement to the 2010 Annual Report	Lin 2011-013	2011-3-29	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Announcement of Connected Transactions	Lin 2011-014	2011-4-1	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>
Connected transaction -acquisition of all the issued share capital of Chongqing Iron & Steel Group Transportation Company Limited	Lin 2011-015	2011-4-2	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: <a href="http://www.sse.com.cn">www.sse.com.cn</a>



# SIGNIFICANT EVENTS

## (XIV) EXTRAORDINARY ANNOUNCEMENTS INDEXES (CONTINUED)

Name of announcements	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Notice on Convening 2010 Annual General Meeting	Lin 2011-016	2011-4-8	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for March 2011	Lin 2011-017	2011-4-8	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Board Meeting Notification	H Share Announcement	2011-4-16	Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2011 Second Extraordinary General Meeting	Lin 2011-018	2011-4-22	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on unusual fluctuation in trading of A shares	Lin 2011-019	2011-4-26	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for April 2011	Lin 2011-020	2011-5-6	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of 71st written resolution of the fifth Board	Lin 2011-021	2011-5-13	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Resolutions Passed at 2010 Annual General Meeting	Lin 2011-022	2011-5-30	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for May 2011	Lin 2011-023	2011-6-8	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the completion of transfer of state-owned equity	Lin 2011-024	2011-6-20	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED BALANCE SHEET

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Closing balance	Opening balance
<b>Current assets</b>			
Cash at bank and on hand	V.1	1,106,677	1,755,279
Bills receivable	V.2	1,447,416	1,531,832
Accounts receivable	V.3	564,048	590,570
Prepayments	V.4	935,876	823,033
Other receivables	V.5	110,196	95,851
Inventories	V.6	9,204,584	6,754,287
Other current assets	V.7	605,393	546,710
<b>Total current assets</b>		<b>13,974,190</b>	12,097,562
<b>Non-current assets</b>			
Long-term equity investments	V.8	25,000	20,000
Fixed assets	V.9	8,844,800	8,989,978
Construction in progress	V.10	1,623,762	798,835
Construction materials	V.11	578,429	276,134
Intangible assets	V.12	329,605	333,159
Deferred tax assets	V.13	115,322	116,200
Other non-current assets		35,400	36,590
<b>Total non-current assets</b>		<b>11,552,318</b>	10,570,896
<b>Total assets</b>		<b>25,526,508</b>	22,668,458

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Closing balance	Opening balance
<b>Current liabilities:</b>			
Short-term loans	V.15	<b>3,772,954</b>	3,244,509
Financial liabilities held for trading	V.16	<b>6,646</b>	8,642
Accounts payable	V.17	<b>4,104,232</b>	2,818,779
Advance from customers	V.18	<b>1,473,263</b>	1,617,640
Employee benefits payable	V.19	<b>95,699</b>	119,106
Taxes payable	V.20	<b>4,935</b>	90,953
Interest payable	V.21	<b>83,733</b>	14,383
Dividend payable		<b>110</b>	110
Other payables	V.22	<b>467,650</b>	282,545
Non-current liabilities due within one year	V.23	<b>2,621,368</b>	2,047,803
Other current liabilities		<b>9,285</b>	9,285
<b>Total current liabilities</b>		<b>12,639,875</b>	10,253,755
<b>Non-current liabilities:</b>			
Long-term loans	V.24	<b>2,339,782</b>	2,698,476
Debentures payable		<b>1,964,597</b>	1,962,371
Long term payables	V.25	<b>2,458,553</b>	1,577,390
Special payables		<b>8,799</b>	8,968
Other non-current liabilities	V.26	<b>416,458</b>	420,601
<b>Total non-current liabilities</b>		<b>7,188,189</b>	6,667,806
<b>Total liabilities</b>		<b>19,828,064</b>	16,921,561

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Closing balance	Opening balance
<b>Shareholders' equity:</b>			
Share capital	V.27	1,733,127	1,733,127
Capital reserve	V.28	1,100,668	1,163,622
Specific reserve	V.29	1,189	808
Surplus reserve	V.30	605,633	605,633
Retained earnings	V.31	2,110,827	2,096,707
Total equity attributable to shareholders of the Company		5,551,444	5,599,897
Minority interests		147,000	147,000
<b>Total equity</b>		<b>5,698,444</b>	5,746,897
<b>Total liabilities and shareholders' equity</b>		<b>25,526,508</b>	22,668,458

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## BALANCE SHEET

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Closing balance	Opening balance
<b>Current assets</b>			
Cash at bank and on hand		904,215	1,508,073
Bills receivable		1,443,536	1,528,778
Accounts receivable	IX.1	543,792	456,239
Prepayments		886,561	768,409
Other receivables	IX.2	83,314	85,794
Inventories		9,190,385	6,740,158
Other current assets		604,757	545,495
<b>Total current assets</b>		<b>13,656,560</b>	11,632,946
<b>Non-current assets</b>			
Long-term equity investments	IX.3	256,039	202,745
Fixed assets		8,785,644	8,927,168
Construction in progress		1,585,267	784,721
Construction materials		578,429	276,134
Intangible assets		325,327	328,832
Deferred tax assets		114,366	115,244
Other non-current assets		35,400	36,590
<b>Total non-current assets</b>		<b>11,680,472</b>	10,671,434
<b>Total assets</b>		<b>25,337,032</b>	22,304,380

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## BALANCE SHEET (CONTINUED)

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Closing balance	Opening balance
<b>Current liabilities:</b>			
Short-term loans		3,767,954	3,139,509
Financial liabilities held for trading		6,646	8,642
Accounts payable		4,074,768	2,774,757
Advance from customers		1,471,115	1,616,031
Employee benefits payable		89,777	115,067
Taxes payable		3,608	89,991
Interest payable		83,733	14,383
Other payables		485,807	276,649
Non-current liabilities due within one year		2,621,368	2,047,803
Other current liabilities		9,285	9,285
<b>Total current liabilities</b>		<b>12,614,061</b>	10,092,117
<b>Non-current liabilities:</b>			
Long-term loans		2,339,782	2,698,476
Debentures payable		1,964,597	1,962,371
Long term payables		2,458,553	1,577,390
Special payables			160
Other non-current liabilities		416,458	420,601
<b>Total non-current liabilities</b>		<b>7,179,390</b>	6,658,998
<b>Total liabilities</b>		<b>19,793,451</b>	16,751,115

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## BALANCE SHEET (CONTINUED)

30 June 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

<b>Item</b>	<i>Notes</i>	<b>Closing balance</b>	Opening balance
<b>Shareholders' equity:</b>			
Share capital		<b>1,733,127</b>	1,733,127
Capital reserve		<b>1,141,606</b>	1,156,267
Surplus reserve		<b>575,654</b>	575,654
Retained earnings		<b>2,093,194</b>	2,088,217
<b>Total equity</b>		<b>5,543,581</b>	5,553,265
<b>Total liabilities and shareholders' equity</b>		<b>25,337,032</b>	22,304,380

*Legal Representative*

*Chief Financial Officer*

*Chief Accountant*

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED INCOME STATEMENT

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>I. Operating income</b>	V.32	<b>13,039,290</b>	7,058,686
<b>II. Operating costs</b>	V.32	<b>12,332,957</b>	6,427,084
Business taxes and surcharges		<b>14,835</b>	4,919
Selling and distribution expenses		<b>197,373</b>	172,357
General and administrative expenses		<b>344,381</b>	284,544
Financial expenses		<b>345,472</b>	170,186
Impairment loss			
Add: Gains from changes in fair value (Losses denoted with “-”)			
Add: Investment income (Losses denoted with “-”)		<b>1,996</b>	14
<b>III. Operating profit (Loss denoted with “-”)</b>		<b>-193,732</b>	-390
Add: Non-operating income	V.33	<b>210,985</b>	8,647
Less: Non-operating expenses	V.34	<b>2,150</b>	432
Including: Losses from disposal of non-current assets		<b>99</b>	42
<b>IV. Total profit (Loss denoted with “-”)</b>		<b>15,103</b>	7,825
Less: Income tax expenses	V.35	<b>983</b>	1,505
<b>V. Net profit (Net loss denoted with “-”)</b>		<b>14,120</b>	6,320
Attributable to:			
Shareholders of the Company		<b>14,120</b>	7,241
Minority shareholder			-921

The notes on pages 48 to 149 form part of these financial statements.



# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED INCOME STATEMENT (CONTINUED)

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>VI. Earnings per share:</b>			
Basic earnings per share (RMB)	V.36	<b>0.008</b>	0.004
Diluted earnings per share (RMB)	V.36	<b>0.008</b>	0.004
<b>VII. Other comprehensive income</b>			
<b>VIII. Total comprehensive income</b>			
Attributable to:			
Shareholders of the Company		<b>14,120</b>	7,241
Minority interests			-921

Note: The Group conducted a business combination under common control in 2011. The net profit of the acquiree prior to the combination is RMB2,418,000.

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## INCOME STATEMENT

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>I. Operating income</b>	IX.4(1)	<b>12,962,474</b>	6,965,240
Less: Operating costs	IX.4(2)	<b>12,294,628</b>	6,364,119
Business taxes and surcharges		<b>8,885</b>	304
Selling and distribution expenses		<b>197,373</b>	172,357
General and administrative expenses		<b>321,247</b>	263,157
Financial expenses		<b>345,279</b>	170,303
Impairment loss			
Add: Gains from changes in fair value (Losses denoted with “-”)			
Add: Investment income (Losses denoted with “-”)		<b>1,996</b>	
<b>II. Operating profit (Loss denoted with “-”)</b>		<b>-202,942</b>	-5,000
Add: Non-operating income		<b>210,947</b>	8,607
Less: Non-operating expenses		<b>2,150</b>	426
Including: Losses from disposal of non-current assets		<b>99</b>	36
<b>III. Total profit (Loss denoted with “-”)</b>		<b>5,855</b>	3,181
Less: Income tax expenses		<b>878</b>	1,255
<b>IV. Net profit (Net loss denoted with “-”)</b>		<b>4,977</b>	1,926
<b>V. Other comprehensive income</b>			
<b>VI. Total comprehensive income</b>		<b>4,977</b>	1,926

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED CASH FLOW STATEMENT

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		14,657,016	8,155,310
Refund of taxes		5,047	
Other cash received relating to operating activities		114,340	15,610
<b>Sub-total of cash inflows</b>		<b>14,776,403</b>	8,170,920
Cash paid for goods and services		14,843,595	8,903,802
Cash paid to and for employees		566,292	543,034
Cash paid for all types of taxes		197,479	303,977
Other cash paid relating to operating activities		93,133	117,171
<b>Sub-total of cash outflows</b>		<b>15,700,499</b>	9,867,984
<b>Net cash flow from operating activities</b>	V.37(1)	<b>-924,096</b>	-1,697,064
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments		15,000	
Cash received from return on investments		1,996	
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		1,208	1,546
Other cash received relating to investing activities		12,116	5,265
<b>Sub-total of cash inflows</b>		<b>30,320</b>	6,811
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,326,243	581,288
Cash paid for acquisition of investments		82,954	15,407
Net cash paid for acquisition of subsidiaries			
<b>Sub-total of cash outflows</b>		<b>1,409,197</b>	596,695
<b>Net cash flow from investing activities</b>		<b>-1,378,877</b>	-589,884

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>III. Cash flows from financing activities:</b>			
Cash received from investors			147,000
Including: Cash received from minority shareholders of subsidiaries			147,000
Cash received from borrowings		<b>3,023,491</b>	3,784,626
Cash received from issuance of debentures			
Other cash received relating to financing activities		<b>1,285,901</b>	715,000
<b>Subtotal of cash inflows</b>		<b>4,309,392</b>	4,646,626
Cash repayments of borrowings		<b>2,756,569</b>	2,327,130
Cash paid for dividends, profit distribution or interest		<b>273,050</b>	201,179
Other cash paid relating to financing activities		<b>3</b>	2
<b>Cash outflow from financing activities</b>		<b>3,029,622</b>	2,528,311
<b>Net cash flow from financing activities</b>		<b>1,279,770</b>	2,118,315
<b>IV. Net increase in cash and cash equivalents</b>	V. 37(1)	<b>-1,023,203</b>	-168,633
Add: Cash and cash equivalents at the beginning of the year		<b>1,537,352</b>	1,408,560
<b>V. Cash and cash equivalents     at the end of the year</b>	V.37(2)	<b>514,149</b>	1,239,927

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CASH FLOW STATEMENT

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods and rendering of services		14,493,226	8,096,617
Refund of taxes		5,047	
Other cash received relating to operating activities		8,621	6,736
<b>Sub-total of cash inflows</b>		<b>14,506,894</b>	8,103,353
Cash paid for goods and services		14,746,269	8,799,498
Cash paid to and for employees		516,500	508,883
Cash paid for all types of taxes		190,457	295,270
Other cash paid relating to operating activities		76,102	1,061
<b>Sub-total of cash outflows</b>		<b>15,529,328</b>	9,604,712
<b>Net cash flow from operating activities</b>	XI.5	<b>-1,022,434</b>	-1,501,359
<b>II. Cash flows from investing activities:</b>			
Cash received from disposal of investments		15,000	
Cash received from return on investments		1,996	
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		1,208	1,546
Other cash received relating to investing activities		9,205	4,949
<b>Sub-total of cash inflows</b>		<b>27,409</b>	6,495
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,279,506	527,604
Cash paid for acquisition of investments			
Net cash paid for acquisition of subsidiaries		82,954	168,000
<b>Sub-total of cash outflows</b>		<b>1,362,460</b>	695,604
<b>Net cash flow from investing activities</b>		<b>-1,335,051</b>	-689,109

The notes on pages 48 to 149 form part of these financial statements.

## CASH FLOW STATEMENT (CONTINUED)

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Notes	Jan-Jun 2011	Jan-Jun 2010
<b>III. Cash flows from financing activities:</b>			
Cash received from borrowings		3,018,491	3,784,626
Cash received from issuance of debentures			
Other cash received relating to financing activities		1,285,000	510,000
<b>Subtotal of cash inflows</b>		<b>4,303,491</b>	4,294,626
Cash repayments of borrowings		2,651,570	2,322,130
Cash paid for dividends, profit distribution or interest		272,896	199,381
Other cash paid relating to financing activities			
<b>Cash outflow from financing activities</b>		<b>2,924,466</b>	2,521,511
<b>Net cash flow from financing activities</b>		<b>1,379,025</b>	1,773,115
<b>IV. Net increase in cash and cash equivalents</b>			
Add: Cash and cash equivalents at the beginning of the year	IX.5	-978,460	-417,353
		1,290,146	1,404,948
<b>V. Cash and cash equivalents at the end of the year</b>			
		<b>311,686</b>	987,595

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Note	Amount of current period							Amount of last period						
		Attributable to shareholders of the Company							Attributable to shareholders of the Company						
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total equity	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total equity
<b>I. Balance at 31 December 2010</b>		1,733,127	1,141,708	808	583,452	2,095,409	147,000	5,701,504	1,733,127	1,164,384		575,082	2,083,069		5,555,662
Add: adjustment for business combination under common control			21,914		22,181	1,298	45,393		37,285	166	29,470	4,211	1,389	72,521	
<b>II. Balance at 1 January 2011</b>		1,733,127	1,163,622	808	605,633	2,096,707	147,000	5,746,897	1,733,127	1,201,669	166	604,552	2,087,280	1,389	5,628,183
<b>III. Changes in equity for the year</b>															
(Reductions denoted with "-")															
(I) Net profit							14,120		14,120				7,241	-921	6,320
(II) Other comprehensive income															
Sub-total of (I)&(II)							14,120		14,120				7,241	-921	6,320
(III) Appropriation of profits															
1. Appropriation for surplus reserve	V.35														
2. Distributions to shareholders															
(IV) Specific reserve															
1. Accrued				733			733			556					556
2. Utilised				-352			-352			-226					-226
(V) Adjustment of capital reserve for business combination under common control			-62,954				-62,954								
(VI) Purchase of minority interest															
(VII) Investment in subsidiary														147,000	147,000
<b>IV. Balance at 31 December 2011</b>		1,733,127	1,100,668	1,189	605,633	2,110,827	147,000	5,698,444	1,733,127	1,201,669	496	604,552	2,094,521	147,468	5,781,833

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.

# FINANCIAL REPORT

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## STATEMENT OF CHANGES IN EQUITY

Jan-Jun 2011

Unit: RMB'000

Prepared by: Chongqing Iron & Steel Company Limited

Item	Note	Amount of current period				Total equity	Amount of last period				
		Share capital	Capital reserve	Surplus reserve	Retained earnings		Share capital	Capital reserve	Surplus reserve	Retained earnings	Total equity
<b>I. Balance at the end of last year/</b>											
<b>the beginning of this year</b>		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
<b>II. Changes in equity for the year</b>											
<b>(Decrease denoted with "-")</b>											-
(I) Net profit				4,977	4,977					1,926	1,926
(II) Other Comprehensive income											-
Sub-total of (I) & (II)				4,977	4,977					1,926	1,926
(III) Appropriation of profits											-
1. Appropriation for surplus reserve											-
2. Distributions to shareholders											-
(IV) Adjustment of capital reserve											-
for business combination											-
under common control		-14,661			-14,661						-
<b>III. Balance at 31 December 2011</b>		1,733,127	1,141,606	575,654	2,093,194	5,543,581	1,733,127	1,164,384	575,082	2,084,995	5,557,588

Legal Representative

Chief Financial Officer

Chief Accountant

The notes on pages 48 to 149 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## I. COMPANY STATUS

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

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under State Council. For the implementation of a part of the restructuring, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. (“Hengda”) under the Restructuring Agreement. As 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.

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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## I. COMPANY STATUS (CONTINUED)

As approved by the China Securities Regulatory Commission ("CSRC"), the Company issued 350,000,000 A shares (Renminbi-denominated domestic shares) and raised total proceeds of RMB1,008,000,000 on 29 January 2007. Such shares were listed on the Shanghai Stock Exchange on 28 February 2007. Meanwhile, the 845,000,000 non-circulating shares originally held by the Parent Group converted into A shares automatically upon the issuance of the above mentioned A shares. The Parent Group undertook that it would neither transfer or entrust any other parties to manage the shares held by it, nor agree to the Company to repurchase such shares within 36 months from the listing date of the Company's A shares. Upon the issuance of A shares, the Company's total shares increased to 1,733,127,200 shares from 1,383,127,200 shares, including 1,195,000,000 domestic A shares and 538,127,200 overseas listed H shares. The A shares held by Parent Group have been released and traded on the market since 1 March 2010.

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 3 June 2011, Parent Group had transferred such shares.

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 Company's production facilities in Da Du Kou District are beginning to shut down until 30 September 2011. As at 30 June 2011, the Company is carrying out the relevant work according to the aforesaid arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## I. COMPANY STATUS (CONTINUED)

The Company had entered into a lease contract of land use right and its supplementary agreement ("lease agreement") with the Parent Group on 14 August 1997, 8 December 2002, 20 October 2005 and 12 January 2007 respectively. Based on the lease agreement, "the Company owns the right of first refusal under the same conditions, on condition that the Parent Group is willing to transfer the contractual land use right in the lease term. The Parent Group should pay for any losses, costs and expense to the Company due to the fully (or partly) rental of the land use right". As all the production land of the Company in Da Du Kou District is rented from the Parent Group, the preparation for the environmental relocation of the Parent Group may cause some fixed assets of the Company cannot be normally used. To ensure the stable production and operation of the Company, the Parent Group promised to make up losses of the fixed assets related by the items of some project in Changshou New Zone, including the facilities shut down according to the relevant approval of Ministry of Industry and Information Technology, and the losses are based on the book value less the profit/loss of disposal. Considering the extra expenses occurred in the environmental relocation of the Company, after the approval of SASAC, the Parent Group had authorized free use of the production line of RMB3.99 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 April 2010 to 31 March 2011 tentatively. And in December 2010, the Parent Group had also authorized free use of the production line of RMB1.97 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 December 2010 to 31 March 2011. In 31 March 2011, the Parent Group further authorized the Company to use for free RMB10.843 billion of steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 April 2011 to 31 March 2012.

In December 2010, the Company completed the trial operation of 4,100mm wide plate production line and 1,780mm hot rolled plate production line in Changshou New Zone and the production lines were put into operation in December 2010. According to the construction schedule and production condition of Changshou New Zone until 30 June 2010, the Company has begun to shut down some equipments of Da Du Kou District in 2010 and has gradually moved the operation to Changshou New Zone, under the condition of fulfilling the operation and production plan.

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.

On 31 May 2011, the Company consolidated Chongqing Iron & Steel Group Transportation Company Limited ("Transportation Company") 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, and electronic construction and installation as well as logistics and transportation.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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. Intragroup 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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 availablefor- sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note II.19 (4)).

- 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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 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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 9. Financial instruments *(Continued)*

#### **(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.

#### **(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;

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 9. Financial instruments (Continued)

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

- (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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 9. Financial instruments *(Continued)*

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

- Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

#### **(5) Equity instruments**

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognized in share capital and capital reserve.

Consideration and transaction costs paid by the Company for repurchasing selfissued equity instruments are deducted from shareholders' equity.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 10. Impairment of receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable figures reflecting present economic conditions.

If, after an impairment loss has been recognised on receivables, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

Criteria of provision for accounts receivable that are individually significant

Each amount due from the top five debtors.

Method of provisioning for accounts receivable that are individually significant

An impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 10. Impairment of receivables (Continued)

- (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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- (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%

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 10. Impairment of receivables (Continued)

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

### 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 measured 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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 material**

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.
  - 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 12. Long-term equity investment *(Continued)*

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

- (b) Long-term equity investments acquired otherwise than through a business combination
  - An investment in a subsidiary acquired otherwise than through a business combination is initially 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 and recognition of profit and loss**

- (a) Investments in subsidiaries

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. Cash dividends or profit distributions declared by subsidiaries and attributed to the Company shall be recognized as investment income, except those that have been declared but unpaid at the time of acquisition and therefore included in the price paid or consideration. The investments are stated at cost less impairment losses in the balance sheet.

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

- (b) 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)).

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 12. Long-term equity investment (Continued)

#### (2) Subsequent measurement and recognition of profit and loss (Continued)

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

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 12. Long-term equity investment *(Continued)*

#### (2) *Subsequent measurement and recognition of profit and loss (Continued)*

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

- 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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 conditions**

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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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:

<b>Classification</b>	<b>Depreciation period</b>	<b>Residual value rate</b>	<b>Depreciation rate</b>
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).

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 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 progress acquired under finance leases, refer to the accounting policy set out in Note II.23 (3).

### 15. Borrowing costs

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



# NOTES TO THE FINANCIAL STATEMENTS

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

### 15. Borrowing costs (Continued)

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.

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:

<u>Item</u>	<u>Amortization period</u>
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.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 16. Intangible assets (Continued)

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

Expenditures on research phase are 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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 group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Company also considers how management monitors the Company's operations and how management makes decisions about continuing or disposing of the company's assets.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is 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

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

### 19. Revenue

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

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

### 19. Revenue *(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

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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.

#### **(a) 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.

#### **(b) Housing fund and other social insurance**

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Company has joined housing fund and other defined social security contributions for employees, such as basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

The Company makes direct contribution to plans of employee social basic pension, basic housing fund, occupational injury insurance, unemployment insurance and maternity insurance organised by local labour and social security bodies, and makes welfare contributions to other social insurances through the Parent Group.

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### 20. Employee benefits (Continued)

#### (c) 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

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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:

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

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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

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## 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 noncurrent 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.

### 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;

# NOTES TO THE FINANCIAL STATEMENTS

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

### 25. Related parties *(Continued)*

- (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; and
- (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.

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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## II. 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
- nature of each product and service
- 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 27. Significant accounting estimates and judgments

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

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

#### **(1) Impairment of receivables**

As described in Note II.10, receivables that are measured at amortization cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognized in prior years is reversed.

#### **(2) Impairment of other assets excluding inventories, financial assets and other longterm 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

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

#### **(3) Depreciation and amortization**

As described in Note II.13 and 16, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account residual value. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization is revised.

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

#### **(4) Deferred income tax assets**

As described in Note III.2, the Enterprise income tax (“EIT”) rate for the Company and Chongqing Electronics and Transportation Company is 15% due to the favor of western development policy, from 1 January 2008 to 31 December 2020, which is applicable for the recognition of the deferred tax assets.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## III. 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%
Urban 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% (2010: 15%).

The income tax rate applicable to San Feng Logistics for the year is 25% (2010: 25%).

The income tax rate applicable to Chongqing Electronics for the year is 15% (2010: 15%).

The income tax rate applicable to Transportation Company for the year is 15% (2010: 15%).

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## III. 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.



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## III. TAXATION (CONTINUED)

### 2. Tax preferential and approval notice (Continued)

- (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. (Continued)

In January 2010, Transportation Company received the Reply on Approval of Exemption and Reduction of Income Tax Rate of Chongqing Iron & Steel Transportation Company Limited issued by Dadukou District Taxation Bureau of Chongqing, recognizing Transportation Company is within the scope of the category of industries enjoying state incentives and is entitled to a tax rate of 15% from 2008 to 2010. Therefore, Transportation Company can enjoy a preferential EIT policies for the Western Development of 15%.

On 27 July 2011, Ministry of Finance, Customs Bureau and State Bureau of Taxation jointly issued the Notice regarding Tax Policies concerning In-depth Implementation of Western Development Strategy (Cai Shui No.[2011]58), stating that from 1 January 2011 to 31 December 2020, a EIT rate of 15% is applied for industries enjoying state incentives in western region. Therefore, the Company, Chongqing Electronics and Transportation Company is still entitled to an income tax rate of 15% from 1 January 2011 to 31 December 2020.

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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## III. 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## III. 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.. (Continued)

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

### 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Background of major subsidiaries

Subsidiaries acquired through establishment

Unit: RMB'000

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Closing amount of investment	investment in the subsidiary	Shareholding percentage (%)	Voting rights (%)	statements (Y/N)	Closing amount of minority interests	Amount in current year's minority interests used to offset the profit/(loss) attributable	Organization code
San Feng Jingjiang Port Logistics Company Limited	Company Limited	No. 1 Kangqiao Road, Xingqiang District, Jingjiang	Li Rensheng	Logistics	300,000	Goods-loading, lighterage, storage, traffic agent, stowage, common carrier	300,000	-	51%	51%	Y	147,000	-	202876786-0
Chongqing Iron & Steel Group Electronics Company Limited	Company Limited	No.5 Ganghua Road, Da Du Kou District, Chongqing	Xu Zhende	Electronic construction and installation	10,626	Development, production and sale of computer software, electronic products; construction and installation of integrated computer network automation system	10,626	-	100%	100%	Y	-	-	50427800-6
Chongqing Iron & Steel Group Transportation Company Limited	Company Limited	Office No.3, C1&S Gangtie Village, Da Du Kou District, Chongqing	Zhou Hong	Transportation	21,000	Transport of common goods, transport of hazardous goods, inter-county chartered bus service, inter-province chartered bus service, shuttlebus passenger transport in main urban areas, repair and maintenance of category-1 automobiles, refitting and repair of transport vehicles for hazardous goods, retail of compressed natural gas, repair of common engineering machinery, testing and assessing of special and general oil, motor transport management consulting, sale of auto parts and engineering machinery parts, sale of org parts, car rental	21,000	-	100%	100%	Y	-	-	20289344-2

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 2. Business combinations involving entities under common control during the year

Unit: RMB'000

Investee	Rationale for conclusion as business combination under common control	Ultimate controller	Income from 1 Jan 2011 to combination date	Net profits from 1 Jan 2011 to combination date	Net cash flow from operating activities from 1 Jan 2011 to combination date
Transportation Company	Transportation Company and the Company are under same control of the Parent Group, and the control is not temporary	Parent Group	92,365	2,418	-674

Transportation Company was established in Chongqing in 1996.

Transportation Company applies CAS (2006) before combination, which adopts same accounting policies as those adopted by the Company.

On 31 May 2011 (i.e. the combination date), the Company acquired 100% equity in Transportation Company from the Parent Group at a cash consideration of RMB62,954.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS

### 1. Cash at bank and on hand

Unit: RMB'000

Item	Closing balance			Opening balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand:						
RMB	442	1.0000	442	337	1.0000	337
Deposits with banks:						
RMB	429,855	1.0000	429,855	1,529,303	1.0000	1,529,303
US Dollars	12,286	6.4716	80,326	1,118	6.6227	7,405
HK Dollars	66	0.8636	57	67	0.8509	57
Other monetary:						
RMB	594,164	1.0000	594,164	216,240	1.0000	216,240
US Dollars	277	6.4716	1,833	292	6.6227	1,937
<b>Total</b>			<b>1,106,677</b>			<b>1,755,279</b>

Other cash and cash equivalents include:

Unit: RMB'000

Item	Closing balance RMB	Opening balance RMB
Restricted:		
— Guarantees for letter of credit	592,528	217,927
Unrestricted:		
— Cash in transit	3,469	250
<b>Total</b>	<b>595,997</b>	<b>218,177</b>

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. Bills receivable

All the bills receivables are due within one year.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of bills receivable. Bills receivable due from related parties are set out in Notes VI. 5(1).

### 3. Accounts receivable

#### (1) Accounts receivable by category

Unit: RMB'000

Category	Note	Closing balance				Opening balance			
		Book balance		Provision for bad and doubtful debt		Book balance		Provision for bad and doubtful debt	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually insignificant but provisioning individually	(2)	10,358	1%	10,358	100%	10,358	1%	10,358	100%
Provisioning for receivables that are grouped (a)									
Group 1	(3)	424,757	59%	148,381	35%	400,549	54%	148,423	37%
Group 2		287,672	40%	–	–	338,444	45%	–	–
Sub-total of groups		712,429	99%	148,381	21%	738,993	99%	148,423	20%
Total		722,787	100%	158,739	22%	749,351	100%	158,781	21%

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

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounts receivable (Continued)

#### (2) Provision for accounts receivable that are individually insignificant at year end:

Unit: RMB'000

Content of accounts receivable	Book balance	Provision for bad and doubtful debt	Percentage
Provision for accounts receivable that are individually insignificant	10,358	10,358	100%

As at 30 June 2011, 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 cessation 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 the 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

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounts receivable (Continued)

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

Unit: RMB'000

Aging	Closing balance Book balance			Opening balance Book balance		
	Amount	Percentage	Provision for bad and doubtful debt	Amount	Percentage	Provision for bad and doubtful debt
Within 1 year						
Including: within 3 months (inclusive)	207,765	49%	—	235,065	59%	—
4 to 12 months (inclusive)	66,213	16%	770	15,387	4%	770
Sub-total	273,978	65%	770	250,452	63%	770
1 to 2 years (inclusive)	718	—	394	1,876	—	394
2 to 3 years (inclusive)	3,389	1%	761	1,625	—	761
Over 3 years	146,672	34%	146,456	146,596	37%	146,498
Total	424,757	—	148,381	400,549	—	148,423

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounts receivable (Continued)

#### (4) Accounts receivable due from the top five debtors of the Group

Name of enterprise	Relationship with the Group	Amount	Aging	Percentage of total accounts receivable
1. Chongqing Si Gang Steel Co., Ltd.	Related party	65,539	within 3 months (inclusive)	9%
Chongqing Si Gang Steel Co., Ltd.	Related party	66,454	4 to 12 months (inclusive)	9%
2. CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.	Third party	64,221	within 3 months (inclusive)	9%
3. Shanghai CI&S Trading Co., Ltd.	Third party	54,107	within 3 months (inclusive)	7%
4. Chongqing San Gang Steel Co., Ltd.	Related party	41,590	within 3 months (inclusive)	6%
5. Ningbo Bao Yi Trade Co., Ltd.	Third party	39,995	within 3 months (inclusive)	6%
Total		331,906		46%

#### (5) Actual written-off accounts receivable this year:

Unit: RMB'000

Name of enterprise	Nature	Amount	Reason	Related party transaction
Sichuan Heivi Titanium Technology Co.,Ltd.	Loan	42	Debt restructuring	No

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. Prepayment

#### (1) The prepayments by category:

Unit: RMB'000

Item	Closing balance	Opeing balance
Material prepayments	850,617	744,902
Prepayments for construction and equipment	12,976	5,848
Prepaid land premiums	72,283	72,283
Total	935,876	823,033

#### (2) Prepayments by ageing:

Unit: RMB'000

Item	Closing balance		Opeing balance	
	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	841,875	90%	752,549	91%
1 to 2 years (inclusive)	46,396	5%	6,473	1%
2 to 3 years (inclusive)	31,997	3%	45,647	6%
Over 3 years	15,608	2%	18,364	2%
Total	935,876	100%	823,033	100%

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables

#### (1) Other receivables by category:

Unit: RMB'000

Category	Book balance		Closing balance Provision for bad and doubtful debt	
	Amount	Percentage	Amount	Percentage
Individually significant other receivables	71,377	56%	16,958	24%
Other immaterial other receivables	55,777	44%	—	—
<b>Total</b>	<b>127,154</b>	<b>100%</b>	<b>16,958</b>	<b>13%</b>

Unit: RMB'000

Category	Book balance		Closing balance Provision for bad and doubtful debt	
	Amount	Percentage	Amount	Percentage
Individually significant other receivables	62,758	56%	16,958	27%
Other immaterial other receivables	50,051	44%	—	—
<b>Total</b>	<b>112,809</b>	<b>100%</b>	<b>16,958</b>	<b>15%</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables (Continued)

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

During the year 2005, the Company had received verdicts and enforcement orders from certain courts ("the Courts"), including the People's Courts of Neijiang, Sichuan Province of the PRC, in relation to debts owed by Chongqing Special Steel (Group) Limited Company ("CSSG", a former subsidiary of the Parent Group which ceased to have shareholding relationship with the Parent Group since June 2003) and the Parent Group to their creditors amounting to RMB18,340,000 and RMB18,200,000, respectively. According to these verdicts and enforcement orders, the Company was requested to withhold in aggregate RMB36,540,000 dividend to be distributed to the Parent Group. The Courts had withdrawn RMB4,528,000 and RMB1,059,000 from the Company's bank accounts in 2005 and 2006 respectively, totalling RMB5,587,000.

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

As at the date of the financial statements are approved for issue, the case relating to the debts owed by CSSG has not been finalised. Based on the advice from the Company's legal counsel, management of the Company is of the view that the verdicts and the enforcement orders made by the Courts are without merit as CSSG is no longer associated with the Parent Group or the Company since June 2003, and accordingly the Company has no obligation to assist the execution of the verdicts. The Company has made objections to the Courts and seek assistance and resolution from relevant higher courts, Municipal Governments and Standing Committee of the People's Congress. On 25 May 2007, the Supreme People's Court issued the Notice on Termination of Civil Responsibility Borne by the Parent Group in respect of Cases regarding Historical Debts of Chongqing Special Steel (Fa (Zhi) Ming Chuang (2007)) (the "Notice") to the Sichuan Supreme People's Court. It is stated in the Notice that, as the cases regarding historical debts of Chongqing Special Steel are been coordinated and handled, the Supreme People's Court requests the Sichuan Supreme People's Court to terminate the execution procedure for such cases, which will be handled upon relevant advices given by the Supreme People's Court.

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Other receivables (Continued)

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

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 receivable is over 3 years. Zhanjiang Industrial and Trading has now ceased operations. Considering the ageing and the possibility of recovery in the future, the Company made a full provision for bad debt in respect of such prepayment in 2010.

On 22 June 2007, the Company and Beijing Wei Xin Tong Li Trade Company Limited ("Beijing Wei Xin") signed a steel sale contract, stipulating that the Company shall supply a batch of normalized steel plates to Beijing Wei Xin. On the same day, Beijing Wei Xin signed a Futures Procurement Contract with Shanghai Dongdi Company Limited ("Shanghai Dongdi") on the same contract object; while Shanghai Dongdi signed a Steel Sales Contract with Zhejiang Feiting Pipe Industry Company ("Zhejiang Feiting") on 18 June 2007 to sell the same object.

In December 2007, Zhejiang Feiting took legal proceedings against Shanghai Dongdi, Beijing Wei Xin and the Company on the quality problems of the steel plates in the Shanghai Hongkou District People's Court ("Hongkou Court"). The Hongkou Court handed down its judgment "(2009) Hong Min Er (Shang) Chu Zi No. 14" to the Company on 25 February 2010. The Company filed an appeal with the Shanghai No.2 Intermediate People's Court (the "Intermediate Court") on 1 March 2010. The Intermediate Court, in its judgment (2010) Hu Er Zhong Min Si (Shang) Zhong Zi No. 591 on 13 July 2010, judged that the Company bear joint and several liabilities for the compensation of RMB3,729,000 due to Zhejiang Feiting from Shanghai Dongdi. The Company appealed to the Shanghai High People's Court (the "High Court") for a retrial. On 7 January 2011, the High Court dismissed the Group's request for a retrial in its judgment (2010) Hu Gao Min Er (Shang) Shen Zi No.259. On 23 April 2011, the Company has filed an appeal for revision and a counterappeal with the Supreme People's Court and the Shanghai People's Procuratorate, respectively.

On 20 May 2011, the Shanghai Hongkou District Supreme People's Court temporarily withheld the Company's bank deposit of RMB3,729,000, and undertook to keep in custody the said money from 20 May 2011 to 19 October 2011 and return the money to the Company should the Company win the appeal during the period and no longer assume any civil liability. In view of the recoverability of the aforesaid amount, the Company was still in the process of the appeal, and didn't make provision for bad debts in respect of the amount as at the date of approval of the financial report.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. Inventories

#### (1) Inventories by category:

Unit: RMB'000

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Raw materials	4,345,116	13,941,460	12,436,770	5,849,806
Work in progress	1,319,316	12,751,768	12,251,137	1,819,947
Finished goods	561,480	12,465,439	12,267,413	759,506
Reusable materials	615,542	486,140	239,190	862,492
Sub-total	6,841,454	39,644,807	37,194,510	9,291,751
Less: Provision for diminution in value	87,167	—	—	87,167
Total	6,754,287	39,644,807	37,194,510	9,204,584

#### (2) Provision for diminution in value of inventories

Unit: RMB'000

Inventories category	Balance at the beginning of the period	Provision made for the period	Reductions during the period		Balance at the end of the period
			Reversal	Written-off	
Raw materials	2,464	—	—	—	2,464
Work in progress	14,867	—	—	—	14,867
Finished goods	10,500	—	—	—	10,500
Reusable materials	59,336	—	—	—	59,336
Total	87,167	—	—	—	87,167

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7. Other current assets

Other current assets are deductible input VAT and prepaid EIT.

### 8. Long-term equity investments

#### (1) Long-term equity investments by category:

Unit: RMB'000

Item	Balance at the end of the period	Balance at the beginning of the period
Other long-term equity investments	25,500	20,500
Less: Provision for impairment	500	500
Total	25,000	20,000

#### (2) Other material long-term equity investments were as follows:

Unit: RMB'000

Name of investee	Accounting method	Initial investment cost	Balance at the beginning of the period	Movement of addition and reduction	Balance at the end of the period	Shareholding percentage	Voting rights	Provision for impairment	Provision made during the period	Cash dividend for the year
						(%)	(%)			
Xiamen Shipbuilding Industry Co., Ltd.	Cost method	5,000	5,000	-	5,000	2%	2%	-	-	-
Jiangsu HuaYuan Metal Processing Company Limited	Cost method	15,000	15,000	-15,000	-	-	-	-	-	-
Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. (靖江三峰钢材加工配送有限公司)	Cost method	-	-	20,000	20,000	51%	51%	-	-	-
Chongqing Ying Kang Company	Cost method	500	500	-	500	10%	10%	-500	-	-
Total		-	20,500	5,000	25,500			-500	-	-



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE 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:	12,830,478	455,935	569,826	12,716,587
Including: Plant and buildings	3,884,926	43,053	434	3,927,545
Machinery and equipments	8,833,312	411,815	567,700	8,677,427
Motor vehicles	112,240	1,067	1,692	111,615
2. Total accumulated depreciation:	3,784,593	216,338	185,051	3,815,880
Including: Plant and buildings	963,037	42,931	—	1,005,968
Machinery and equipment	2,759,807	168,576	183,399	2,744,984
Motor vehicles	61,749	4,831	1,652	64,928
3. Total net book value:	9,045,885	239,597	384,775	8,900,707
Including: Plant and buildings	2,921,889	122	434	2,921,577
Machinery and other equipments	6,073,505	243,239	384,301	5,932,443
Motor vehicles	50,491	-3,764	40	46,687
4. Total provision:	55,907	—	—	55,907
Including: Plant and buildings	4,687	—	—	4,687
Machinery and other equipments	47,788	—	—	47,788
Motor vehicles	3,432	—	—	3,432
5. Total book value:	8,989,978	239,597	384,775	8,844,800
Including: Plant and buildings	2,917,202	122	434	2,916,890
Machinery and equipments	6,025,717	243,239	384,301	5,884,655
Motor vehicles	47,059	-3,764	40	43,255

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Fixed assets (Continued)

#### (2) Fixed assets suspended or to be suspended due to relocation

##### (a) Fixed assets suspended from production

As stated in Note I, 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 as at 30 June 2011, and no more provision would be required. As at 30 June 2011, the particulars of the Group's fixed assets suspended from production due to environmental relocation was as follows:

Item	Book value	Accumulated depreciation	Provision for impairment	Net book value	Estimated disposal time
Plant and buildings	284,912	131,939	—	152,973	2011
Machinery and equipment	1,132,406	599,455	23,220	509,731	2011
Motor vehicles	17	16	—	1	2011
Total	1,417,335	731,410	23,220	662,705	

##### (a) 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 30 June 2011.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Fixed assets (Continued)

#### (3) Fixed assets acquired under finance leases

- (a) 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 4,100mm steel plate production line which were 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).

In April 2010, the main part of the Equipment finished trial operation and commenced normal production. As at 30 June 2011, the carrying amount of the Equipment was RMB1,171,734,000.

- (b) 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 2,700mm rolling mill relocation production line which were 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.

As at 30 June 2011, the carrying amount of the Equipment was RMB483,939,000.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Fixed assets (Continued)

#### (3) Fixed assets acquired under finance leases (Continued)

- (c) On 12 April 2010, the Company signed a leasing contract with Min Sheng pursuant to which the Company would, based on the requirement of the 2,700mm rolling mill relocation production line, choose the supplier and designated equipment which then would be purchased by Ming Sheng and leased to the Company. The financing amount was RMB440,000,000. The lease term is from 15 May 2011 to 15 May 2014, or 36 months in total. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB440,000,000, the lease rate is 5% lower than the interest rate for a 4-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.

As at 30 June 2011, the carrying amount of the Equipment was RMB376,068,000.

- (d) On 31 January 2011, the Company entered into a leasing agreement with Unismart International Leasing Co, Ltd ("Unismart"). Pursuant to the agreement, Unismart will pay the full price of the leased equipment to the Company, and the Company should purchase the equipment from the Company's designated supplier. The equipment is for the construction of 3# sintering machine and 5# coke oven. The financing amount is RMB491,000,000. The lease term is from 31 January 2011 to 30 January 2016, or 60 months in total. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB491,000,000, the lease rate is the benchmark interest rate for a 5-year loan designated in RMB quoted by the PBOC. According to the leasing agreement, if no default occurs during the lease term, the Company has the option to renew the lease or purchase the leased items at nil consideration.

As at 30 June 2011, the 3# sintering machine and the 5# coke oven projects were still under construction.

- (e) On 6 April 2011, the Company entered into a leasing agreement with Unismart. Pursuant to the agreement, Unismart will pay the full price of the leased equipment to the Company, and the Company should purchase the equipment from the Company's designated supplier. The equipment is for the long steel products production line project. The financing amount is RMB574,000,000. The lease term is from 7 April 2011 to 6 April 2016, or 60 months in total. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB574,000,000, the lease rate is the benchmark interest rate for a 5-year loan designated in RMB quoted by the PBOC. According to the leasing agreement, if no default occurs during the lease term, the Company has the option to renew the lease or purchase the leased items at nil consideration.

As at 30 June 2011, the long steel products production line project was still under construction.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 10. Construction in progress

#### (1) Construction in progress

Unit: RMB'000

Item	Balance at the end of the period			Balance at the beginning of the period		
	Gross carrying amount	Provision for impairment	Net carrying amount	Gross carrying amount	Provision for impairment	Net carrying amount
Construction in progress	1623,762	—	1,623,762	798,835	—	798,835

#### (2) Major constructions in progress as at 30 June 2011

Unit: RMB'000

Projects	Budget	Beginning balance	Additions	Improvement transfer-in	Transfer to fixed asset	Ending balance	Percentage of input to budget	Project progress	Accumulated capitalized interest	Including: capitalized interest for this year	Rate for capitalized interest for the year	Sources of funds
1,780mm hot-rolled plates	1,400,000	7,017	24,046	—	—	31,063	169%	85%	99,186	1,826	6.65%	Fund raised/self-financing
4,100mm wide-thick plates	1,918,000	500,599	73,881	—	437,584	136,896	141%	94%	161,515	5,247	6.65%	Bank loans/self-financing
2,700mm medium-size plates	876,880	169,764	194,472	377,626	—	741,862	85%	86%	34,542	27,250	6.65%	Bank loans/self-financing
Limestone transportation system capacity expansion and renovation project	61,180	46,448	922	—	—	47,370	77%	76%	—	—	6.65%	Bank loans/self-financing
3# sintering machine	330,000	—	55,121	—	—	55,121	17%	25%	9,758	9,758	6.65%	Bank loans/self-financing
5# coke oven	400,000	—	45,499	—	—	45,499	11%	22%	11,295	11,295	6.65%	Bank loans/self-financing
Long steel products	2,200,000	—	461,025	—	—	461,025	21%	21%	21,023	21,023	6.65%	Bank loans/self-financing
Others	—	75,007	41,441	5,938	17,460	104,926	—	—	-5,823	-2,905	6.65%	Bank loans/self-financing
<b>Total</b>		798,835	896,407	383,564	455,044	1,623,762			331,496	73,494		

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. Construction materials

Construction materials mainly represent the special equipment and large equipment for 4,100mm wide-thick plates, 1,780mm hot-rolled plates, 2,700mm medium-size plates, 3# sintering machine, and 5# coke oven projects.

### 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 amortization	25,498	3,554	—	29,052
Land use rights	19,020	3,554	—	22,574
Trademark	6,478	—	—	6,478
3. Total net book value	333,159	-3,554	—	329,605
Land use rights	333,159	-3,554	—	329,605
Trademark	—	—	—	—

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13. Deferred tax assets

#### (1) Recognized deferred tax assets

Unit: RMB'000

Item	Balance at the end of the period		Balance at the beginning of the period	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment against assets	159,280	23,892	159,280	23,892
Deductible tax losses	602,885	90,433	606,745	91,012
Profit or loss from changes in fair value of financial liability held for trading	6,646	997	8,642	1,296
Subtotal	768,811	115,322	774,667	116,200

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

Unit: RMB'000

Item	Balance at the end of the period	Balance at the beginning of the period
Deferred tax assets, net	115,322	116,200

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. Details of provisions for impairment of assets

As at 30 June 2011, the provisions for impairment of assets were set out as below:

Unit: RMB'000

Item	Notes	Balance at the beginning of the year	Increase during the year	Decrease in the year		Balance at the end of the year
				Reversal	Written-off	
1. Provision for bad and doubtful debts of accounts receivable	V.3	158,781	—	—	42	158,739
2. Provision for bad and doubtful debts of other receivable	V.5	16,958	—	—	—	16,958
3. Provision for diminution in values of inventories	V.6	87,167	—	—	—	87,167
4. Provision for impairment against long-term equity investment	V.8	500	—	—	—	500
5. Provision for impairment against fixed assets	V.9	55,907	—	—	—	55,907
Total		319,313	—	—	42	319,271



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. Short-term loans

Unit: RMB'000

Item	Annual interest rate	Closing balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan with guarantee					
– Loan with guarantee denominated in USD	2.98%~4.2%	169,892	USD	6.4716	1,112,954
– Loan with guarantee denominated in RMB	5.31%~6.786%	2,480,000	RMB	1.0000	2,480,000
Loan on credit					
– Loan on credit denominated in RMB	5.81%~6.06%	180,000	RMB	1.0000	180,000
<b>Total</b>					<b>3,772,954</b>

Unit: RMB'000

Item	Annual interest rate	Opening balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan with guarantee					
– Loan with guarantee denominated in USD	Libor+1%~Libor+2.5%	39,185	USD	6.6227	259,509
– Loan with guarantee denominated in RMB	5.58%~6.33%	2,865,000	RMB	1.0000	2,865,000
Loan on credit					
– Loan on credit denominated in RMB	5.35%~5.81%	120,000	RMB	1.0000	120,000
<b>Total</b>					<b>3,244,509</b>

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. Short-term loans (Continued)

Of the loan with guarantee, USD\$65,000,000 (equivalent to RMB421,343,000) and RMB5,000,000 were guaranteed respectively by Chongqing Yufu Assets Management Co., Ltd. and the Group in favour of Chongqing Iron & Steel Group Transportation Company Limited (a subsidiary of the Group), and the remaining is guaranteed by the Parent Group ((Note VI.4(3)).

No amount due to shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of short-term loans.

### 16. Financial liabilities held for trading

Unit: RMB'000

Item	Closing balance	Opening balance
Foreign currency derivatives	1,808	3,804
Interest rate derivatives	4,838	4,838
Total	6,646	8,642

### 17. Accounts payable

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

### 18. Advances from customers

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19. Employee benefits payable

Unit: RMB'000

Item	Balance at the beginning of the period	Accrued during the period	Paid during the period	Balance at the end of the period
I. Salaries, bonus, allowances	10,413	336,733	339,866	7,280
II. Staff welfare fees	5,090	20,252	19,292	6,050
III. Social insurances	62,954	152,700	166,994	48,660
Including: 1. Medical insurance premium	—	46,919	46,919	—
2. Pension insurance premium	62,868	97,797	112,825	47,840
3. Unemployment insurance premium	15	4,748	3,943	820
4. Work injury insurance premium	—	2,175	2,175	—
5. Maternity insurance premium	71	1,061	1,132	—
IV. Housing fund	—	23,956	23,956	—
V. Others	40,649	23,336	30,276	33,709
<b>Total</b>	<b>119,106</b>	<b>556,977</b>	<b>580,384</b>	<b>95,699</b>

### 20. Tax payable

Unit: RMB'000

Item	Closing balance	Opening balance
VAT	978	79,528
Business tax	821	824
EIT	—	141
Others	3,136	10,460
<b>Total</b>	<b>4,935</b>	<b>90,953</b>

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. Interests payable

Unit: RMB'000

Item	Closing balance	Opening balance
Interests payable for long-term loans		
installment interests and due principal	<b>11,400</b>	4,050
Interests payable for debentures	<b>72,333</b>	10,333
Total	<b>83,733</b>	14,383

### 22. Other payables

Except for the payables shown in Note.VI.5(3)(a), no amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other payables.

### 23. Non-current liabilities due within one year

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

Unit: RMB'000

Item	Closing balance	Opening balance
Long-term loans due within one year	<b>1,937,383</b>	1,716,240
Long-term payables due within one year	<b>683,985</b>	331,563
Total	<b>2,621,368</b>	2,047,803

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23. Non-current liabilities due within one year (Continued)

(2) Long-term loans due within one year

Unit: RMB'000

Item	Annual interest rate	Closing balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan on credit					
– Loan on credit denominated in USD	Libor+2.30%	500	USD	6.4716	3,236
– Loan on credit denominated in RMB	5.13%~5.60%	155,000	RMB	1.0000	155,000
Loan with guarantee					
– Loan with guarantee denominated in USD	Libor+3.00%	61,500	USD	6.4716	398,003
– Loan with guarantee denominated in RMB	5.40%~6.40%	1,381,144	RMB	1.0000	1,381,144
Total					1,937,383

Unit: RMB'000

Item	Annual interest rate	Opening balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan on credit	5.85%	150,000	RMB	1.0000	150,000
Loan with guarantee					
– Loan with guarantee denominated in USD	Libor+3.00%	61,500	USD	6.6227	407,296
– Loan with guarantee denominated in RMB	5.56%~7.56%	1,158,944	RMB	1.0000	1,158,944
Total					1,716,240

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

(3) **No amount due to the shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of long-term loans due within one year.**

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. Long-term loans

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

Unit: RMB'000

Item	Annual interest rate	Closing balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan on credit					
– Loan on credit denominated in USD	Libor+2.30%	14,000	USD	6.4716	90,602
– Loan on credit denominated in RMB	5.56%	337,000	RMB	1.0000	337,000
Loan with guarantee					
– Loan with guarantee denominated in USD	Libor+2.50%	50,000	USD	6.4716	323,580
– Loan with guarantee denominated in RMB	5.73%~6.10%	1,588,600	RMB	1.0000	1,588,600
Total					2,339,782

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 24. Long-term loans (Continued)

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

Unit: RMB'000

Item	Annual interest rate	Opening balance		Exchange rate	RMB
		Principal	Currency		
Bank loans					
Loan on credit					
– Loan on credit denominated in USD	Libor+2.30%	15,000	USD	6.6227	99,341
– Loan on credit denominated in RMB	5.56%	347,000	RMB	1.0000	347,000
Loan with guarantee					
– Loan with guarantee denominated in USD	Libor+2.50%	50,000	USD	6.6227	331,135
– Loan with guarantee denominated in RMB	5.73%~5.85%	1,921,000	RMB	1.0000	1,921,000
Total					2,698,476

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

(2) **No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of long-term loans.**

### 25. Long-term payables

Unit: RMB'000

Item	Closing balance	Opening balance
Obligations under finance leases	<b>3,142,538</b>	1,908,953
Less: Due within one year	<b>683,985</b>	331,563
Total	<b>2,458,553</b>	1,577,390

As at 30 June 2011, the Company's unrecognized finance charges amounted to RMB578,390,000.

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 26. Other non-current liabilities

Unit: RMB'000

Item	Closing balance	Opening balance
Other financial liabilities	<b>250,000</b>	250,000
Deferred income - government grants	<b>15,535</b>	15,481
Deferred income - unrealized income of sale and leaseback transactions	<b>150,923</b>	155,120
Total	<b>416,458</b>	420,601

### 27. Share capital

The Group's share capital structure as at 30 June 2011 was as follows:

Unit: RMB'000

Item	Balance at the end of the period	Balance at the beginning of the period
Shares not subject to trading restrictions		
– RMB-denominated ordinary share		
– domestically listed A shares	<b>1,195,000</b>	1,195,000
– Overseas listed foreign shares		
– Hong Kong listed H shares	<b>538,127</b>	538,127
Total	<b>1,733,127</b>	1,733,127



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 28. Capital reserve

Unit: RMB'000

Item	Balance at the beginning of the period	Additions During the year	Reductions during the year	Balance at the end of the period
Share premiums	867,021	—	62,954	804,067
Transfer from items under previous standards	270,127	—	—	270,127
Other capital reserves	26,474	—	—	26,474
<b>Total</b>	<b>1,163,622</b>	<b>—</b>	<b>62,954</b>	<b>1,100,668</b>

### 29. Specific reserve

Unit: RMB'000

Balance at the beginning of the year	808
Additions during the year	733
Settlements during the year	-352
<b>Balance at the end of the year</b>	<b>1,189</b>

### 30. Surplus reserve

Unit: RMB'000

Item	Balance at the end of the period	Balance at the beginning of the period
Statutory surplus reserve	<b>605,633</b>	605,633

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 31. Retained profit

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. H shares and A shares rank pari passu in all aspects with each other.

On 24 July 2009, a final dividend of RMB0.1 per share for the year of 2008, totalling RMB173,313,000 was distributed to the holders of the ordinary shares by the Company, as approved at the AGM held on 1 June 2009. Distribution basis was the 1,733,127,000 issued shares as at 31 December 2008.

As approved at the AGM held on 22 June 2010, the Company resolved to distribute no dividends to the holders of the ordinary shares for the year of 2009.

As approved at the AGM held on 27 May 2011, the Company resolved to distribute no dividends to the holders of the ordinary shares for the year of 2010.

### 32. Operating income and operating costs

#### (1) Operating income

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Operating income from principal activities	12,997,128	7,041,298
Other operating income	42,162	17,388
Operating income	13,039,290	7,058,686

#### (2) Operating costs

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Operating costs from principal activities	12,305,797	6,417,033
Other operating costs	27,160	10,051
Operating costs	12,332,957	6,427,084

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 33. Non-operating income

Unit: RMB'000

Item	Note	Jan-Jun 2011	Jan-Jun 2010
Gains on disposal of fixed assets		1,344	1,511
Governmental grants	(1)	2,702	5,962
Received tax return		5,047	—
Income from gas emission reduction		10,894	—
Relocation compensation	(2)	189,125	—
Others		1,873	1,174
Total		210,985	8,647

(1) Governmental grants mainly consist of allowances for job stabilization and training of the unemployed received by the Company in accordance with the Notice on Offering Allowances for Job Stabilization and Training of the Unemployed to Financially-strapped Enterprises (Yu Lao She Fa [2009] No. 2) issued by the Human Resource and Social Security Bureau and other authorities of the Chongqing Municipality.

(2) Relocation compensation

The Parent Group had authorized free use of the steel smelting production line worth RMB10.843 billion and its auxiliary public facilities, please refer to Note I. The charge for using the production line and its auxiliary facilities, which will be waived by the Parent Group, is regarded as the compensation for the extra expenses incurred by the Group arising from the environmental relocation.

### 34. Non-operating expenses

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Losses on disposal of fixed assets	99	42
Donation expenses	1,950	255
Others	101	135
Total	2,150	432

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 35. Income tax

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Current tax expenses for the period	684	250
Deferred tax expenses	299	1,255
Total	983	1,505

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

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Reversal of temporary differences	-299	-1,255

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 36. Calculation of basic earnings per share and diluted earnings per share

#### (1) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit of the Company attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding:

	Jan-Jun 2011	Jan-Jun 2010
Consolidated net profit of the Company attributable to ordinary shareholders (RMB'000)	14,120	7,241
Weighted average number of ordinary shares outstanding ('000 shares)	1,733,127	1,733,127
Basic earnings per share	0.008	0.004

#### (2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. In 2011, there was no issuance of dilutive potential ordinary shares (2010: Nil), thus the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 37. Supplement to cash flow statement

#### (1) Supplemental information to cash flow statement

Unit: RMB'000

Supplemental Information	Jan-Jun 2011	Jan-Jun 2010
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
Net profit	14,120	6,320
Add: Depreciation of fixed assets	216,296	165,966
Amortisation of intangible assets	3,554	3,554
Gains on disposal of fixed assets	-1,245	-1,468
Financial expenses	298,820	154,922
Investment losses (gain denoted with '-')	-1,996	-14
Decrease in deferred tax assets (increase denoted with '-')	878	1,255
Decrease in gross inventories (increase denoted with '-')	-2,450,297	-1,707,975
Decrease in operating receivables (increase denoted with '-')	-13,631	-1,511,753
Increase in operating payables (decrease denoted with '-')	1,384,006	1,067,276
Decrease in restricted cash (increase denoted with '-')	-374,601	124,853
Net cash flow from operating activities	-924,096	-1,697,064
<b>2. Change in cash and cash equivalents:</b>		
Cash at the end of the period	514,149	1,239,927
Less: Cash at the beginning of the period	1,537,352	1,408,560
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net decrease in cash and cash equivalents	-1,023,203	-168,633

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## V. NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 37. Supplement to cash flow statement

#### (2) Cash and cash equivalents

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
I. Cash	514,149	1,239,927
Including: Cash on hand	442	337
Bank deposits available on demand	510,238	1,239,340
Other monetary fund available on demand	3,469	250
II. Cash equivalents	—	—
III. Closing balance of cash and cash equivalents	514,149	1,239,927

## VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

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

#### (1) Parent of the Company

Parent Company name	Organization code	Registered place	Business nature	Registered capital RMB'000	Shareholding percentage	Proportion of voting rights
Chongqing Iron & Steel Group Limited Company	202803370	No.1, Building No.1, Dayan Village III, Dadukou District, Chongqing, the PRC	Sintering, iron smelting, rolling and the by-products of iron and steel mining, milling, machinery, electronics, construction, motor transport, refractory materials	1,650,706	46.21%	46.21%

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

2 For detailed information on the subsidiaries of the Company, please see Note IV.

(2) Transaction with its key management personnel

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Remuneration of key management personnel	110,316	102,331

3. Related parties in which the Company has no control

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	20280613-3	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	62190279-5	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	20299347-7	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	00928742-3	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	20299276-5	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	20287686-0	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	20355285-X	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	20343945-1	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	20305150-2	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Company Limited	20298850-4	Under the same parent company
Chongqing San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the same parent company



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 3. Related parties in which the Company has no control (Continued)

Name of related party	Organization code	Relationship with the Company
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construct Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company
Chongqing Iron & Steel Group Industrial Company Limited	20298762-4	Under the same parent company
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	66359560-7	Under the same parent company
Chongqing Luneng Environment Industry Company Limited	20332595-6	Under the same parent company
Chongqing Donghua Special Steel Company Limited	75622782-X	Under the same parent company
Chongqing Iron & Steel Research Institute	45038430-4	Under the same parent company
Chongqing Iron & Steel Group TV	20298426-3	Under the same parent company
Chongqing Wuxia Mining Industry Incorporated Company	67612426-5	Under the same parent company
Chongqing Huanya Construction Materials Company Limited	70936427-4	Under the same parent company
Chongqing Hongfa Real Estate Development Company	20288082-7	Under the same parent company
Chongqing Sanfeng Metallurgy Equipment Manufacturing Company Limited	76593447-0	Under the same parent company
Chongqing Keding Anti-corrosion Engineering Company Limited	74745593-5	Under the same parent company
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	20288942-6	Under the same parent company
Chongqing Iron & Steel (Hong Kong) Company Limited (CI&S HK)	16393102-000-10-08-0	Under the same parent company

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 3. Related parties in which the Company has no control (Continued)

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Environment Protection Investment Company Limited	69925005-3	Under the same parent company joint control
Chongqing Fengsheng Environment Protection Company Limited	69391416-2	Under the same parent company joint control
Chengdu Jiujiang Environment Protection and Electricity Company Limited	67431581-8	Under the same parent company joint control
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	75929686-3	Under the same parent company joint control
Chongqing Tongxing Refuse Disposal Company Limited	73395998-0	Under the same parent company joint control
Chongqing Sanfeng Xinke Steel Structure Ge Ban Company Limited	76594464-4	Under the same parent company joint control
Congqing Mining Investment Overseas Company Limited	1599001	Under the same parent company joint control
Chongqing Digidie Auto Body Company Limited	78424189-9	Under the same parent company joint control
Chongqing Xin Gang Chang Long Logistics Company Limited	66641868-1	Under the same parent company jointly control

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions

(1) **Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Group and the Company from related parties:**

Unit: RMB'000

		Jan-Jun 2011		Jan-Jun 2010	
		Transaction	Percentage	Transaction	Percentage
		amount	in the total	amount	in the total
			amount		amount
			of similar		of similar
			transactions		transactions
Purchase of products		Transaction	Percentage	Transaction	Percentage
		amount	in the total	amount	in the total
			amount		amount
			of similar		of similar
			transactions		transactions
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	968,455	9.78%	423,677	9.89%
Chongqing Iron & Steel Group Iron Company Limited	Pig iron	25,544	4.36%	242,315	60.11%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and construction in progress	12,887	0.81%	119,870	12.86%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Industrial gases	194,543	88.82%	199,920	92.82%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	202,230	6.22%	126,141	8.55%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	9,365	6.03%	11,526	22.81%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets and construction in progress	7,244	0.46%	85,566	9.18%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and industrial gases	27,170	1.32%	22,340	1.60%
Chongqing Iron & Steel Group Industrial Company Limited	Ore and accessories	10,166	0.10%	17,089	0.40%
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Scrap and spare parts	735	—	95	—
Chongqing Si Gang Steel Company Limited	Scrap	2,111	0.24%	3,982	1.02%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	29,000	1.58%	13,347	1.13%
Others		3,569		4,886	
Total		1,493,019		1,270,754	

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

**(1) Set out below are purchases of raw materials, spare parts, fixed assets and construction in progress by the Group and the Company from related parties: (Continued)**

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

The price of raw materials and spare parts purchased from related parties were determined with reference to the price for similar transactions between such related and other third parties, sum of costs and profit premium or the bidding price of suppliers.

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

#### (2) Sales of products to related parties by the Group and the Company is summarized as follows:

Unit: RMB'000

		Jan-Jun 2011		Jan-Jun 2010	
		Transaction amount	Percentage in the total amount of similar transactions	Transaction amount	Percentage in the total amount of similar transactions
	<b>Sale of products</b>				
Chongqing Si Gang Steel Company Limited	Steel products	125,944	1.02%	117,687	1.78%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	172,990	1.40%	154,105	2.33%
Chongqing San Gang Steel Company Limited	Steel products	182,927	1.48%	145,428	2.20%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Utilities and ancillary materials	221,523	35.56%	176,786	52.64%
Chongqing Iron & Steel Group Mining Company Limited	Utilities and ancillary materials	17,147	2.75%	6,987	2.08%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products, utilities and ancillary materials	84,837	0.65%	27,357	0.39%
Parent Group	Steel products	36,936	0.28%	25,734	0.37%
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Utilities and steel products	3,878	0.03%	20,919	0.30%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	109,134	0.84%	79,509	1.14%
Others		10,934		19,366	
Total		966,250		773,878	

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

- (2) Save for the sales stated aforesaid, the Group and Company had no sales to shareholders holding 5% or more of its shares with voting rights.

The price of products sold to related parties was determined with reference to price the Company offered to other third party customers or price provided by relevant authorities of Chongqing government.

- (3) **Guarantees for the Company's loans provided by the Parent Group and other related parties:**

As at 30 June 2011, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Company amounting to RMB3,772,954,000 and RMB4,277,620,000 respectively. Of the short-term bank borrowings, USD\$65,000,000 (equivalent to RMB421,343,000) and RMB5,000,000 were respectively guaranteed by Chongqing Yufu Assets Management Co., Ltd. and Chongqing Iron & Steel Group Transportation Co., Ltd. (a subsidiary of the Group), while the remaining short-term bank borrowings and long-term bank borrowings were guaranteed by the Parent Group (2010: RMB3,244,509,000 and RMB4,414,716,000) (Note V.15, 21 and 22).

All liabilities under the lease agreement between the Company and Jian Xin are guaranteed by the Parent Group (Note V.9 (3)). The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

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

Unit: RMB'000

	Jan-Jun 2011		Jan-Jun 2010	
	Transaction amount	Percentage in the total amount of similar transactions	Transaction amount	Percentage in the total amount of similar transactions
Social welfare expenses paid by				
Parent Group (a)	54,678	36%	44,669	32%
Fees paid for supporting services (b)	218,767	46%	87,530	32%
Rental expenses for land use right (c)	9,900	100%	9,900	100%
Fees received for supporting services (d)	32,662	3%	3,232	38%
Entrusted trial operation gains/losses settlement (e)	—	—	499,227	100%
Fees paid for purchasing ore (f)	1,680	100%		
Authorized using of assets (g)	189,125	100%		

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

- (a) Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions. No handling fee was charged by the Parent Group.
- (b) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, labour, transportation and import and export agency services provided by the Parent Group and its subsidiaries. The services were charged at prices determined with reference to market prices of such services or a profit mark-up above the cost of providing such services as agreed in accordance with, or prices provided by relevant authorities of Chongqing Municipal Government.
- (c) Rental expenses payable to the Parent Group are determined in accordance with the lease agreements entered into between the Company and the Parent Group.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

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

- (d) Fees received for supporting services mainly represent fees charged to the Parent Group and its subsidiaries for internal railway transportation services at prices determined with reference to a profit mark-up above the cost of providing such services as agreed between the Company and the Parent Group.
- (e) According to the Production Line Trial Run Commissioning Contract signed between the Company and the Parent Group on 24 December 2009, the two parties shall make settlements on a monthly basis for the gains or losses incurred during the trial run of the Parent Group's steel smelting production line, while for the trial runs of the Company's 4,100mm wide plate and 1,780mm hot rolled plate production lines and auxiliary public facilities (collectively as the "the Production Line"), the gains or losses shall be apportioned according to the proportional value of the assets held by each party; thus the Parent Group may need to pay or receive the difference calculated to the Company. The time period of the trial runs is tentatively set at the earlier of the six months from the effective date of the contract or the actual day of completion. Furthermore, the Parent Group shall pay RMB1 million each month to the Company as management fees during the trial runs. The Production Line Trial Run Commissioning Contract was terminated on 31 March 2010 and replaced by the Authorisation Agreement on the Use of Assets, signed between the Company and the Parent Group. See Note VI.5(4)(g).

The Company signed the Production Line Debugging Commissioning Contract with the Parent Group on 19 October 2010 to test and adjust the steel smelting production line of the Parent Group in Changshou New District. During the debugging period, from 20 October 2010 to 30 November 2010, the Parent Group will bear all the related gains or losses and will pay a debugging management fee to the Company of RMB500,000. After the debugging, the Parent Company will authorize the Company free use of these assets, see Note VI.5 (4)(g).

- (f) On 4 January 2011, the Company entered into an agency agreement with Chongqing Iron & Steel (Hong Kong) Limited Company, engaging the latter to procure imported materials for the Company. Based on the Company's procurement plans, Chongqing Iron & Steel (Hong Kong) Limited Company negotiates with external parties and agrees on procurement prices with the Company. After the Company confirms the procurement prices, Chongqing Iron & Steel (Hong Kong) Limited Company signs procurement contracts with external parties. The Company pays Chongqing Iron & Steel (Hong Kong) Limited Company an agency fee of USD 0.1 per tonne of iron ore.



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Related-party transactions (Continued)

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

- (g) All of the Company's land for production purpose in Da Du Kou District was rented from the Parent Group. In accordance with the requirements of Chongqing Municipal Government on emission reduction, industry distribution and strategic planning, the Company will gradually shut down the equipment in Da Du Kou District and move the main production lines to Changshou New Zone before 30 June 2011. Pursuant to the undertaking of the Parent Group to compensate the Company for its related losses in the land lease agreement between the two (as stated in Note I), as well as the Parent Group's agreement with respect to the relocation issue on 19 December 2008 to fund construction within Changshou New Zone itself and then authorize the Company's operating management of projects or assets there related to iron and steel production (so as to fulfill the Parent Group's undertakings to the Company regarding the avoidance of horizontal competition), the Company issued a Letter on the Use of Assets in Changshou New Zone and Related Issues on 16 March 2010, requiring the Parent Group to authorize the Company to use at no cost the iron and steel refinery production line, as well as related auxiliary public facilities belonging to the Parent Group in the area, to compensate for the extra expenses incurred to the Company in its preparation for the relocation. As calculated by the Company and the Parent Group, the costs of using the assets are roughly equivalent to the extra expenses incurred in relation to the relocation. Subsequent to the approval of the State-owned Assets Supervision and Administration Commission of Chongqing on 19 March 2010 (Shou Wen Ban Zi No.157), the Parent Group replied to the Company on 26 March 2010, agreeing that it would authorize the Company to use at no cost the iron and steel refinery production line, along with related auxiliary public facilities in working condition belonging to the Parent Group in Changshou New Zone (with a value of RMB3.99 billion). The Agreement on the Authorization of the Use of Assets was signed on 19 April 2010, granting an initial one-year usage period from 1 April 2010 to 31 March 2011. On 19 April 2010, the Company released its Opinion of Independent Directors on Related-Party Transactions. The Company's independent directors, Mr. Liu Xing, Mr. Zhang Guolin and Mr. Liu Tianni, stated that "the terms of the Agreement on the Authorization of the Use of Assets were made on normal commercial terms and were fair and reasonable insofar as the interests of the Company and its shareholders as a whole are concerned". In December 2010, the Parent Group further authorized the Company to use at no cost additional iron and steel refinery equipment of working condition in Changshou New Zone belonging to the Parent Group (valued at RMB1.97 billion) from 1 December 2010 to 31 March 2011. On 31 March 2011, the Parent Group further authorized the Company to use for free the production line of RMB10.843 billion for steel smelting production line and its auxiliary public facilities in Changshou New Zone which had reached an expected conditions for use, the authorized period is from 1 April 2011 to 31 March 2012. As at 30 June 2011, the fees which shall be measured for the authorized use of the above assets amounted to RMB189,125,000.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

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

#### (1) Bills receivable

Unit: RMB'000

	Closing balance	Opening balance
Chongqing San Gang Steel Company Limited	74,093	25,386
Chongqing Si Gang Steel Company Limited	22,919	11,724
Chongqing Iron & Steel Group Steel Pipe Company Limited	55,580	38,144
Total bills receivable	152,592	75,254

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

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

#### (2) Receivables

Unit: RMB'000

Related party	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	131,993	109,669
Chongqing San Gang Steel Company Limited	41,590	38,994
Chongqing Iron & Steel Group Steel Pipe Company Limited	34,724	34,868
Chongqing Iron & Steel Group Construction and Engineering Company Limited	63,664	26,570
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	7,369	7,369
Parent Group	7,838	117,876
Chongqing Iron & Steel Group Yingsite Mould Company Limited	2,758	2,758
Chongqing Iron & Steel Group San Feng Industrial Company Limited	970	1,331
Chongqing Iron & Steel Group Design and Research Institute	1,232	1,232
Chongqing Donghua Special Steel Company Limited	192	528
Chongqing Iron & Steel Group Refractory Materials Company Limited	279	279
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	27	161
Others	5,394	7,167
<b>Total accounts receivable</b>	<b>298,030</b>	<b>348,802</b>
Provision for bad and doubtful debts	10,358	10,358
<b>Total net accounts receivable</b>	<b>287,672</b>	<b>338,444</b>

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

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

#### (3) Other payables

Unit: RMB'000

Related party	Closing balance	Opening balance
Parent Group (Note(a))	153,349	52,394
Chongqing Iron & Steel Group Design and Research Institute	11,847	31,618
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	56,063	5,384
Chongqing Iron & Steel Group Industrial Company Limited	8,242	2,800
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	6,072	2,506
Others	5,946	3,656
<b>Total other payables</b>	<b>241,519</b>	<b>98,358</b>

(a) The Company settles its payments to the Parent Group's subsidiaries through the Parent Group. The Parent Group did not charge any handling charges in this regard. As at 30 June 2011, the Company has not settled the above procurement payments.

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

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## VII. COMMITMENTS

### Capital commitments

As at 30 June 2011, the capital commitments of the Group are summarized as follows:

Unit: RMB'000

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Investment contracts contracted for but not yet performed or performed partially	<b>31,000</b>	15,000-
Significant construction contracts contracted for and being performed or prepared to perform	<b>3,218,433</b>	1,638,623
Significant construction contracts authorized but not yet contracted for	<b>12,432</b>	78,792
Finance leases contracted for and being performed or to be performed	<b>3,720,928</b>	1,691,913
Total	<b>6,982,793</b>	3,424,328

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## VIII. OTHER MATERIAL EVENTS

### 1. Segment reporting

The Group has four reportable segments, which are iron and steel, electronic construction and installation and logistics segment, determined based on its internal organizational structure, 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 technologies 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.

#### ***Segment profit or loss, 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 net revenue generated by all the segments (including revenue from external transactions and inter-segment transactions) 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.

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

## VIII. OTHER MATERIAL EVENTS (CONTINUED)

### 1. Segment reporting (Continued)

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:

Item	Iron and steel	Electronic construction and installation	Transportation	Logistics	Elimination	Total
	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011
Operating income from external transaction	12,962,474	54,262	22,554	—	—	13,039,290
Operating income from inter-segment transaction	—	55,877	86,468	—	-142,345	—
Operating income	12,962,474	110,139	109,022	—	-142,345	13,039,290
Less: Operating expenses, non-operating income and expenses and income tax expenses	12,956,619	103,921	106,097	—	-142,345	13,024,292
Net profit	5,855	6,218	2,925	—	—	14,998
Supplementary information:						
— interest income from bank loan	9,205	2	4	—	—	9,211
— interest expense from bank loan	212,461	37	150	—	—	212,648
— depreciation and amortization expenses	215,732	540	3,579	42	—	219,893
— impairment loss for the period	—	—	—	—	—	—
Total assets	25,337,910	84,559	76,557	302,071	-273,711	25,527,386
Total liabilities	19,793,451	47,497	27,719	2,071	-42,674	19,828,064

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 1. Accounts receivable

#### (1) Accounts receivable by category

Category	Note	Closing balance				Opening balance			
		Balance		Bad debt provision		Balance		Bad debt provision	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually insignificant but provisioning individually	(2)	10,079	1%	10,079	100%	10,079	2%	10,079	100%
Provisioning for receivables that are grouped	(a)								
Group 1		418,859	60%	145,862	35%	394,501	64%	145,862	37%
Group 2		270,795	39%	—	—	207,600	34%	—	—
Sub-total of groups		689,654	99%	145,862	21%	602,101	98%	145,862	24%
Total		699,733	100%	155,941	22%	612,180	100%	155,941	25%

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

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

#### (2) Individually insignificant but provisioning individually:

Unit: RMB'000

Content of accounts receivable	Balance	Bad debt provision	Percentage
Individually insignificant but provisioning individually	10,079	10,079	100%



# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 1. Accounts receivable (Continued)

#### (3) Provisioning for accounts receivable by aging in groups:

Unit: RMB'000

Aging	Closing balance			Opening balance		
	Balance Amount	Percentage	Bad debt provision	Balance Amount	Percentage	Bad debt provision
Within 1 year						
Including: within 3 months (inclusive)	207,215	49%	—	233,676	58%	—
4 to 12 months (inclusive)	65,321	16%	739	14,789	4%	739
Sub-total	272,536	65%	739	248,465	62%	739
1 to 2 years (inclusive)	369	—	248	992	1%	248
2 to 3 years (inclusive)	957	—	170	340	1%	170
Over 3 years	144,997	35%	144,705	144,704	36%	144,705
Total	418,859	—	145,862	394,501	—	145,862

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 1. Accounts receivable (Continued)

#### (4) Accounts receivable due from the five largest debtors of the Company:

Unit: RMB'000

Name of enterprise	Relationship with the Group	Amount	Aging	Percentage of total accounts receivable
1. Chongqing Si Gang Steel Co., Ltd.	Related party	65,200	within 3 months (inclusive)	9%
Chongqing Si Gang Steel Co., Ltd.	Related party	66,454	4 to 12 months (inclusive)	9%
2. CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.	Third party	64,221	within 3 months (inclusive)	9%
3. Shanghai CI&S Trading Co., Ltd.	Third party	54,107	within 3 months (inclusive)	8%
4. Chongqing San Gang Steel Co., Ltd.	Related party	41,590	within 3 months (inclusive)	6%
5. Ningbo Bao Yi Trade Co., Ltd.	Third party	39,995	within 3 months (inclusive)	6%
Total		331,567		47%

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 2. Other receivables

Unit: RMB'000

Category	Closing balance		Provision for bad and doubtful debts	
	Gross carrying amount Amount	Percentage	Amount	Percentage
Individually significant other receivables	55,106	55%	16,958	31%
Other immaterial other receivables	45,166	45%	—	—
<b>Total</b>	<b>100,272</b>	<b>100%</b>	<b>16,958</b>	<b>17%</b>

Unit: RMB'000

Category	Opening balance		Provision for bad and doubtful debts	
	Gross carrying amount Amount	Percentage	Amount	Percentage
Individually significant other receivables	62,758	61%	16,958	27%
Other immaterial other receivables	39,994	39%	—	—
<b>Total</b>	<b>102,752</b>	<b>100%</b>	<b>16,958</b>	<b>17%</b>

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 3. Long-term equity investments

Unit: RMB'000

Name of investee	Accounting method	Initial investment cost	Balance		Balance at the end of the year	Shareholding percentage	Voting rights	Provision for impairment	Provision made during the year	Cash dividend for the year
			at the beginning of the year	Movement of addition and reduction						
San Feng Jingjiang Port Logistics Company Limited	Cost method	153,000	153,000		153,000	51%				
Xiamen Shipbuilding Industry Co., Ltd.	Cost method	5,000	5,000		5,000	2%				
Jiangsu HuaYuan Metal Processing Company Limited	Cost method	15,000	15,000	-15,000						
Chongqing Iron & Steel Group Electronics Company Limited	Cost method	29,745	29,745		29,745	100%				
Chongqing Iron & Steel Group Transportation Company Limited	Cost method			48,294	48,294	100%				
Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. (靖江三峰钢材加工配送有限公司)	Cost method			20,000	20,000	51%				
<b>Total</b>		—	202,745	53,924	256,039					

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 4. Operating income and operating costs

#### (1) Operating income:

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Steel products	12,338,200	6,618,143
By products	582,305	329,709
Other operating income	41,969	17,388
Operating income	12,962,474	6,965,240

#### (2) Operating costs:

Unit: RMB'000

Item	Jan-Jun 2011	Jan-Jun 2010
Operating costs from principal activities	12,267,413	6,354,068
Other operating costs	27,415	10,051
Operating costs	12,294,628	6,364,119

# NOTES TO THE FINANCIAL STATEMENTS

The 2011 financial statements (unaudited) of the Company in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China

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

### 5. Supplement to cash flow statement

Unit: RMB'000

Supplemental Information	Jan-Jun 2011	Jan-Jun 2010
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	4,977	1,926
Add: Depreciation of fixed assets	212,227	161,212
Amortisation of intangible assets	3,505	3,505
Gains on disposal of fixed assets	-1,208	-1,435
Financial expenses	298,665	155,161
Investment losses (gain denoted with '-')	-1,996	
Decrease in deferred tax assets (increase denoted with '-')	878	1,255
Decrease in gross inventories (increase denoted with '-')	-2,450,227	-1,720,086
Decrease in operating receivables (increase denoted with '-')	-114,413	-1,421,753
Increase in operating payables (decrease denoted with '-')	1,399,759	1,194,003
Decrease in restricted cash (increase denoted with '-')	-374,601	124,853
Net cash flow from operating activities	-1,022,434	-1,501,359
2. Change in cash and cash equivalents:		
Cash at the end of the period	311,686	987,595
Less: Cash at the beginning of the period	1,290,146	1,404,948
Add: Cash equivalents at the end of the period		—
Less Cash equivalents at the beginning of the period		—
Net decrease in cash and cash equivalents	-978,460	-417,353

# SUPPLEMENTAL INFORMATION TO FINANCIAL STATEMENT

## 1. EXTRAORDINARY GAIN AND LOSS

Unit: RMB'000

Item	Note	Jan-Jun 2011	Jan-Jun 2010
Disposal of non-current assets		1,245	1,435
Tax refunds, exemptions and reductions on an occasional basis		5,047	
Government grants recognized through profit or loss		2,702	5,962
Profit or loss of subsidiaries generated before combination date of a business combination involving entities under common control		2,418	
The actual additional expenditure for preparation of environmental relocation	(1)	-209,623	
The fee measured for free use of the assets provided by the Parent Group	(1)	189,125	
Income from gas emission reduction		10,894	
Other non-operating income and expenses besides items above		-178	818
Amount of effect on taxation		-245	1,232
<b>Total</b>		<b>1,385</b>	<b>6,983</b>

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

- (1) In accordance with the requirements of Chongqing Municipal Government on emission reduction, industry distribution and strategic planning, the Company will move to Changshou New Zone with the Parent Group before 21 September 2011. Considering the extra relocation-related expenses of the Company, the Parent Group authorized the Company to use at no cost the iron and steel refinery production line and relevant auxiliary public facilities (see Note I). The actual additional expenses of preparation environmental relocation incurred in January-June 2011 to the Company amounted to RMB209,623,000, while the fees for the authorized use of the above assets which shall be measured during the period from January to June 2011 amounted to RMB189,125,000 (see Note VI.4(4)).

# SUPPLEMENTAL INFORMATION TO FINANCIAL STATEMENT

## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 9 - Calculation and Disclosure of the Return on Net Assets and Earnings per share” (2010 revised) issued by the CSRC, the Group’s return on net assets and earnings per share are calculated as follows:

Profit under reporting period	Weighted average return on net asset (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company’s ordinary equity shareholders	0.25	0.008	0.008
Net profit deducted extraordinary gain and loss attributable to the Company’s ordinary equity shareholders	0.23	0.007	0.007



## DOCUMENTS AVAILABLE FOR INSPECTION

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

**Chongqing Iron & Steel Company Limited**

*Chairman:* **Deng Qiang**

26 August 2011