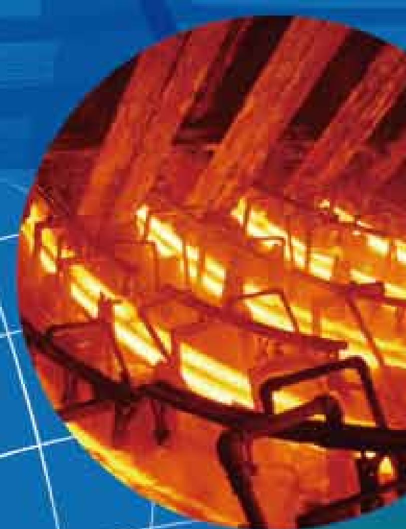
重慶鋼鐵股份有限公司

Chongqing Iron & Steel Company Limited

2011 Annual Report





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

Contents

IMPORTANT NOTICE

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

2. All other directors of the Company attended the 9th meeting of the fifth session of Board convened on 28 March 2012 except Mr. Liu Tian Ni and Liu Xing, independent non-executive directors, who failed to attend the meeting due to business engagements.

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

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

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

Company Profile

(I) BASIC INFORMATION

Chinese name of the Company:	重慶鋼鐵股份有限公司(「重鋼股份公司」)
English name:	Chongqing Iron & Steel Company Limited ("CISL")
Company's legal representative:	Deng Qiang
Secretary to the Board:	You Xiao An
Correspondence address:	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Telephone:	86-23-6887 3311
Fax:	86-23-6887 3189
E-mail:	yxa@email.cqgt.cn
Securities representative:	Peng Guo Ju
Correspondence address:	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Telephone:	86-23-6898 3482
Fax:	86-23-6887 3189
E-mail:	clarapeng@email.cqgt.cn
Registered address and office address:	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Postal code:	401258
Website:	http://www.cqgt.cn
E-mail:	dms@email.cqgt.cn

(I) BASIC INFORMATION *(CONTINUED)*

Name of newspapers designated for information disclosure of the Company:

Domestic:	China Securities Journal, Shanghai Securities News, and Securities Times
Website for publishing annual report:	http://www.sse.com.cn and http://www.hkexnews.hk
Place for Inspection of annual reports:	Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited
Place of listing of the Company's Shares:	Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)
Abbreviated name of Shares:	重慶鋼鐵(A shares)/Chongqing Iron (H shares)
Stock code:	601005(A shares)/1053(H shares)
Abbreviated name of corporate bonds:	10 CISL Bond (10重鋼債)
Code of corporate bonds:	122059
Date of first business registration of the Company:	11 August 1997
Place of registration:	Chongqing Municipal Administration of Industry and Commerce
Business registration number:	500000400003546
Tax registration number:	500115202852965
Organization Code:	20285296-5
Auditors of the Company:	KPMG Huazhen
Office address:	8/F, Office Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China

(I) BASIC INFORMATION *(CONTINUED)*

Postal Code:	100738
Legal Advisers:	
Domestic:	Chongqing Branch of Beijing Kai Wen Law Firm
Office address:	Room 2307, Metropolitan Tower, No.68, ZouRong Road, Yuzhong District, Chongqing
Postal Code:	400010
Chongqing Zhong Shi Law Firm	
Office address:	F19, Tower A5, Asia Pacific Enterprise Valley, No.1 Yatai Road, Nan'an District, Chongqing
Postal Code:	400060
Overseas:	S.H. LEUNG & CO.SOLICITORS & NOTARIES
Office address:	Room 502, Aon China Building, 29 Queen's Road Central, Hong Kong
Share Registrar:	
A shares:	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 3/F, China Insurance Building, No.166 Lujiazui Road East, Pudong New District, Shanghai
H shares:	Hong Kong Registrars Limited Room1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

(II) ISS UE AND LISTING

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

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

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

(III) PRINCIPAL BUSINESSES AND MAJOR PRODUCTS

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

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

Major products of the Company in 2011 and their applications are set out below

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

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

Total profit	-1,375,096
Net profit attributable to the Company's shareholders	-1,471,082
Net profit after extraordinary gains and loss attributable to the Company's shareholders	-1,493,166
Profit from principal operations	933,576
Profit from other operations	27,707
Operating profit	-1,895,522
Net non-operating income and expenses	520,426
Net cash flow from operating activities	451,313
Net increase in cash and cash equivalents	-235,929

Extraordinary gain and loss items (RMB'000)

Extraordinary gain and loss item	Amount
Gain or loss arising from disposal of non-current assets	1,781
Tax refunds, exemptions and reductions	5,479
Government grants	4,521
Net profits of subsidiaries arising from business combination under the same control for current period before the date of combination	1,529
Relevant usage fees which should be measured for use of relevant assets of the Parent Company for free	503,204
Actual additional expenses for preparation of environmental relocation	–495,660
Others	5,441
Effect on income tax	–4,211
Total	22,084

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

1. Major Financial data

Item	**2011**	2010	Increase/ decrease from last year (%)	2009	2008
Operating revenue	**23,532,945**	16,675,889	41.12	10,856,947	16,517,443
Total profit	**–1,375,096**	15,800	–8,803.14	103,556	605,764
Income tax	**95,979**	4,530	2,018.74	12,024	7,466
Net profit attributable to shareholders of the Company	**–1,471,082**	11,270	–13,153.08	91,273	598,298
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**–1, 493,166**	–24,743	–5,934.70	63,853	601,228
Net cash flow from operating activities	**451,313**	–2,078,626	121.71	–790,275	483,509

	At the end of 2011	At the end of 2010	Increase/ decrease at the end of the year from the end of last year (%)	At the end of 2009	At the end of 2008
Total assets	**27,050,441**	22,668,457	19.33	15,968,458	12,424,968
Total liabilities	**22,809,326**	16,921,561	34.79	10,412,796	6,780,022
Shareholders' equity	**4,241,115**	5,746,896	–26.20	5,555,662	5,644,946

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

2. Major financial indicators

Unit: RMB'000

Item	**2011**	2010	Increase/ decrease from last year *(%)*	2009	2008
Basic earnings per share	**-0.849**	0.007	-12,228.57	0.05	0.35
Diluted earnings per share	**-0.849**	0.007	-12,228.57	0.05	0.35
Basic earnings per share after extraordinary gain and loss	**-0.862**	-0.014	-6,057.14	0.04	0.35
Return on net assets (fully diluted) *(%)*	**-34.69**	0.20	Decreased by 34.89 percentage points	1.63	10.6
Return on net assets (weighted average) *(%)*	**-30.52**	0.20	Decreased by 30.72 percentage points	1.62	11.01
Return on net assets net of extraordinary gain and loss (fully diluted) *(%)*	**-35.21**	-0.44	Decreased by 34.77 percentage points	1.14	10.65
Return on net assets net of extraordinary gain and loss (weighted average) *(%)*	**-30.98**	-0.44	Decreased by 30.54 percentage points	1.14	11.07
Net cash flow per share from operating activities	**0.26**	-1.20	121.67	0.46	0.28

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

2. Major financial indicators *(CONTINUED)*

	At the end of 2011	At the end of 2010	Increase/ decrease at the end of the year from the end of last year *(%)*	At the end of 2009	At the end of 2008
Net asset per share attributable to shareholders of the Company	**2.35**	3.23	–27.24	3.22	3.26

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

Item	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained profits	Including: Proposed dividend in cash by the Board	Minority interests	Shareholders' equity
Opening balance	1,733,127	1,163,621	808	605,633	2,096,707		147,000	5,746,896
Increase during the year		8,496	1,378				19,007	28,881
Decrease during the year		62,954	626		1,471,082			1,534,662
Closing balance	1,733,127	1,109,163	1,560	605,633	625,625		166,007	4,241,115

Reasons for the changes: In March 2011, the Company combined Chongqing Iron & Steel (Group) Transportation Company Limited (Transportation Company), which was under the same control of the Parent Company, which resulted a decrease of RMB62,954,000 in capital reserve, and Chongqing Iron & Steel Group Electronic Company Limited (Chongqing Electronic) received the relocation compensation from the government, which resulted a increase of RMB8,496,000 in capital reserve. In addition, the Company suffered large losses during this year and the undistributed profit decreased by RMB1,471,082,000.

(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, and there were no shares subject to trading moratorium.

	Number	Percentage (%)
I. Shares subject to trading moratorium	0	0
II. Shares not subject to trading moratorium	1,733,127,200	100
1. Renminbi ordinary shares	1,195,000,000	68.95
2. Foreign shares listed domestically		
3. Foreign shares listed overseas	538,127,200	31.05
4. Others		
III. Total shares	1,733,127,200	100

(II) ISSUE AND LISTING OF SECURITIES IN RECENT YEARS

1. Issue and listing of A shares

Unit: share

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

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

(II) ISSUE AND LISTING OF SECURITIES IN RECENT YEARS *(CONTINUED)*

2. Issue, listing and follow-up rating of corporate bonds

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

In June 2011, China Chengxin International Credit Rating Co., Ltd.* (中誠信國際信用評級有限責任公司) gave a follow-up rating to the Company's corporate bonds of RMB2 billion issued in 2010 with reference to the comprehensive analysis and evaluation of the Company's operation position in 2010 and relevant industries. As ruled by Committee of China Chengxin International Credit Rating (中誠信國際信用評級委員會), the credit rating of the bond remained AAA.

10 CISL Bond (10重鋼債) accrued annual interests on par value from 9 December 2010 to 8 December 2011 at a coupon rate of 6.20% annually. Interest of RMB62 (tax inclusive) was paid on each board lot of 10 CISL Bond with par value of RMB1,000 on 9 December 2011.

3. The Company has no internal employee shares.

(III) PARTICULARS OF SHAREHOLDERS AND BENEFICIAL CONTROLLER

1. **At the end of the reporting period, the total number of shareholders was 98,027, including 97,718 holders of A Shares and 309 holders of H Shares.**

2. **According to the Register of Members provided by the Hong Kong and domestic share registrar of the Company, the Company's top ten shareholders and their shareholdings are as follows:**

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

Unit: share

Name of shareholder	Type of shareholders	Shareholding Percentage	Total number of shares held	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State-owned legal person shareholder	46.21%	800,800,000	47,600,000
HKSCC NOMINEES LIMITED	Holder of foreign shares	30.37%	526,337,670	Unknown
National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) ("NCSSF")	Holders of domestic state-owned legal person shareholders	2.02%	35,000,000	Unknown
Zhang Guoliang (張國良)	Domestic natural person shareholder	0.19%	3,306,667	Unknown
Bai Jiping (白計平)	Domestic natural person shareholder	0.13%	2,310,000	Unknown
Zhou Yong (周勇)	Domestic natural person shareholder	0.09%	1,600,000	Unknown
Jiang Xiantang (江賢堂)	Domestic natural person shareholder	0.07%	1,214,080	Unknown
You Jianjun (遊建軍)	Domestic natural person shareholder	0.07%	1,152,341	Unknown
Du Zhen (杜振)	Domestic natural person shareholder	0.07%	1,152,248	Unknown
Xin Yu (辛渝)	Domestic natural person shareholder	0.06%	1,073,600	Unknown

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

2. **According to the Register of Members provided by the Hong Kong and domestic share registrar of the Company, the Company's top ten shareholders and their shareholdings are as follows:** *(Continued)*

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

Note 1: There is no connection or any party acting in concert as defined in Measures for Management on Information Disclosure of Changes in Shareholdings of Listed 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: On 18 October 2011, Yueyang Intermediate People's Court enforced the transfer of 6,670,000 shares of the Company held by the Parent Company to Yueyang Jiahong Trading Co., Ltd. (岳陽嘉宏經貿有限公司) and the transfer was reversed through mediation by the Higher People's Court in November 2011.

Note 3: At the end of the reporting period, 47,600,000 shares held by the Parent Company were frozen. Save for that, the Company is not aware of whether the shares held by other shareholders holding not less than 5% shares in the Company were pledged, frozen or in custody.

Note 4: The 526,337,670 H shares held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

Note 5: In June 2011, in accordance with the requirements in Notice on Transacting Formalities of Transfer of State-owned Shares Issued by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government (Yu Guo Zi [2011] No. 50) (《重慶市國有資產監督管理委員會關於辦理國有股轉持手續的通知》(渝國資[2011]50號)), China Securities Depository and Clearing Corporation Limited transferred 35,000,000 shares of the Company held by the Parent Company to NSSF at nil consideration.

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

3. Particulars of Controlling Shareholder

Chongqing Iron & Steel (Group) Company Limited, the controlling shareholder of the Company, held 800,800,000 shares of the Company, representing 46.21% of total share capital of the Company. Established on 22 June 1995, the Parent Company is a state owned company with State-owned Assets Supervision and Administration Commission of Chongqing being its sole shareholder and Dong Lin as its legal representative, with a registered capital of RMB1,650,706,543.56 and registered address at No.1, Building No.1, Dayan Village III, Dadukou District, Chongqing. Its scope of business: assets operation, investment and property right trading within the entrusted authority, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computer and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals).

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

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

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

(2) Pre-emptive Rights

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

(3) Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2011 the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

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

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

(4) Public float of H shares

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

(5) Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2011 the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$2.02)) was HK$1.087 billion and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB3.76)) was RMB4.493 billion.

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

State-owned Assets Supervision and Administration Commission of Chongqing

↓ 100%

Chongqing Iron & Steel (Group) Company Limited

↓ 46.21%

Congqing Iron & Steel Company Limited

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Title	Gender	Age	Tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Total remuneration received from the Company during the reporting period (RMB'000)	Whether receive remuneration and allowance from shareholder or other connected parties
Deng Qiang	Chairman	M	49	From 18 March 2011 to 2011 Annual General Meeting	0	0	0	Yes
Yuan Jin Fu	Director	M	49	From 1 June 2009 to 31 May 2012	0	0	0	Yes
Chen Shan	Vice Chairman	M	58	From 1 June 2009 to 29 November 2011	0	0	286	No
Chen Hong	Director and General Manager	M	55	From 1 June 2009 to 31 May 2012	0	0	298	No
Sun Yi Jie	Director, Deputy General Manager and Chief Engineer	M	56	From 1 June 2009 to 31 May 2012	0	0	271	No
Li Ren Sheng	Director and Deputy General Manager	M	47	From 1 June 2009 to 31 May 2011	0	0	270	No
Liu Xing	Independent Director	M	55	From 1 June 2009 to 31 May 2012	0	0	71	No
Zhang Guo Lin	Independent Director	M	56	From 1 June 2009 to 31 May 2012	0	0	71	No
Liu Tian Ni	Independent Director	M	47	From 1 June 2009 to 31 May 2012	0	0	71	No
Zhu Jian Pai	Chairman of the Supervisory Committee	M	54	From 1 June 2009 to 31 May 2012	0	0	0	Yes
Li Zheng	Supervisor	M	49	From 18 August 2010 to 2011 Annual General Meeting	0	0	0	Yes
Li Mei Jun	Supervisor	M	45	From 18 August 2009 to 2011 Annual General Meeting	0	0	0	Yes
Chen Hong	Supervisor	F	47	From 1 June 2009 to 31 May 2012	0	0	223	No
Gao Shou Lun	Supervisor	M	58	From 1 June 2009 to 25 July 2011	0	0	169	No
Dou Hui	Supervisor	M	48	From 25 July 2011 to 2011 Annual General Meeting	0	0	70	No
Wu Zi Sheng	Deputy General Manager	M	47	From 8 January 2004 to 30 March 2011	0	0	153	No
Guan Zhaohui	Deputy General Manager	M	43	From 21 January 2011 till now	0	0	243	No
Gong Jun	Financial Controller	F	39	From 26 September 2010 till now	0	0	213	No
You Xiao An	Secretary to the Board	M	47	From 23 January 2001 till now	0	0	225	No

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

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

The aforesaid ages of Directors, Supervisors and Senior Management are their respective ages as at 31 December 2011.

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

Directors

Mr. Deng Qiang, aged 49, is Chairman of the Board, chairman of the strategic committee and the Deputy General Manager of the Parent Company. He graduated from Metallurgy Department of Chongqing University, majoring in iron refinery. He holds Master's Degree for Engineering and is a senior engineer. Mr. Deng joined the Parent Company in 1982, and served, from time to time, as Deputy Head (in charge of general operation) of No.6 Plant and Deputy Director (in charge of general operation) of Steel Business Unit of the Parent Company, Deputy General Manager of the Company, Deputy Chief Engineer of the Parent Company and Head of the Technical Centre of Chongqing Iron & Steel (during this period, he also held various positions in the wholly- owned subsidiaries of the Parent Company as below: Chairman of the Transportation Company (運輸公司), Chairman and General Manager of No.3 Steel Company (三鋼公司), General Manager of Zhongxing Company (中興公司) and Chairman of No.4 Steel Company (四鋼公司)), Assistant to the General Manager of the Parent Company and Deputy General Manager of the Parent Company. Mr. Deng was elected as a director of the Company at the Company's 2011 first extraordinary general meeting held on 18 March 2011.

Mr. Yuan Jin Fu, aged 49, is a Director and member of the Salary and Remuneration Review Committee of the Company. He is also the Director, Deputy General Manager and the Chief Accountant of the Parent Company. Mr. Yuan obtained a bachelor degree in Economics and Management and holds the title of senior accountant. Mr. Yuan joined the Parent Company in 1981 and has been the Chief Accountant of the Parent Company since August 2002 and Deputy General Manager of the Parent Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Parent Company, and the Chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. Mr. Yuan was re-elected as a Director of the Company at the AGM held on 1 June 2009.

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

Directors *(Continued)*

Mr. Chen Shan, aged 58, is the Vice Chairman, a member of the Strategic Committee, the Party Secretary and the Chairman of the Labour Union of the Company. Mr. Chen graduated from Chongqing University specializing in metal heating processing with a bachelor degree in engineering. He graduated from the Business Administration Faculty of Chongqing University with a MBA degree. He holds the title of senior engineer. Mr. Chen joined the Parent Company in 1982 and had been the deputy factory manager of No. 5 Factory and the head of the Operation Planning Department of the Parent Company and deputy chief executive of the Dadukou district of Chongqing and deputy general manager and general manager of the Company. Mr. Chen was reelected as a Director of the Company at the AGM held on 1 June 2009. On 29 November 2011, Mr. Chen Shan resigned as the Director, Vice Chairman of the Board and a member of the Strategic Committee of the Company.

Mr. Chen Hong, aged 55, is a Director, a member of the Strategic Committee, the general manager of the Company. Mr. Chen graduated from Wuhan Iron & Steel University with a bachelor's degree in coking engineering and attended the postgraduate course in management engineering of Tsinghua University with a postgraduate diploma, and he is a senior engineer. Mr. Chen joined the Parent Company in 1982, and had been the deputy head of Chemical Workshop, deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant of the Parent Company, head of Raw Material Department of the Company, deputy chief engineer of the Parent Company, Chairman of the Board of the Chongqing Iron & Steel Group Industries Co., Ltd., Chairman of the Board of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd., deputy general manager and head of Sales Department of the Company. Mr. Chen was reelected as a Director of the Company at the AGM held on 1 June 2009.

Mr. Sun Yi Jie, aged 56, is a Director, a member of the Strategic Committee, the deputy general manager and chief engineer of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He holds a bachelor degree in engineering and holds the title of senior engineer, and is a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". Mr. Sun joined the Parent Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company. Mr. Sun was re-elected as a Director of the Company at the AGM held on 1 June 2009.

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

Directors *(Continued)*

Mr. Li Ren Sheng, aged 47, is a Director and the deputy general manager of the Company. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses of a bachelor's degree and is a senior engineer. He joined the Parent Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Parent Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of the Raw Materials Department of the Company. Mr. Li was re-elected as a Director of the Company at the AGM held on 1 June 2009.

Independent Directors:

Mr. Liu Xing, aged 55, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of the Salary and Remuneration Review Committee of the Company. Mr. Liu has a doctor's degree in management, and is the professor and PhD supervisor and the head of Economy, Industry and Business Management Institute of Chongqing University. He is also a council member of China Accounting Society, a standing council member of the Education Branch of China Accounting Society, vice president of the Chongqing Accounting Society and a standing council member of Chongqing CPA Association. Mr. Liu engaged in teaching and research in management and engineering department of Chongqing University in 1983, and had been a researcher of accounting department of City University of Hong Kong and the visiting scholar and professor of accounting college of the Chinese University of Hong Kong. Mr. Liu had released a number of academic theses in domestic and foreign academic periodicals and obtained numerous provincial grade awards for research achievements. He had acted as Independent Nonexecutive Director of Dongfeng Electronic Technology Co., Ltd., Sichuan Meifeng Chemicals Co. Ltd. and Chongqing Titanium Industry Co. Ltd of Pangang Group since 2002. He is currently the Independent Nonexecutive Director of Chongqing Gang Jiu Co., Ltd., Chongqing Hecheng Co., Ltd., Chongqing Huapont Pharm Co., Ltd. and Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

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

Independent Directors: *(Continued)*

Mr. Zhang Guo Lin, aged 56, an Independent Non-executive Director, Chairman of Salary and Remuneration Review Committee, a member of the Strategic Committee and the Audit Committee of the Company. He is currently the professor and master tutor of Southwest University of Political Science & Law, an academic leader and secretary to the Party Committee of Chongqing, a member of Technology Advisory Committee of Chongqing government, a member of Discipline Committee of Chongqing and a member to the Third People's Congress of Chongqing. He is also the vice president of Administration Association of Chongqing. Mr. Zhang graduated from the Faculty of Metallurgy of Chongqing University in January 1982 with a doctor's degree in technology economy and management. He had studied as a visiting scholar in University of Illinois at Chicago, USA. Mr. Zhang had released a number of academic theses in academic periodicals and obtained numerous awards for research achievements and projects. Mr. Zhang has extensive teaching and working experience in steel smelting, metallurgy and economy management. Mr. Zhang had been director of the Organization Department of Party Committee, the deputy secretary to party committee, the vice director to school administration committee, the standing member of party committee and the vice president of Chongqing University. He also served as the deputy secretary to working committee and the vice director of Administrative Committee of northern new district of Chongqing, a member of the second CCP Discipline Committee of Chongqing and a member of the second Political Consultative Conference of Chongqing. He is also an independent director of Chongqing Brewery Co. Ltd. Mr. Zhang was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

Mr. Liu Tian Ni, aged 47, an Independent Non-executive Director and a member of the Salary and Remuneration Review Committee and the Audit Committee of the Company, is currently the Founder and Chairman of Wonderful Sky Financial Group Limited, an executive director of Silver Grant International Industries Limited, a listed company in Hong Kong, and the Managing Director of Sure Spread Company Limited. Mr. Liu graduated from Beijing Normal University, with a master's degree in Science. Mr. Liu has extensive experience in fields including international capital market, post listing corporate financing, mergers & acquisitions and direct investment. Mr. Liu Tian Ni was awarded the World Outstanding Young Chinese Entrepreneur by Asia Weekly in October 2008 for his excellent corporate management and remarkable business strategy. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the AGM held on 1 June 2009.

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

Supervisors

Mr. Zhu Jian Pai, aged 54, is the Chairman of the Supervisory Committee of the Company, and the Chairman of the Supervisory Committee, the deputy secretary to the Communist Party Committee and the secretary of the Discipline Inspection Committee of the Parent Company. Mr. Zhu has a bachelor degree in engineering from the Faculty of Metallurgy of Chongqing University with major in pressure processing and a master degree in EMBA from Chongqing University. He is a certified metallurgy and metal materials engineer and holds the title of senior engineer. Mr. Zhu joined the Parent Company in 1982 and served as the deputy secretary to the Communist Party Committee of the Parent Company in January 2000, the Chairman of the Supervisory Committee of the Parent Company in September 2011, the secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company, the head of the labour affairs office, the head of the personnel department, the deputy secretary to the Communist Party Committee and a Director of the Parent Company. Mr. Zhu was re-elected as a Shareholder Representative Supervisor of the Company at the AGM held on 1 June 2009.

Mr. Li Zheng, aged 49, is the Office Director of the Supervisory Committee and the head of audit department of the Parent Company. Mr. Li graduated from Sichuan Second Communist Party School by distance learning with a bachelor's degree in economics and trade (四川省二黨校函授經貿專業). He is a senior accountant. Mr. Li joined the Parent Company in 1980 and acted as the head of audit department of the Parent Company in May 2010 and Office Director of the Supervisory Committee in November 2011. He held positions as the assistant to the head of the Finance Office of the Parent Company, the chief accountant of Chongqing Building Materials and Industry Co., Ltd. (重慶建材實業有限公司), the deputy head of the sales department and the secretary to the Chief Party Committee of the sales department of the Company as well as the deputy general manager of Chongqing Iron & Steel Mining Company (重鋼集團礦業公司). Mr. Li was appointed as a Shareholder Representative Supervisor of the Company at the Extraordinary General Meeting held on 18 August 2010.

Mr. Li Mei Jun, aged 45, is the officer of the legal affairs office of the Parent Company. Mr. Li graduated from the law department of Nankai University with a master's degree in law. He is an assistant economist. Mr. Li joined the Parent Company in 1988 and acted as the officer of the legal affairs office of the Parent Company in July 2011. He held positions as the deputy manager of the sales department of Zhangjiang Industry and Trade Dong Hua (湛江工貿東華) of the Parent Company, the manager of Nanning Business Department (南寧經營部) of Zhangjiang Industry and Trade Group (湛江工貿集團) of Parent Company, the deputy officer of the legal affairs office and the department head of the legal department of the legal affairs office of the Parent Company. Mr. Li was appointed as a Shareholder Representative Supervisor of the Company at the Extraordinary General Meeting held on 18 August 2010.

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

Supervisors *(Continued)*

Ms. Chen Hong, aged 47, is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen obtained a university diploma from the Logistical Engineering University of the Chinese Peoples's Liberation Army. Ms. Chen joined the Parent Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of the Design Institute, chief officer of Production and Operation Department of the Parent Company and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company.

Mr. Gao Shou Lun, aged 58, is a Supervisor of the Company, the secretary to the Communist Party Committee of the medium plate plant of the Company as well as the Chairman of the Labor Union. Mr. Gao graduated from the History Department of Southwest China Normal University and was awarded a bachelor degree in History. He was also awarded a master degree in History of the Sichuan University. As a senior political engineer, Mr. Gao joined the Parent Company in 1971. During his term of office, he has served as the deputy section chief of the educational section of Qijiang Iron Mine(綦江鐵礦)and the section chief of the education theory section of promotion department of the Parent Company. He was also the deputy secretary to the communist party committee (managed tasks), Chairman of the Labor Union, secretary to the communist party committee and Chairman of the Labor Union of the power plant of the Company. He also undertook the role of manager of party committee office (secretary) of the Parent Company. Mr. Gao was reelected as a Staff Representative Supervisor of the Company at the 39th meeting of the second staff representative meeting for its group leaders of the Company. On 25 July 2011, Mr. Gao resigned as a Staff Representative Supervisor of the Company.

Mr. Dou Hui, aged 48, is the secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Steel Smelting Plant of the Company. He is holder of a bachelor's degree, and a senior political engineer (高級政工師). Mr. Dou joined the Parent Company in August 1982. He served from time to time as the director of the office of the Labor Union, organization department chief of the Labor Union of the Parent Company, as well as secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Sintering Plant of the Company. On 25 July 2011, Mr. Dou was elected as a Staff Representative Supervisor of the fifth session of the Supervisory Committee of the Company at the 63rd meeting of the second staff representative meeting for its group leaders of the Company.

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

Senior Management:

Mr. Wu Zi Sheng**,** aged 47, is the deputy general manager of the Company. Mr. Wu obtained a bachelor's degree in Economics and Management and an EMBA degree from Chongqing University. He is a postgraduate student (EMBA) of Chongqing University and is a senior economist and senior management consultant. Mr. Wu joined the Parent Company in 1981 and had served as the head of the production workshop, the secretary to the Party Committee, head of the promotion department, head of the labour training section of the coking plant and the assistant to the plant head and the assistant to the head of the labour and corporate affairs department of the industrial office of the smelting plant of the Parent Company, the secretary to the Communist Party Committee, the Chairman of the Labour Union of the Steel Casting Company, deputy head of the personnel department, head of the human resources department, Supervisor of the Company.

Mr. Guan Zhaohui**,** aged 44, is the Deputy General Manager of the Company. He graduated from Chongqing University, majoring in engineering mechanics. He holds Master's Degree and is a senior engineer. Mr. Guan joined the Parent Company in 1990, served from time to time as Chief of Mechanics Section of Steel Section Plant (型鋼廠機械科科長), Assistant to the Head of the Medium-Gauge Plate Plant (中厚板廠廠長助理), Deputy Chief (in charge of general operation) and Chief of Mechanics Division and Head of the Medium-Gauge Plate Plant of the Company.

Ms. Gong Jun**,** aged 39, is the Financial Controller and the head of the financial and accounting office of the Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Parent Company in 1996, she acted as the head of Audit Department of the Parent Company from March 2008 to May 2010 and acted as the head of Finance Office of the Parent Company from May 2010 to September 2010. She had been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department and deputy head of the Audit Department of the Parent Company.

Mr. You Xiao An**,** aged 47, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now attending postgraduate courses in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Parent Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

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

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 21 January 2011, by the 59th written resolution of the fifth session of the Board, it was resolved to approve the appointment of Mr. Guan Zhaohui as the deputy general manager of the Company.

2. On 18 March 2011, the resignation of Mr. Dong Lin as director, chairman to the Board, chairman of the strategic committee and other related positions in the Company and the appointment of Mr. Deng Qiang as a director of the fifth session of the Board of the Company were approved at the Company's 2011 first extraordinary general meeting.

3. At the fifth meeting of the fifth Board of the Company held on 18 March 2011, Mr. Deng Qiang was elected as the chairman of the fifth Board of the Company and appointed as the chairman of the third Strategic Committee of the Board of the Company.

4. On 30 March 2011, since Mr. Wu Zisheng was unsuitable to undertake his work due to health reasons, he was dismissed from the position as the deputy general manager of the Company pursuant to the 69th written resolution of the fifth Board of the Company.

5. On 25 July 2011, the Company received a written resignation application from Mr. Gao Shou Lun, a staff representative Supervisor. Mr. Gao Shou Lun resigned as a staff representative Supervisor due to work change, with effect from 25 July 2011.

6. On 25 July 2011, the Company held the 63rd Meeting of Mission Leaders of the Second Staff Congress at which Mr. Dou Hui was elected as a staff representative Supervisor of the fifth session of the Supervisory Committee of the Company.

7. On 29 November 2011, the Board of Directors of the Company received a written resignation application from Mr. Chen Shan, the Vice Chairman of the Company. Due to work changes, Mr. Chen Shan resigned as a Director, Vice Chairman to the Board and member of the strategic committee and other related positions in the Company with effect from the date on which the resignation was served to the Board.

8. On 16 February 2012, considering Mr Wu's recovery to health and the work needs, the Board appointed him as the deputy general manager of the Company.

(III) REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration for members of the fifth session of Board and Supervisory Committee of the Company shall be determined in accordance with the performance of the Company and individual contribution, with reference to the performance appraisal conducted by the Salary and Remuneration Review Committee of the Company, which shall be decided by the Board. The Salary and Remuneration Review Committee under the Board proposed to the Board on the remuneration package of Directors. Please refer to the above table for the remunerations of directors, supervisors and senior management of the Company for 2011.

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

In 2011, Mr. Liu Xing, Mr. Zhang Guo Lin and Mr. Liu Tian Ni, all being Independent Non-executive Directors, received remunerations of RMB71,000 from the Company.

In 2011, the total remunerations for directors, supervisors and senior management receiving remunerations from the Company amounted to RMB2,601,000.

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

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

As at 31 December 2011, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the SFO) of the Directors, Supervisors and senior management members in the shares or underlying shares or debentures of the Group and its connected corporations(within the meaning of Part XV of the SFO), which are required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules of the Stock Exchange") and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Group or its connected corporations.

During the year 2011, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year 2011 was the Group, its fellow subsidiaries or its Parent Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year 2011 was the Group, its fellow subsidiaries or its Parent Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

2. Service Contracts of Directors and Supervisors

Save for the service contracts entered into between each of Mr. Li Zheng and Mr. Li Mei Jun, both being supervisors, and the Company, which commences from 18 August 2010 and expires on the date of 2011 Annual General Meeting, the service contract entered into between Mr. Dou Hui and the Company, which commences from 25 July 2011 and expires on the date of 2011 Annual General Meeting, and the service contract entered into between Mr. Deng Qiang and the Company, which commences from 18 March 2011 and expires on the date of 2011 Annual General Meeting, the remaining directors and supervisors of the Company respectively entered into service contracts for a term of three years which commences from 1 June 2009 and expire on 31 May 2012.

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

3. Directors' and Supervisors' Interests in the Contracts

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

4. Model Code for Securities Transactions by Directors and Supervisors

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

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

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

Name	Position held in shareholder company	Term of office
Deng Qiang	Deputy General Manager	From September 2010 to the present
Yuan Jin Fu	Deputy General Manager	From July 2008 to the present
	Chief Accountant	From August 2002 to the present
	Director	From December 2011 to the present
Zhu Jian Pai	Chairman of the Supervisory Committee	From February 2011 to the present
	Deputy Secretary to the Party Committee	From January 2000 to the present
Li Mei Jun	Officer of the Legal Affairs Office	From July 2011 to the present
Li Zheng	Head of Audit Department	From May 2010 to the present
	Office Director of the Supervisory Committee	From November 2011 to the present

(V) STAFF OF THE GROUP

As at the end of 2011, the Group had 12,004 staff, including 9,471 production staff, 180 sales staff, 979 technical and engineering staff, 90 finance staff, and 1,340 administrative staff. The staff with bachelor or above degrees accounted for 13.70% of the total staff. The Group has been emphasizing on the training to its staff in update of knowledge. In 2011, 18,419 attendances were received at training, and the training plan was fulfilled at a rate of 95%.

Education Background	Staff number
Master's degree	172
Undergraduate	1,473
Associate degree	3,200
Secondary technical graduates and others	7,159

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

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

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

(I) CORPORATE GOVERNANCE

1. Improvement of corporate governance

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board

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

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

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

The members of the Board have varied industry background and have expertise in the field of corporate management, the iron & steel smelting and etc., whose profiles were set out on pages 18 to 21 of this Annual Report. The Board comprises 9 directors, including 3 independent directors. The number of the independent directors accounts for one third of the total members of the Board. The present independent non-executive directors of the Company hold profound knowledge and rich experience in accounting, management and law, and attend the Board meetings in circumspective and responsible manner, thus ensuring the Board to perform the financial and other reporting obligations. Besides, independent non-executive directors provided independent advice and recommendations to the Board and independent shareholders with respect to significant events and connected transactions, playing an active role in check and balance in the interest of the Company and shareholders as a whole.

Duty performance of Independent Directors: During the reporting period, Independent Directors had performed their duties in accordance with the requirement of relevant laws, regulations and the Articles of Association of the Company, proactively attended Board meetings and general meetings, provided professional advices to the Board on proposals regarding production, operation and projects investment, issued independent opinions on the Company's significant events such as connected transactions, thus effectively safeguarded the overall interests of the Company and the interest of investors.

On 29 January 2011, independent directors expressed independent opinions on the resolution regarding the appointment of Mr. Guan Zhaohui as the deputy general manager of the Company, the resolution regarding Mr. Dong Lin's resignation as the director and other relevant positions at the Company, the resolution regarding the nomination of Mr. Deng Qiang as a candidate for directors of the Company by the Parent Company and the resolution regarding the dismissal of Hong Kong auditor KPMG, considering that Mr. Deng Qiang and Mr. Guan Zhaohui had the qualifications as set out in the Company Law, the Articles of Association and relevant laws and regulations and that relevant procedures complied with the Company Law, the Articles of Association and relevant laws and regulations.

On 31 January 2011, independent directors expressed independent opinions on the Service and Supply Agreement for the period from 2011 to 2013 entered into by the Company and the Parent Company, considering that the terms of the agreement are normal commercial terms and are fair and reasonable and the transaction under the agreement are in the interest of the Company and the shareholders of the Company as a whole.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

On 16 February 2011, independent directors expressed examination opinions on relevant issues in the process of environmental relocation, considering that during the environmental relocation, the Company achieved independence in decision making, procedure compliance, clearly defined expense and asset ownership, standard handling of connected transactions. There was no impairment of independence of the Company or breach of regulation.

On 25 March 2011, Independent Directors expressed independent opinions in respect of the plan of the Company under which the Company will not distribute profit although the Company achieved profit in 2010. They are of the view that although the Company distributed no cash dividends in 2010, cash dividends distributed by the Company in last three years exceed 30% of annual profit for the same period, which is in accordance with requirements of relevant provisions. Meanwhile, the Company faced pressures from capital needs in 2011. No distribution of cash dividends is beneficial to the implementation of environmental relocation by the Company, will facilitate the development of production and operation of the Company and maintain long-term interests of shareholders.

On 1 April 2011, independent directors expressed independent opinions on connected matters regarding transfer to the Company of the 100% of the equity interest in Chongqing Iron & Steel (Group) Transportation Company Limited held by the Parent Company, considering that the Company's participation in the bidding for Chongqing Iron & Steel (Group) Transportation Company Limited was conducted in accordance with relevant national laws and regulations and the Company's systems and rules and was the need of normal operating activities of the Company. The bidding process was in an open, fair and just manner and under no circumstance that the bidding process was detrimental to the interests of the Company and its shareholders, especially minority shareholders.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

On 1 April 2011, independent directors expressed independent opinions on connected matters of the Agreement for Authorised Use of Assets entered into between the Company and the Parent Company, considering that the connected transaction was in compliance with relevant laws, regulations and the Articles of Association including the Company Law and Securities Law. The entering into the Agreement for Authorised Use of Assets can void industry competition between the steel smelting production lines of the Parent Company newly built in Changshou New District, Chongqing, the PRC, and the Company, and will let the steel smelting production lines of the Parent Company to provide billets for the 4100mm rolling mill and 1780mm rolling mill, reducing such substantial connected transaction as will otherwise arise. The terms of the Agreement for Authorised Use of Assets are normal commercial terms and are fair and reasonable and the transaction under the Agreement are in the interest of the Company and the shareholders of the Company as a whole. When the Board was considering this connection transaction, connected directors abstained from voting and the voting procedures complied with the relevant laws and regulations.

On 29 July 2011, independent directors expressed independent opinions on the Procurement Agreement entered into between the Company and Chongqing Iron & Steel (Hong Kong) Company Limited, considering that the terms of the Procurement Agreement are on normal commercial terms and that the transactions under the Agreement are in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole

On 29 December 2011, independent directors expressed independent opinions on the resolution regarding the nomination of Mr. Xia Tong as a candidate for directors by the Parent Company, considering that Mr. Xia Tong had the qualifications as set out in the Company Law, the Articles of Association and relevant laws and regulations.

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

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

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

2. The Board *(Continued)*

During the reporting period, the Board of the Company convened five meetings; the details of attendance are set out on page 38 of this Annual Report. Please refer to pages 65 to 67 of this annual report for particulars of the meeting. In order to keep informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest trends in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through Secretary to the Board. In order to discharge duties or responsibilities or as required by business, Directors and special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

The remuneration of directors is set out under the section "Directors, Supervisors and Senior Management" on page 17 of this Annual Report.

3. Special Committees of the Board

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

(1) Audit Committee

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

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

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

During the reporting period, the Audit Committee convened two meetings both with full attendance. Details of the attendance are set out on page 38 of this annual report respectively. Please refer to pages 68 to 70 of this annual report for particulars of the meetings. All matters passed at the Audit Committee meetings are recorded and kept properly as required. After each of the meetings, Chairman of Audit Committee had submitted a report to the Board regarding significant matters discussed at the meeting.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

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

(2) Strategic Committee

The Strategic Committee of the Company comprises 5 directors in full compliance with relevant domestic and foreign laws, regulations and the Company's Work Regulations of Strategic Committee. The major duty of Strategic Committee is to give suggestions based on study of long-term strategies on development and significant investment decisions.

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

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

During the reporting period, the Strategic Committee convened one meeting with 100% attendance. Details of the attendance and meetings are set out on page 38 and page 71 of this Annual Report respectively.

(3) Salary and Remuneration Review Committee

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

(I) CORPORATE GOVERNANCE *(CONTINUED)*

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

(3) Salary and Remuneration Review Committee *(Continued)*

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

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

During the reporting period, the Salary and Remuneration Review Committee convened one meeting with full attendance. Details of the attendance and meetings are set out on page 38 and page 70 of this Annual Report respectively.

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

4. Supervisory Committee

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

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

Chairman: Mr. Zhu Jian Pai
Supervisors: Mr. Li Mei Jun, Mr. Li Zheng, Ms. Chen Hong and Mr. Dou Hui

During the reporting period, Supervisory Committee convened 3 meetings and attended all Board meetings as an observer, duly performing its duties. Details of the Supervisory Committee's work are set out on pages 76 to 79 "Report of the Supervisory Committee" in this annual report. Please refer to page 38 of this annual report for attendance of the meetings.

(I) CORPORATE GOVERNANCE *(CONTINUED)*

4. Supervisory Committee *(Continued)*

Attendance of the Board meetings, Supervisory Committee meetings and meetings of each special committee in 2011

Name	Board of Directors	Audit Committee	Strategic Committee	Salary and Remuneration Review Committee	Supervisory Committee
Directors:					
Deng Qiang	5/5(100%)	—	1/1(100%)	—	—
Yuan Jin Fu	5/5(100%)	—	—	1/1(100%)	—
Chen Shan	4/4(100%)	—	1/1(100%)	—	—
Sun Yi Jie	5/5(100%)	—	1/1(100%)	—	—
Chen Hong	5/5(100%)	—	1/1(100%)	—	—
Li Ren Sheng	5/5(100%)	—	1/1(100%)	—	—
Independent directors:					
Liu Xing	5/5(100%)	2/2(100%)	—	1/1(100%)	—
Zhang Guo Lin	5/5(100%)	2/2(100%)	1/1(100%)	1/1(100%)	—
Liu Tian Ni	5/5(100%)	2/2(100%)	—	1/1(100%)	—
Supervisors:					
Zhu Jian Pai	—	—	—	—	4/4(100%)
Li Zheng	—	—	—	—	4/4(100%)
Li Mei Jun	—	—	—	—	4/4(100%)
Chen Hong	—	—	—	—	4/4(100%)
Gao Shou Lun	—	—	—	—	2/2(100%)
Dou Hui					2/2(100%)

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

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

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

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

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

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

(III) ESTABLISHMENT AND IMPROVEMENT OF INTERNAL CONTROL SYSTEM

1. Improvement of internal control system

In accordance with the Basic Standards for Enterprise Internal Control and the Implementation Guidelines for Enterprise Internal Control promulgated by the Ministry of Finance, the CSRC, National Audit Office, CBRC and CIRC and relevant regulations in the Notice Regarding the 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 by Chongqing Securities Regulatory Bureau under the CSRC, the Company organized dedicated personnel to streamline its business flow according to the Company's development strategy and regulatory requirements from the beginning of 2011. Through the effectiveness test on internal control design and execution, existing defects in the internal control or opportunities for improvements were found and rectification was made against the defects in the internal control or opportunities for improvements, so as to reasonably ensure the sound and reasonable internal control system of the Company. Through the systematic streamlining of internal control system, the Company ultimately formulated the Enterprise Internal Control Manual, which will be used for guiding the Company's future operations and reasonably ensuring the internal control design and effective execution.

Through the streamlining and optimization of various business processes, the Company has established and improved the corporate internal control mechanism covering such elements as goal setting, control environment, risk identification and assessment, risk management, control activities, information communication, inspection and supervision in accordance with the Basic Standards for Enterprise Internal Control and its implementary guidance, and the Company's risk control and management capacity is continuously improving. After that, the Company will continue to improve internal control in accordance with the Basic Standards for Enterprise Internal Control and its implementary guidance.

2. Construction of internal control system

The construction of corporate internal control system mainly focuses on three aspects, i.e. standardizing business process, improving management system and clarifying job responsibilities.

Standardizing business process. I. Identifying business's major risk points based on actual needs of business operations and industry characteristics and formulating management system based on such risk points; II. Finding the corresponding relationship between positions and business based on the positions and personnel involved in the specific business so as to determine the responsibilities of different positions and evaluate the importance of positions.

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

2. Construction of internal control system *(Continued)*

Improving management system. The Company summarized and cleaned up all internal management systems and supplemented and improved the management systems based on the business risk points identified, which mainly includes two aspects: I. formulating management system to make regulations according to business methods, management relations and decision-making process which clarifies and establishes the authorization system; II. Regulating operating procedures, explicitly stipulating specific business operations, and formulating the Enterprise Internal Control Manual to standardize business process operations.

Clarifying job responsibilities. The Company streamlined and improved the responsibilities of all positions according to management systems and business processes and preliminarily formulated the Written Description on Position Responsibilities.

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

The Company has conducted self-assessment on the design and operation effectiveness of its internal control as at 31 December 2011 in accordance with the Basic Standards, Assessment Guidance and other relevant laws and regulations.

During the reporting period, in terms of internal control related to financial reporting, the Company has established and effectively implemented internal control over the businesses and matters falling into the scope of assessment; the objectives of internal control have been achieved and there were no material defects in the design and operation of its internal control.

During the reporting period, in terms of internal control irrelevant to financial reporting, there were no material defects in the design and operation of internal control.

From the reference date to the issue date of the assessment reports on internal control, there were no material changes in the Company's internal control that would have material impact on the assessment conclusions.

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

The full version of the Board's Self-Evaluation Report on Internal Control of the Company was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 29 March 2012.

The appointment of KPMG Huazhen Certified Public Accountants as the Company's internal control auditor was considered and approved at the Company's general meeting. It has audited the effectiveness of the internal control in respect of the financial reporting of the Company and issued unqualified audit report on internal control.

The internal control audit report presented by the auditor was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 29 March 2012.

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

The Supervisory Committee has reviewed Self-Evaluation Report on Internal Control of the Company for 2011, and is of the opinion that: The Company has improved the internal control mechanism and internal control system and actively rectified internal control defects in accordance with its development strategy and regulatory requirements, thus the Company's ability in risk control and management were continuously enhanced which ensured the normal operation of the Company's business activities as well as the safety and integrity of the Company's assets. Under no circumstance the Company was in violation of the Guidelines for Internal Control of Listed Companies and the Basic Standards for Enterprise Internal Control in 2011. The Self-Evaluation Report on Internal Control of the Company by the Board is objective, true and accurately reflected the actual situation of internal control of the Company.

(VI) REPORT ON SOCIAL RESPONSIBILITY PERFORMANCE BY THE COMPANY

The full version of the Board's Report on Social Responsibility Performance was published on the website of Shanghai Stock Exchange (www.sse.com.cn) on 29 March 2012.

(I) ANNUAL GENERAL MEETING

The Company convened the 2010 Annual General Meeting on 27 May 2011. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 30 May 2011.

(II) EXTRAORDINARY GENERAL MEETING

1. On 18 March 2011, the Company held the 2011 first extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 21 March 2010.

2. On 21 April 2011, the Company held the 2011 second extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 22 April 2011.

3. On 29 September 2011, the Company held the 2011 third extraordinary general meeting. Details of the announcement of the resolutions passed at the general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times and the websites of Shanghai Stock Exchange and the Stock Exchange on 30 September 2011.

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

1. Overall operation status of the Group

During 2011, as the ripple effect of the global financial turmoil and the European debt crisis intensified, the central government continued with its proactive fiscal policy and prudent monetary policy, and further strengthened and improved macroeconomic control. As a result, China's economic growth rate witnessed a decline on a quarterly basis, with the full-year GDP growth rate at 9.2%. Crude steel production in the PRC maintained rapid growth, recording a year-on-year increase of 8.9%. As the first half of 2011 saw a relatively fast release of steel production capacity, monthly growth rate decreased in the second half of the year with a gradual slowdown in the demands of downstream steel-consuming industries, low-lying net export of steel products, unexpected rising inventory pressure, substantial spike in capital cost, and drastic fluctuations in product prices. After October, product prices underwent a faster fall-back while raw material prices kept constantly surging at a pace faster than that of steel products prices on a year-on-year basis. After December, steel products prices witnessed a material drop and suffered from a lag effect. Sales margin of the industry in the fourth quarter dropped even faster, causing difficulties in production and operation.

During the reporting period, the Group produced 2,660,000 tonnes of coke, 5,580,000 tonnes of pig iron, 6,000,000 tonnes of steel and 5,520,000 tonnes of steel products (billets), representing an increase of 28.57%, 33.68%, 32.97% and 36.36% respectively as compared with the same period of last year; among which, the New District produced 1,970,000 tonnes of coke, 4,230,000 tonnes of pig iron, 4,530,000 tonnes of steel and 4,110,000 tonnes of steel products, representing an increase of 113.4%, 135.32%, 140.81% and 213.48% respectively as compared with the same period of last year. The Group recorded operating revenues of RMB23,532,945,000, representing a year-on-year increase of 41.12%, and pre-tax profit of RMB-1,375,096,000, representing a year-on-year decrease of 8803.14%.

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

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

During the reporting period, in face of various unfavourable situations, the Company, by placing emphasis on a "market-centred sales and sales-centred corporate operation" approach and aiming at economies of scale and systematic balance, reduced various accidents, unleashed potential by means of benchmarking key technical and economic indicators, adjusted raw material procurement pace to lower procurement costs, optimized product mix, and tenaciously fought against and overcame various difficulties by fulfilling fundamental management tasks (hot delivery and hot charging of billets, centralization of maintenance and repair, determination of departmental responsibilities, clean and civilized production, launching overachiever contests, reinforcement of performance evaluation, employee remuneration management, and etc.), and taking such other measures to ensure comprehensive, sustained and efficient operation in respect of the Company's production and management, and lay a foundation for smooth commencement of operation and steady performance of the 6-million-tonne steel production system in the New District.

During the reporting period, the Group stepped up search for and analysis of market information, accurately grasped changes in market dynamics and came up with effective countermeasures. Through material preparation in advance and solving key technological issues, the Group successfully overcame the adverse impact of the relocation of the 2700mm rolling mill production line on the sales of medium-gauge plates by using the 4100mm production line to produce medium-gauge plates of the Old District's specifications to ensure sustained supply to strategically key customers. Meanwhile, by categorizing the products of the 1780mm production line, and adopting differentiated pricing & sales models, the Group realized smooth sales of the related products. By putting in place the products sales and delivery coordination mechanism and establishing a customer service centre, the Group boosted the fulfilment rate of contracts and customer service quality. In order to turn itself into a production base of choice steel for shipbuilding in China, the Group stepped up its efforts in the analysis, positioning and sales of the consumer market of plates for shipbuilding. Production of plates for shipbuilding amounted to 2.08 million tonnes, representing a year-on-year increase of 21.42% and accounting for 39.02% of the total steel products output of the Company. In 2011, the Group sold in aggregate 5,262,500 tonnes of steel products (billets), representing a year-on-year increase of 30.63%.

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

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

During the reporting period, by leveraging the restrictions of classification societies imposed on iron and steel enterprises in terms of production technology, equipment, quality and standards, and reinforcing quality monitoring over key production procedures of steel for shipbuilding, the Company, with the reverse thinking of "certification-driven production", innovated the production organizational mode, and facilitated the optimization and standardization of the entire production process. Of the 31 indicators incorporated into quality appraisal and monitoring of the New District, 28 reached the planned level and 26 reached the specific targets, with target fulfilment rate hitting 83.87%. Hence the Group's control target of maintaining stable quality in the Old District and gradually improving quality in the New District has been attained. While rapidly pushing forward completion of its plants certification by classification societies of nine countries, the Group has completed the one-off "joint certification by classification societies of eight countries" of the 80mm-thick normalized ship plates (the most difficult in the history of the Company), certification of E47 ultra-high-strength steel for shipbuilding, certification of 2700mm steel production line for shipbuilding and the production licenses for furnaces and vessel plates. Furthermore, the Group proactively pressed ahead with the establishment and implementation of the quality/safety/environment management systems and the inspection centre management system, and passed the laboratory accreditation on-site appraisal organized by China National Accreditation Service at one go.

During the reporting period, the Group reinforced development of the 4100mm production line products and 1780mm production line products in the New District. Throughout the year, the Group successfully developed 5 new products for trial production: high-strength bridge steel plates, thick plates for shipbuilding, steel strips for rotary pressure automobile wheel spokes, steel strips for hot rolled silicon steel, and SPHC mild-carbon steel strips. In 2011, the Group completed development and trial production of 530,700 tonnes of new products and special-purpose products with an output value of RMB2,354 million.

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

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

During the reporting period, the Group's environmental relocation project was progressing in a steady and coordinated manner. The 2,700mm rolling mill production line relocation project commenced in February, and realized heating load trial run in June. The Old District production line with annual steel capacity of 2.40 million tonnes was fully shut down in September. In the New District, the 2500M^3 3# blast furnace with annual capacity of 2.01 million tonnes completed construction and commenced operation in September; the 3# sintering machine with annual capacity of 3.56 million tonnes completed construction and commenced operation in October; the 5# coke oven project commenced construction in October 2010 and is expected to come into production in April 2012; the 3# coke dry quenching project commenced construction in July 2011 and is expected to be completed and put into production in April 2012.

2. Analysis on principle operations and operating status

With great volatility in the steel market, the entire industry was stuck in a pattern of low economic benefit with fluctuations throughout 2011. The first three quarters saw a mild turnaround in the steel market, with sales price moderately higher than 2010. However, a sharp downturn dominated the steel market in the fourth quarter, with steel price substantially dropping, and causing material adverse impact on the Company's profit. In addition, given its stronger capital demand since commencement of the environmental relocation of the Company and the resulting heavy finance costs, the Group posted significant losses in 2011. On the other hand, as the environmental relocation project of the parent company is close to the end; the Dadukou Old District realized a full shutdown in September; and the 2700MM production line in the Changshou New District completed construction and commenced operation, the production and sales volume of the parent company both scaled up. As at 31 December 2011, the Group's revenue from principal operations under the PRC accounting standards was RMB23,449,445,000, representing an increase of 41.22% as compared with last year. Net profit was RMB-1,471,075,000, down 13153% from last year.

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

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

(1) Analysis on revenue from principal operations

In 2011, the Group's revenue from principal operations amounted to RMB23,449,445,000, of which contributions from south-western region and other regions were RMB5,492,951,000 and RMB17,956,494,000, representing a decrease of 32.03% and an increase of 110.67% respectively as compared with last year.

Region	Revenue from principal operations *(RMB'000)*	Increase/ decrease in revenue from principal operations from last year *(%)*
South-western region	5,492,951	–32.03
Other regions	17,956,494	110.67
Total	23,449,445	41.22

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

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

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

In 2011, the Group's revenue from principal operations amounted to RMB23,449,445,000, of which RMB22,174,770,000 was derived from sales of steel products (billets), representing 94.56% of the total revenue, up 41.48% over last year, and RMB1,274,675,000 was derived from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and water, electricity and steam as well as provision of electronic engineering design and installation services, which accounted for 5.44% of the total revenue, up 36.89% over last year.

Product	**2011** Amount **(RMB'000)**	Percentage **(%)**	2010 Amount (RMB'000)	Percentage (%)	Year-on-year increase/decrease (%)
Steel plates	**7,764,550**	**33.11**	8,802,753	53.01	–11.79
Steel billets	**1,058,460**	**4.51**	955,858	5.76	10.73
Steel sections	**3,145,078**	**13.41**	3,103,872	18.69	1.33
Wire rods	**1,573,575**	**6.71**	1,704,030	10.26	–7.66
Hot rolled coil	**8,168,129**	**34.83**	905,799	5.46	801.76
Cool-rolled coils	**464,978**	**1.98**	200,963	1.21	131.37
Subtotal	**22,174,770**	**94.56**	15,673,275	94.39	41.48
Others	**1,274,675**	**5.44**	931,195	5.61	36.89
Total	**23,449,445**	**100.00**	16,604,470	100.00	41.22

In 2011, the sales revenue of the Group's steel products (billets) increased by RMB6,501,495,000 as compared with last year. The increase was attributable to (1) higher product price: during the year, the average selling price of steel products (including cool-rolled plates) was RMB4,214 per tonne, representing a rise of 8.33% from last year, which increased sales revenue by RMB2,188,774,000; (2) more production and sales volume: the Company sold 5,262,500 tonnes of steel products (billets), representing an increase of 30.63% from last year, which increased sales revenue by RMB4,312,721,000.

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

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

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

Sales price by products

Item	2011 (RMB/tonne)	2010 (RMB/tonne)	Year-on-year increase (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	**4,419**	4,042	9.33	661,115
Steel billets	**4,084**	3,563	14.62	135,043
Steel sections	**4,360**	3,756	16.08	435,665
Wire rods	**4,312**	3,700	16.54	223,319
Hot rolled coils	**3,968**	3,620	9.61	716,428
Cool-rolled coils	**4,595**	4,425	3.84	17,204
Total	**4,214**	3,890	8.33	2,188,774

Sales volume by products

Item	2011 (0'000 tonnes)	2010 (0'000 tonnes)	Year-on-year increase (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	**175.72**	217.78	–19.31	–1,700,065
Steel billets	**25.92**	26.83	–3.39	–32,423
Steel sections	**72.13**	82.64	–12.72	–394,756
Wire rods	**36.49**	46.05	–20.76	–353,720
Hot rolled coil	**205.87**	25.02	722.82	6,546,770
Cool-rolled coils	**10.12**	4.54	122.91	246,915
Total	**526.25**	402.86	30.63	4,312,721

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

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

(2) Analysis on operation

- *Operating results of the Group*

In 2011, the Group's net profit was RMB-1,471,075,000, down 13153% from the net profit of RMB11,270,000 last year.

Item	Amount for 2011 (RMB'000)	Amount for 2010 (RMB'000)	Year-on-year increase/ decrease (%)
Operating revenue	**23,532,945**	16,675,889	41.12
Operating costs	**(22,571,662)**	(15,356,321)	46.99
Business taxes and surcharges	**(27,105)**	(17,655)	53.53
Total period expenses	**(1,946,784)**	(1,428,657)	36.27
Assets impairment loss	**(867,845)**	(35,664)	2,333.39
Gain from changes in fair value	**(15,071)**	(8,642)	74.40
Investment income	**0**	1,093	(100.00)
Operating profit	**(1,895,522)**	(169,957)	1,015.30
Non-operating income	**528,287**	187,584	181.63
Non-operating expenses	**(7,861)**	(1,827)	330.27
Total profit	**(1,375,096)**	15,800	(8,803.14)
Income tax expenses	**(95,979)**	(4,530)	2,018.74
Net profit	**(1,471,075)**	11,270	(13,153.02)

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

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

(2) Analysis on operation (Continued)

- *Operating results of the Group (Continued)*

1) Gross profit from principal operations amounted to RMB933,576,000, representing a decrease of RMB341,253,000 as compared with last year, mainly attributable to increase in production and operation costs at two locations as a result of the price hike of raw and auxiliary materials and environmental relocation.

By industry	Revenue from principal operations *(RMB'000)*	Cost of principal operations *(RMB'000)*	Gross profit margin *(%)*	Increase/ decrease in revenue from principal operations from last year *(%)*	Increase/ decrease in cost of principal operations from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Steel products (billets)	22,174,770	21,521,638	2.95	41.48	48.01	–4.27
Steel plates	7,764,550	7,451,510	4.03	–11.79	–7.04	–4.91
Steel billets	1,058,460	1,021,259	3.51	10.73	13.91	–2.69
Steel sections	3,145,078	2,890,959	8.08	1.33	–0.54	1.73
Wire rods	1,573,575	1,419,557	9.79	–7.66	–8.79	1.12
Hot rolled coils	8,168,129	8,213,454	–0.55	801.76	771.21	3.53
Cool-rolled coils	464,978	524,899	–12.89	131.37	135.46	–1.96
Others	1,274,675	994,231	22.00	45.81	35.9	5.69
Total	23,449,445	22,515,869	3.98	41.71	47.43	–3.72

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

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

(2) Analysis on operation *(Continued)*

- *Operating results of the Group (Continued)*

1) Gross profit from principal operations amounted to RMB933,576,000, representing a decrease of RMB341,253,000 as compared with last year, mainly attributable to increase in production and operation costs at two locations as a result of the price hike of raw and auxiliary materials and environmental relocation. *(Continued)*

   In 2011, the average selling price of the Group's steel products (billets) was RMB4,214 per tonne, representing an increase of 8.33% from the same period last year, which increased sales revenue by approximately RMB2,188,774,000. The sales volume of steel products (billets) amounted to 5,262,500 tonnes, representing a year-on-year increase of 30.63%, which increased sales revenue by RMB 4,312,721,000. However, the gross profit margin of the Company's principal businesses decreased significantly due to higher production and operation costs which led to a year-on-year increase of 47.43% in costs of principal businesses, outpacing the increase of 5.72% in the revenue from principal businesses for the same period, as a result of the surge in prices of raw materials including iron ore and coal, coupled with the effect of environmental relocation of the Group.

2) In 2011, the Group made RMB27,105,000 of provision for business tax and surcharge, representing an increase of RMB9,450,000 from last year.

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

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

(2) Analysis on operation *(Continued)*

- *Operating results of the Group (Continued)*

3) According to relevant requirements of accounting standards, the decrease in the Group's current profit due to provision for assets impairment loss amounted to RMB867,845,000 in 2011, representing an increase of RMB832,181,000 from last year. This was mainly because that the plunge in steel price in the 4th quarter led to the significant drop in the price of inventory such as iron ore, as a result, the inventory impairment provision of RMB915,912,000 was made.

4) The period expense incurred by the Group was RMB1,946,784,000, representing an increase of RMB518,127,000 from last year, mainly attributable to: (1) the increase in repair costs of RMB188,972,000 due to the enlarged production scale; (2) a net increase of RMB320,086,000 in finance costs due to gradual increase of debt scale to cater for the capital needs by construction work and working capital needs associated with the environmental relocation, as well as the rise in interest costs and increase in interests on discounted bills.

5) The Group recorded non-operating net income of RMB520,426,000, representing an increase of RMB334,669,000, mainly attributable to the increase of compensation provided by the Chongqing Iron & Steel (Group) Company Limited, for loss incurred by the Company from environmental relocation, by way of authorized use of the steel smelting production lines and relevant auxiliary utilities in the New District by the Company for free.

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

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

(2) Analysis on operation (Continued)

- *Cash flow of the Group*

  In 2011, although the Group recorded relatively significant operating loss, the Group adhered to the principle of "depending expenditures on income" to properly plan income and expenditures and well control timing of cash payment. As a result, net cash flow from operating activities for the current period increased by RMB451,313,000. In addition, net cash flow from financing activities increased by RMB1,772,596,000 as a result of new finance leases and bank loans and the expenditures on construction investment projects associated with the environmental relocation of the Group amounted to RMB2,459,838,000. As a result, the net cash and cash equivalents of the Company for the current period decreased by RMB235,929,000.

- *Liquidity, financial resources and share capital structure*

  As at 31 December 2011, cash at bank and on hand balances of the Group were RMB2,325,290,000; balance of short-term loans amounted to RMB4,048,189,000 which were mainly used for supplementing capital demand for daily production; long term loans (excluding current portion payable within one year) amounted to RMB1,056,600,000 and long term payables (excluding the current portion payable within one year) amounted to RMB3,254,896,000, which were mainly used for wide-thick plates, sintering, coke oven, long steel products production line and Jingjiang Logistic Base projects and supplementing relevant capital demand. The Company analyses the structure and maturity for liabilities on a regular basis to ensure the abundance of capital. The Company conducts negotiations for finance with financial institutions to maintain certain credit facilities so as to lower the liquidity risk, while striving to diversify finance channels and improve capital structure.

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

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

(2) Analysis on operation (Continued)

- *Liquidity, financial resources and share capital structure (Continued)*

As at 31 December 2011, the share capital structure of the Group was as follows:

Item	Amount *(RMB'000)*	Item	Amount *(RMB'000)*
Current assets	12,373,691	Current liabilities	16,274,686
Non-current assets	14,676,750	Non-current liabilities	6,534,640
Total assets	27,050,441	Shareholders' equity	4,241,115

As at 31 December 2011, the total assets of the Group amounted to RMB27,050,441,000, representing an increase of 19.33% from the end of last year. The total liabilities amounted to RMB22,809,326,000 while the gearing ratio was 84.32%. Current assets amounted to RMB12,373,691,000; current liabilities amounted to RMB16,274,686,000; current ratio was 0.76.

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

Current ratio = current assets/current liabilities

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

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

(3) Major suppliers and customers of the Group

Percentage in total procurement for major suppliers of the Company:	
Percentage in total procurement for the largest supplier of the Company:	8.41%
Percentage in total procurement for the top five suppliers of the Company:	19.23%
Percentage in total sales for major customers of the Company:	
Percentage in total sales for the largest customer of the Company:	6.20%
Percentage in total sales for the top five customers of the Company:	22.98%

None of Directors, Supervisors or their respective associates or any shareholder (which to the knowledge of the directors has 5% or more of equity interest in the Company) of the Company was beneficially interested in the top five suppliers or the top five customers of the Company.

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

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

(4) The operations and results of the Group's major subsidiaries and investees

RMB'000

No.	Name of subsidiaries	Controlling percentage	Major products and services	Registered capital	31 December 2011 Net assets	Net profit in 2010
1	Chongqing Iron & Steel Group Electronic Company Limited	100%	Development, production and sale of computer software, electronic intelligence products; computer information network, automation system integration, and engineering design, installation and testing	10,626	41,513	12,829
2	San Feng Jingjiang Port Logistics Company Limited	51%	Cargo handling, lighterage, storage, traffic agent, storage, common carrier, sale of metal and metal mine, transportation technology consultant service	300,000	300,015	15
3	Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. (靖江三峰鋼材加工配送有限公司)	51%	Metal cutting, scrap steel crushing, cutting and provision of relevant technological consultation service, warehousing of common goods, and sales of scrap steel and steel products	100,000	70,000	0
4	Chongqing Iron & Steel Group Transportation Company Limited	100%	highway passenger and freight transportation, hazardous goods transportation, automobile repair, sales of specialized oil, sales of parts and components, and sales of CNG, etc.	21,000	45,755	3,636

As Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. was under construction, no profit was recorded during the Reporting Period.

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

3. Analysis on financial position

(1) Items of balance sheet

Item	**At the end of 2011**	At the end of 2010	Year-on-year increase/ decrease (%)	Percentage in total assets for the year (%)
Cash at bank and on hand	**2,325,290**	1,755,279	32.47	8.60
Other receivables	**264,008**	95,850	175.44	0.98
Other current assets	**415,137**	546,710	–24.07	1.53
Long-term equity investment	**5,000**	20,000	–75.00	0.02
Fixed assets	**7,344,844**	8,989,978	–18.30	27.15
Construction in progress	**3,252,903**	798,835	307.21	12.03
Construction materials	**1,537,078**	276,134	456.64	5.68
Liquidation of fixed assets	**2,026,600**	–	N/A	7.49
Deferred tax assets	**23,528**	116,200	–79.75	0.09
Other non-current assets	**84,500**	36,590	130.94	0.31
Short-term loans	**4,048,189**	3,244,509	24.77	14.97
Financial liabilities held for trading	**23,713**	8,642	174.39	0.09
Bills payable	**555,000**	–	N/A	2.05
Accounts payable	**4,808,932**	2,818,779	70.60	17.78
Employee compensation payable	**182,429**	119,106	53.17	0.67
Taxes payable	**8,978**	90,953	–90.13	0.03
Interest payable	**36,733**	14,383	155.39	0.14
Other payables	**420,746**	282,545	48.91	1.56
Non-current liabilities due within one year	**4,762,143**	2,047,803	132.55	17.60
Long-term loans	**1,056,600**	2,698,476	–60.84	3.91
Long-term payables	**3,254,896**	1,577,390	106.35	12.03
Special payables	**0**	8,968	–100.00	0.00
Other non-current liabilities	**256,296**	420,601	–39.06	0.95

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

3. Analysis on financial position *(Continued)*

(1) Items of balance sheet (Continued)

1. The increase in cash at bank and on hand was mainly due to more guarantee monies than last year.

2. The rise in other receivables mainly resulted from an additional receivable in fixed assets depreciation of RMB135,604,000 undertaken to be compensated by the Parent Company incurred by environmental relocation.

3. The decrease in other current assets was mainly attributable to lower amount of deductible value-added tax.

4. The decrease in net long-term equity investment was mainly due to the Company's disposal of investment of RMB15,000,000 in Jiangsu Huayuan Metal Processing Company Limited.

5. The increase in construction in progress and construction materials was mainly attributable to new projects involving sintering, coking, and long steel products production line.

6. The decrease in deferred tax assets was mainly due to estimated unavailability of sufficient taxable income in the coming period to offset the benefit of deferred tax assets, hence the Company did not recognize the deferred tax assets occurred in 2011.

7. The decrease in fixed assets and the increase in liquidation of fixed assets was mainly attributable to assets disposal in the Old District by the Parent Company.

8. The increase in other non-current assets was mainly due to the rise in finance lease guarantee monies.

9. Due to expanded production capacity and surging demands for engineering construction capital and working capital, the Group proactively broadened financing channels and adjusted and optimized capital structure, resulting in material changes in such items as short-term loans, financial liabilities held for trading, bills payable, accounts payable, interest payable, other payables, non-current liabilities due within one year, long-term loans, long-term payables, and other non-current liabilities.

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

3. Analysis on financial position *(Continued)*

(1) Items of balance sheet (Continued)

10. The increase in employee compensation payable was mainly attributable to deferred contribution to the pension insurance in 2011.

11. The decrease in taxes payable was mainly due to consolidation of the locations for payment of the Parent Company's value-added tax which enabled that the input VAT amount associated with purchase of fixed assets at Changshou New District was fully utilized for tax deduction, thus resulting in a decrease in VAT payables for the current period.

12. The decrease in special payables was mainly attributable to inclusion into the capital reserve of the balance of the relocation compensation received by Chongqing Iron & Steel Group Electronic Company Limited ("Chongqing Electronic") after deducting the loss of fixed assets incurred during the relocation and other relevant charges.

(2) Items of income statement

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

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

3. Analysis on financial position *(Continued)*

(3) Items of cash flow statement

Unit: RMB'000

Item	2011	2010	Main reasons for the changes
Net cash flow from operating activities	**451,313**	–2,078,626	The Group strengthened inventory management which reduced the capital lock-up in inventory and controlled capital payment pace which increased payables.
Net cash flow from investing activities	**–2,459,838**	–1,648,831	Mainly attributable to increase in expenditures for such projects as medium-gauge plates, 3# sintering machine, 5# coke oven, long steel products production line and the Jingjiang logistics base, etc.
Net cash flow from financing activities	**1,772,596**	3,856,248	RMB2.0 billion of corporate bonds was issued in 2010.
Net increase of cash and cash equivalents	**–235,929**	128,791	Relatively large expenditure on environmental relocation and other investment projects reduced the cash and cash equivalents.

(II) PROSPECTS

In 2012, the Central Economic Working Conference set forth the guideline of “pursuing progress amid stability”, explicitly indicating that the government will focus on maintaining steady and rapid economic growth as a major annual objective by proceeding with an proactive fiscal policy and prudent monetary policy. With faster industrialization and urbanization in China, there are great potentials in domestic demands. However, in face of many uncertain and unstable factors, the steel industry remains in a grim situation. With great pressure from rising production costs, slower growth rate of downstream steel-consuming industries including shipbuilding, automobile and engineering machinery, and grave unbalance between supply and demand within the steel industry, the Company’s profitability is therefore restricted.

In 2012, the operational objectives the Group include annual steel production of 6.5 million tonnes and profit of RMB60 million. To achieve the said objectives, the Group intends to adopt the following measures: (1) concentrate on fundamental management, special management, and cultural management based on system balance and optimization, fulfil scale-based efficiency enhancement centred on de-bottlenecking and full-capacity operation, realize cost reduction-based efficiency enhancement centred on structural adjustment and indicator optimization, fulfil management-based efficiency enhancement centred on lean management and precise service; (2) establish a turnaround leading group and task force, determine the Company’s turnaround target, formulate and implement specific turnaround measures, with focus on contract fulfilment, capital appropriation reduction, structural adjustment, tapping potential by benchmarking, reduction of unplanned products, hot delivery and hot charging, boost of self-produced electricity and logistics cost reduction; (3) further expand resources procurement, stabilize procurement channels for raw materials, and enhance the raw materials direct supply capability of the New District; (4) continuously strengthen market analysis, and vigorously explore markets for 4100mm and 1780mm products; (5) actively proceed with relevant certification work in the New District, and facilitate the establishment and implementation of the Three Systems in the New District; (6) further develop new products based on the 4100mm and 1780mm production lines, and boost marketing of New District’s products.

(III) INVESTMENT OF THE GROUP DURING THE REPORTING PERIOD

1. Use of Corporate Bonds

The Group issued corporate bonds amounting to RMB2 billion in 2010 and undertook that RMB500 million out of the proceeds from the issue of corporate bonds will be used for replenishment of working capital and RMB1.5 billion will be used to repay bank loan. As at 31 December 2011, RMB2,000,422,000 (including interest income of RMB422,000) was used in aggregate, of which RMB462,422,000 was used to replenish working capital, bank loan of RMB1,500,000,000 was repaid, and RMB37,500,000 was paid as underwriting expenses and RMB500,000 as entrusted management expenses. Currently, proceeds have been fully used and not exceeded the undertaken amount.

2. Projects financed by non-raised proceeds (as at 31 December 2011)

Unit: RMB'000

Project name	Budget	Progress	Earnings
2,700mm medium-size plates project	876,880	100%	Initial stage of production, profit not available for the time being
Sintering project	461,870	84%	N/A
Coking project	1,098,546	75%	N/A
Long steel products production line	2,659,500	46%	N/A
Jingjiang Logistics Base	1,300,000	70%	N/A

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

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

(V) ONGOING WORK OF THE BOARD

1. During the reporting period, the Board held 5 meetings and passed relevant resolutions.

(1) The fifth meeting of the fifth Board of the Company was held on 8 March 2011, at which Mr. Deng Qiang was elected as the chairman of the fifth Board of the Company and appointed as the chairman of the third session of the Strategic Committee of the Board.

(2) The sixth meeting of the fifth Board of the Company was held on 25 March 2011, at which the Company's 2010 audited financial report, 2010 annual report, 2010 Annual Results Announcement, the Summary of 2010 Annual Report, profit distribution proposal for 2010, the 2010 annual audit work report by KPMG Huazhen submitted by the audit committee, the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company, the Social Responsibility Report for 2010, self-assessment report on the 2010 internal control of the Company by the Board, reappointment of auditors, the Report on Performance of Duties of the Independent Directors of the Company for the year 2010, the Resolution on the Remuneration of the Directors, Supervisors and other senior management of the Company for the year 2010 and amendments to the Articles of Association of Chongqing Iron & Steel Company Limited.

(3) The seventh meeting of the fifth Board of the Company was held on 26 August 2011, at which the Company's 2011 interim financial statements, 2011 interim report and its summary, unaudited interim results announcement for six months ended 30 June 2011 and Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company were considered and approved.

(4) The 2011 first extraordinary meeting of the Board of the Company was held on 24 January 2011 by way of communication, at which the finance lease amounting to RMB491 million between the Company and Unismart International Leasing Company Ltd. for the No.3 sintering machine project and No.5 coke oven project was considered and approved.

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

1. During the reporting period, the Board held 5 meetings and passed relevant resolutions. *(Continued)*

(5) The 2011 second extraordinary meeting of the Board of the Company was held on 29 December 2011, at which the following resolutions were considered and approved: bidding for Chongqing Iron & Steel Group Iron Company Limited ("Chongqing Steel") through Chongqing United Assets and Equity Exchange at a price not more than RMB185.576 million, the feasibility study report on and investment in Jiangjin Base Project, the feasibility study report on and investment in San Feng Dock Project of Xingang Operation Area in Jingjiang Port District of Taizhou Port, the investment by the Company's subsidiary San Feng Jingjiang Port Logistics Company Limited in the construction of San Feng Dock Project of Xingang Operation Area in Jingjiang Port District of Taizhou Port, the appointment of KPMG Huazhen Certified Public Accountants as the Company's internal control auditor, the appointment of Mr. Xia Tong, a candidate nominated by Chongqing Iron & Steel (Group) Company Limited, as Director of the Company, and amendments to the Articles of Association.

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

(1) On 21 January 2011, the fifth Board of the Company passed the 59th written resolution in relation to the appointment of Mr. Guan Zhaohui as the deputy general manager of the Company, the resignation of Mr. Dong Lin as a Director and other relevant positions of the Company, the nomination of Mr. Deng Qiang as a candidate of Directors of the Company, and the dismissal of Hong Kong auditor KPMG appointed at the 2009 annual general meeting.

(2) On 31 January 2011, the fifth Board of the Company passed the 60th written resolution in relation to the Service and Supply Agreement from 2011 to 2013 entered into between the Company and the Parent Company, relevant transactions under the agreement and annual caps.

(3) On 22 February 2011, the fifth Board of the Company passed the 66th written resolution in relation to the bidding for Chongqing Iron & Steel (Group) Transportation Company Limited through Chongqing United Assets and Equity Exchange.

(4) On 31 March 2011, the fifth Board of the Company passed the 70th written resolution in relation to the Authorised Use of Assets.

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

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

(5) On 11 May 2011, the fifth Board of the Company passed the 71st written resolution in relation to the Environmental Relocation Plan of Chongqing Iron & Steel Company Limited.

(6) On 26 July 2011, the fifth Board of the Company passed the 80th written resolution in relation to the Procurement Agreement from 2011 to 2013 entered into between the Company and Chongqing Iron & Steel (Hong Kong) Limited Company ("Chongqing Iron & Steel Hong Kong"), relevant transactions under the agreement and annual caps.

(7) On 28 August 2011, the fifth Board of the Company passed the 83rd written resolution in relation to Management Regulations for the Secretary to the Board of Chongqing Iron & Steel Company Limited.

(8) On 7 September 2011, the fifth Board of the Company passed the 85th written resolution in relation to the Provision of Guarantees for San Feng Jingjiang Port Logistics Company Limited.

(9) On 15 September 2011, the fifth Board of the Company passed the 87th written resolution in relation to the Finance Lease entered into between the Company and Huarong Financial Leasing Co., Ltd.(華融金融租賃股份有限公司), approving the finance lease, guaranteed by the Parent Company, amounting to no more than RMB189 million with the subject matter under the Supplemental Agreement of the Master Contract on the Design, Purchase and Construction of External Energy Media of 6# Coke Oven and the Long Product Production Line of the Coking Project in the New District of Chongqing Iron & Steel (《重鋼新區焦化項目6#焦爐及長材產線外部能源介質設計、採購、施工總承包合同補充協議》) as the subject matter of the finance lease, and authorizing the management members to handle the execution and performance of contracts and documents in connection with this transaction and other related matters.

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

3. Implementation of resolutions of the general meetings by the Board

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

(2) On 21 April 2011, the Company convened the 2011 second extraordinary general meeting to consider and approve the resolution of continuing connected transactions (New Service and Supply Agreement and the transactions contemplated thereunder) from 2011 to 2013. (3) On 29 September 2011, the Company convened the 2011 third extraordinary general meeting to consider and approve the Ore Procurement Agreement (including the Annual Caps in the sum of US$650 million, US$1,000 million and US$1,000 million for each of the financial years ending 31 December 2011, 2012 and 2013 respectively) and the transactions contemplated thereunder.

In 2011, the Board strictly executed the New Service and Supply Agreement and Ore Procurement Agreement and the transaction amount did not exceed the transaction caps approved at general meetings.

4. Report on performance of duties of Audit Committee

The fourth meeting of the fourth Audit Committee was held on 24 March 2011, at which the following resolutions were made: (1) the audited financial reports prepared respectively under PRC GAAP and Hong Kong Financial Reporting Standards, the 2010 Annual Report, the 2010 Annual Results Announcement and the Summary of 2010 Annual Report were considered and approved; (2) the Company's connected transactions for 2010 were confirmed; (3) the management suggestions in 6 aspects proposed by the auditor to the management in the report on the Audit Committee's meeting and brought the same to the high attention of the Board of the Company; (4) the 2010 annual audit work report by KPMG Huazhen was approved and the report was submitted to the Board for consideration; (5) the re-appointment of KPMG Huazhen and KPMG as the Company's domestic auditors for 2011 was approved and submitted to the Board for consideration.

The fifth meeting of the fourth Audit Committee was held on 25 August 2011, at which the Company's unaudited interim financial report for 2011, the 2011 Semi-annual Report and its summary, the 2011 Interim Report and the Announcement of Interim Results for the six months ended 30 June 2011 were considered and approved.

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

4. Report on performance of duties of Audit Committee *(Continued)*

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

(1) According to announcement (2011) No.41 (announcement No. 41) issued by CSRC and Notice on Annual Report 2011 of Listing Companies in Chongqing, Yu Zheng Jian Fa (2012) No.4 Document issued by Chongqing Securities Regulatory Bureau, the Independent Directors of the Company communicated with the certified public accountants responsible for the annual audit (the "CPAs") and concluded written opinion in respect of the composition of audit team, audit plan, risks judgement, test and appraisal methods for risks and frauds and the audit focus prior to the commencement of annual audit by the auditor;

(2) After hearing the report on financial condition and operating results for the year by the Financial Controller of the Company, the Committee carefully reviewed the preliminary financial statements prepared by the Company and issued its opinion thereon in writing on 17 February 2012 prior to the commencement of annual audit by the auditor;

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

(4) After the auditor issued the preliminary audit opinion and before the Company convenes a Board meeting to consider the annual report, the Audit Committee, based on its communication with the auditor in respect of such preliminary opinion, reviewed the Company's 2011 Financial Statements again and issued a written review opinion thereon;

(5) Upon the issue of Auditors' Report for 2011 by KPMG Huazhen, the Audit Committee held a meeting, at which it made a summary of the audit work by KPMG Huazhen; reviewed the report submitted by the auditors; and voted on the proposal regarding the Company's annual financial accounts and appointment of auditors for the next year and approved it as a resolution.

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

4. Report on performance of duties of Audit Committee *(Continued)*

(6) Pursuant to the requirements of Caution on Risks on Related Issues of 2011 Annual Report of Chongqing Iron & Steel Company Limited (Yu Zheng Jian Shi Letter [2011] No. 117) by Chongqing Office of CSRC, in order to ensure successful progress of preparation and auditing of 2011 Annual Report of the Company, the Company has always paid high attention to operating risk and continuous operating capacity, capital risk, and accounting treatment and information disclosure of environmental relocation.

5. Report on performance of duties of Salary and Remuneration Review Committee

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

The third meeting of the third Salary and Remuneration Review Committee was held on 30 December 2011, at which the following resolutions were passed:

(1) Remuneration for the Company's executive Directors, the management and other senior management members in 2011 was designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. Remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. In the distribution of the above remuneration, basic remuneration, monthly bonus, quarterly performance review bonus, and annual performance bonus are taken into account in the salary package. And distribution is made after strict performance assessment by the Company.

(2) The remuneration packages for Directors, Supervisors and senior management for year 2012 were approved.

(3) The Company was proposed to determine the revenue of Directors, Supervisors and senior management based on the Company's performance and further improve and detail the effective internal incentive and restriction mechanism.

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

6. Report on performance of duties of Strategic Committee

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

The third meeting of the third Strategic Committee was held on 9 May 2011, at which the Proposal concerning the Environmental Relocation of Chongqing Iron & Steel Company Limited was considered and approved.

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

According to Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies (Zheng Jian Zi [2003] No.56) by CSRC, the Independent Directors of the Company carefully reviewed the Company's decision-making procedures for guarantees and status of guarantees. They are of the view that the Company's decision-making procedures for guarantee are in line with relevant laws, regulations and the Articles of Association; as at 31 December 2011, the Company did not provide any guarantee to its controlling shareholder, other related companies in which the Company holds less than 50% equity interest, any other non-legal entity or individuals.

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

8. Profit distribution in last three years and profit distribution proposal for 2011

(1) The Company's profit distribution policy

According to the Company's profit distribution policy, dividend may be distributed by way of cash or shares or by both ways at the same time. The Company may distribute interim cash dividends. The Company's profit distribution policy shall remain consistent and stable.

To the extent that the Company has enough cash for normal business operation and future development, the profit distributed by the Company in cash on an accumulative basis in the last three years shall be no less than 30% of its average distributable profit per annum realized during the last three years. The actual profit distribution ratio shall be proposed by the Board of the Company pursuant to relevant requirements of the CSRC and based on the Company's actual situations and determined by the shareholders' general meeting after consideration. In distributing the Company's profit, great importance shall be attached to investors' interests. However, the amount distributed must not exceed the amount of distributable profit on an accumulative basis, and profit distribution must not be detrimental to the Company's ability as a going concern. If the Board does not propose a cash distribution, the reasons shall be disclosed in the regular report and Independent Directors shall express independent opinions in respect thereof.

(2) Profit distribution in last three years

The Group's net profit and profit distribution in last three years

Unit: RMB'000

Year	Cash dividend amount *(tax inclusive)*	Net profit in the year	Percentage in net profit *(%)*
2008	173,313	598,298	28.97
2009	—	91,273	—
2010	—	11,270	—

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

8. Profit distribution in last three years and profit distribution proposal for 2011 *(Continued)*

(3) Profit distribution proposal for 2011

As audited by auditors, the Group achieved net profit attributable to shareholders of the Company of RMB-1,471,082,000 in 2011. The retained profit of the Company at the end of 2010 was RMB 2,096,707,000 and the total distributable profit for 2011 was RMB625,625,000.

The Company suffered substantial losses in 2011 due to lower profitability of steel industry and high operating cost at the Company's New District. In order to relieve the Company's pressure of liquidity requirements and facilitate the Company's development of production and operation, the Board proposed neither to distribute profit for 2011 nor to transfer the capital reserve to share capital. Independent Directors expressed independent opinions in respect of that the Company did not make the proposal for distribution of profit in cash.

9. Improvement and implementation of Information Insider Management System

In accordance with the Notice on Furtherance of Relevant Work Regarding Information Insider Registration and Management (Yu Zheng Jian Fa [2011] No. 279) (the "Notice") issued by Chongqing Securities Regulatory Bureau on 8 November 2011, the Company amended and improved the Information Insider Management System formulated in April 2010. The Company had no inside information leakage or insider transactions during the year.

10. Other issues

(1) Fixed assets

For the year ended 31 December 2011, movements in the fixed assets of the Group are set out in Note V,9 to the financial statements.

(2) Reserves

For the year ended 31 December 2011, movements in the reserves of the Group are set out in 35, 36 and 37 under Note V to the financial statements.

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

10. Other issues *(Continued)*

(3) Entrusted deposits and overdue time deposits

As at 31 December 2011, the Group did not have entrusted deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(4) Management contract

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

(5) External guarantees

As at the date hereof, the Company has provided external guarantees amounting to RMB85 million, including guarantees of RMB80 million provided to San Feng Jingjiang Port Logistics Company Limited and RMB5 million provided to Chongqing Iron & Steel Group Transportation Company Limited, a wholly-owned subsidiary of the Company.

(6) Auditors and their remuneration

As approved at 2010 Annual General Meeting, the Board reappointed KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively. On 18 March 2011, a resolution was passed at the 2011 first Extraordinary General Meeting of the Company, pursuant to which the Company's international auditor KPMG ("International Auditor"), which was appointed at the 2009 Annual General Meeting, was dismissed, and KPMG Huazhen was retained to audit the financial statements for the year 2011 prepared under the PRC Accounting Standards for Business Enterprises and issue audit opinion in accordance with PRC auditing standards and to undertake all such activities as required to be performed by overseas auditors under the Listing Rules (including preliminary announcement on annual results, annual review of continuing connected transactions, etc.). The dismissal of International Auditor helps to improve efficiency and reduce information disclosure costs. There are no disagreements between the Company and the International Auditor. The dismissal has gone through necessary procedures in compliance with relevant laws, listing rules of the listing place and the Articles of Association. KPMG Huazhen has audited the financial statements prepared under PRC GAAP. The Company paid RMB3.50 million for audit of such financial statements. As at the end of the Reporting Period, it had provided auditing service for the Company for 5 year.

ACKNOWLEDGEMENTS

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

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

Chongqing, PRC, 28 March 2012

Report of the Supervisory Committee

In 2011, the Supervisory Committee of the Company independently and fairly performed their supervision duties with due diligence in compliance with relevant laws, regulations, and in strict compliance with the Rules of Procedures for Supervisory Committee Meetings, so as to safeguard the lawful interests of the shareholders and the Company and improve the standard operation of the Company.

MEETINGS HELD BY THE SUPERVISORY COMMITTEE

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

1. The seventh meeting of the fifth Supervisory Committee was convened on 24 March 2011, at which 2010 Work Report of the Supervisory Committee, 2010 Annual Report, annual results announcement and annual report summary, 2010 audited financial reports, profit distribution proposal for 2010, connected transactions in 2010, the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company, self-assessment report on the 2010 internal control of the Company by the Board and Work Program for the Implementation of Internal Control Standards were considered and approved.

2. The eighth meeting of the fifth Supervisory Committee was convened on 26 April 2011, at which the full text of the 2011 first quarterly report of the Company was considered and approved.

3. The ninth meeting of the fifth Supervisory Committee was convened on 25 August 2011, at which the Company's 2011 unaudited interim financial report, 2011 interim report and its summary and the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company were considered and approved.

4. The tenth meeting of the fifth Supervisory Committee was convened on 28 October 2011, at which the full text of the 2011 third quarterly report of the Company was considered and approved.

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

1. Legality of the Company's operation

During the reporting period, the Supervisory Committee diligently performed their supervision duties by convening meeting of the Supervisory Committee, attending general meetings and Boarding meetings (as observer), supervising decision making of major issues of the Company, the improvement and operation of internal control system and the establishment and implementation of Information Insider Management System, monitoring daily operation of the Company and potential risks, and corporate governance activities, mainly focusing on the progress of the Company's environmental relocation, and supervising legal compliance of duty performance by the Directors and senior management. The Supervisory Committee was of the view that the Board worked in strict compliance with the laws and regulations and the Articles of Association of the Company by making reasonable and effective decisions through legal procedures; the Company further pushed forward its special campaign on corporate governance and actual governance was basically in line with requirement of Code of Corporate Governance for Listed Companies of CSRC and the Code on Corporate Governance Practices of the Hong Kong Stock Exchange; the Company formulated the Information Insider Registration and Management System and had no abuses of insider information, leakage of inside information or insider transactions. The Directors and other senior executives diligently performed their duties in good faith and no actions in violation of laws, regulations or the Articles of Association of the Company or against the interests of the Company were found.

2. Inspection of the Company's financial status

The Supervisory Committee reviewed the Company's financial analysis reports, promptly understood the Company's daily production, operation and financial status on a timely basis and assumed appropriate duty of confidentiality. It also earnestly reviewed the quarterly, interim and annual reports of the Company and heard the financial officer's explanations in respect of the preparation of the financial reports. The Supervisory Committee was of the view that the Company's financial statements were explicitly prepared under relevant rules and regulations, giving a true and objective picture of the Company's financial status and operating results. The comments included in the auditors' opinion issued by external auditor in respect of the Company's 2011 financial report are objective and fair.

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

3. Actual utilisation of last raised proceeds

In 2010, the Company raised RMB1,962,000,000 (including sponsor fee of RMB2,000,000 paid in advance) through issue of corporate bonds. As at 31 December 2011, the interest income was RMB422,448.67, used proceeds in aggregate of the Company was RMB1,962,422,448.67 and there was no remaining balance of the proceeds. The Supervisory Committee is of opinion that the Company has managed and utilized the proceeds in strict compliance with the Management Rules on Utilisation of Proceeds and the undertakings of the Company, and no breach of regulations has been found.

4. Acquisition and disposal of assets by the Company

During the reporting period, the Supervisory Committee reviewed the acquisition of 100% equity interests in Chongqing Iron & Steel Group Transportation Company Limited, the acquisition of 1# and 2# residue heat power stations financed and constructed by Beijing Centenary Benefits Company Limited and the transfer of 5% equity interests in Jiangsu Huayuan Metal Processing Company Limited held by the Company. The Supervisory Committee is of the view that: the acquisition and disposal of assets in 2011 were conduced in lawful procedures at fair prices; there was no insider transactions; not detrimental to the interests of the Company and its shareholders; and did not cause any loss of assets to the Company.

5. Connected transactions of the Company

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

6. Review of Self-Evaluation Report on Internal Control

The Supervisory Committee has reviewed Self-Evaluation Report on Internal Control of the Company for 2011, and is of the opinion that: The Company has improved the internal control mechanism and internal control system and actively rectified internal control defects in accordance with its development strategy and regulatory requirements, thus the Company's ability in risk control and management were continuously enhanced which ensured the normal operation of the Company's business activities as well as the safety and integrity of the Company's assets. Under no circumstance was the Company in violation of the Basic Standards for Enterprise Internal Control and the Guidelines for Internal Control of Listed Companies in 2011. Self-Evaluation Report on Internal Control of the Company is objective, true and accurately reflected the actual situation of internal control of the Company.

ACKNOWLEDGEMENTS

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

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

Chongqing, PRC, 27 March 2012

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

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

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

On 1 April 2011, the Company entered into the Equity Transfer Agreement with Parent Company under which the Company acquired 100% of the equity interest in Chongqing Iron & Steel Group Transportation Company Limited ("Chongqing Transportation") for a consideration of RMB62,954,200. Relevant consideration was paid via settlement centre account of Chongqing United Assets and Equity Exchange. Chongqing Transportation contributed profit of RMB2,107,000 to the Company from the date of transfer to the end of 2011.

On 29 November 2011, the Company entered into the Acquisition Agreement with Beijing Centenary Benefits Company Limited to acquire 2 sets of residual heat power plants for a total consideration of RMB375 million.

On 29 December 2011, a resolution was passed at the 2011 second extraordinary meeting of the Board of the Company, approving the proposal regarding the Company to bid in an open tender process at Chongqing United Assets and Equity Exchange for the acquisition of 100% of the equity interest in Chongqing Iron & Steel Group Iron Company Limited ("Chongqing Steel") at price not more than RMB185.756 million. The proposal was approved at the extraordinary general meeting of the Company convened on 28 February 2012. As at the date hereof, the Company has not completed the acquisition of Chongqing Steel.

(IV) CONTRACTS WITH PARENT COMPANY

1. Service and Supply Agreement

The Service and Supply Agreement entered into by the Company and the Parent Company on 22 January 2008 expired on 31 December 2010. To ensure the continuous supply of service, raw materials, factory premises and welfare service between the Company and the Parent Company, the Company entered into the Service and Supply Agreement (the "Service and Supply Agreement") from 2011 to 2013 with the Parent Company on 31 January 2011. The term of the Service and Supply Agreement was three years from 1 January 2011 to 31 December 2013. The Service and Supply Agreement contains substantially the same terms as the Original Service and Supply Agreement: the Parent Company agreed to continue to supply or to procure its subsidiaries to supply certain equipments and materials and provide certain welfare and support services to the Company; the Company agreed to continue to supply certain materials and provide certain services to the Parent Group; the Company and the Parent Group will allow each other to use and occupy their respective factory premises. The fees payable in respect of such services are determined by reference to market prices or profit markup above the cost/depreciation or prices prescribed by the relevant Chongqing governmental departments (as applicable).

2. Land Lease Agreements

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

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

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

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

2. Land Lease Agreements *(Continued)*

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

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

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

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

3. Agreement for Authorised Use of Assets

On 31 March 2011, the Company and Parent Company entered into the Agreement for Authorised Use of Assets, pursuant to which the Parent Company agreed to provide its steel production lines and relevant auxiliary facilities in Changshou New District amounting to RMB10.8 billion for the Company's use for free. The term of the Agreement for Authorised Use of Assets commences from 1 April 2011 to 31 March 2012 (tentatively for one year); 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.

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

3. Agreement for Authorised Use of Assets *(Continued)*

In October 2011, the Parent Company also authorized free use of the production line of RMB5.9 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 October 2011 to 31 March 2012.

As at 31 December 2011, the Parent Company authorized free use of the production line of RMB16.76 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use.

The way of authorised use is that the Parent Company provides the said assets to the Company and the Company provides operation conditions including raw materials and labor to carry out production and operation. Any operating profit or loss incurred from the use of the said assets during the period is undertaken by the Company.

4. Equity Interest Transfer Agreement

The Company acquired 100% equity interest in Transportation Company via Chongqing United Assets and Equity Exchange. On 1 April 2011, the Company and the Parent Company entered into Equity Interest Transfer Agreement, under which the Company acquired 100% equity interest in Transportation Company at a consideration of RMB62,954,200. Relevant consideration was paid via settlement centre account of Chongqing United Assets and Equity Exchange.

5. Procurement Agreement

On 26 July 2011, the Company and Chongqing Iron & Steel Hong Kong, a wholly owned subsidiary of the Parent Company, entered into a Procurement Agreement for procurement by the Company of overseas iron ore and coking coal through Chongqing Iron & Steel Hong Kong. The Company agreed to procure from Chongqing Iron & Steel Hong Kong approximately 3,000,000 tons of iron ore and approximately 500,000 tons of coking coal in 2011, approximately 5,000,000 tons of iron ore and approximately 500,000 tons of coking coal in each of 2012 and 2013 for the Company's own production use.

(V) MATERIAL RELATED PARTY TRANSACTIONS

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

On 31 January 2011, the Company and the Parent Company entered into 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 Company agreed to provide products and services to the Parent Company and its subsidiaries (excluding the Company) (the"Parent Group") as summarized as follows:

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

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

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

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

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

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

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

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

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

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

The aggregate amount of services and/or materials provided by the Company to the Parent Group for each of the three financial years from 2011 to 2013 under the Service and Supply Agreement will not exceed the respective cap amount as shown in the table below for each of the three financial years ending 31 December 2011, 2012 and 2013:

	From 1 January 2011 to 31 December 2011 *(RMB millions)*	From 1 January 2012 to 31 December 2012 *(RMB millions)*	From 1 January 2013 to 31 December 2013 *(RMB millions)*
Cap amount receivable by the Company from the Parent Group for materials	2,473	3,662	4,476
Cap amount receivable by the Company from the Parent Group for services	117	130	121
Cap amount receivable by the Company from the Parent Group for lease of factory premises	2	3	4

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

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

The aggregate amount of services and/or materials provided by the Parent Group to the Company for each of the three financial years from 2011 to 2013 will not exceed the respective cap amount as shown in the table below:

	From 1 January 2011 to 31 December 2011 *(RMB millions)*	From 1 January 2012 to 31 December 2012 *(RMB millions)*	From 1 January 2013 to 31 December 2013 *(RMB millions)*
Cap amount payable by the Company to the Parent Group for products and materials	5,259	8,412	11,328
Cap amount payable by the Company to the Parent Group for services	824	590	653
Cap amount payable by the Company to the Parent Group for social welfare services and retirement plan	147	143	145
Cap amount payable by the Company to the Parent Group for the lease of factory premises	2	1	1

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

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

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

2. Related Party transactions constituted by the Land Lease Agreements

Pursuant to the land lease agreement dated 14 August 1997 and its supplemental lease agreement ("First Land Lease"), the land lease agreement dated 8 December 2002 and its supplemental lease agreement ("Second Land Lease"), the renewed land lease agreements respectively dated 10 February 2009 and 23 February 2009 (the "Renewed Land Lease") entered into between the Company and 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 term of 20 years, 15 years, 3 years and 3 years. The leases are renewable upon maturity.

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

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

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

2. Related Party transactions constituted by the Land Lease Agreements *(Continued)*

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

3. Continuing connected transactions constituted by the Procurement Agreement

As the Company proceeds with the environmental relocation, its production scale in Changshou New District will expand gradually and the demand for iron ore and coking coal for production will increase as well. In order to ensure stable and sufficient supply of raw materials such as iron ore and coking coal to meet the Company's production need, relieve its pressure on funding requirement and reduce relevant cost in purchase of raw materials, on 26 July 2011, the Company and Chongqing Iron & Steel Hong Kong entered into a Procurement Agreement for a term commencing on 1 July 2011 and expiring on 31 December 2013 for procurement of overseas iron ore and coking coal through Chongqing Iron & Steel Hong Kong. The Company procured through Chongqing Iron & Steel Hong Kong approximately 3,000,000 tons of iron ore and approximately 500,000 tons of coking coal in 2011, and will procure approximately 5,000,000 tons of iron ore and approximately 500,000 tons of coking coal in each of 2012 and 2013 for the Company's own production use.

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

4. Related party transactions of the Group during the year ended 31 December 2011

Details of the major related party transactions entered into by the Group during the year ended 31 December 2011 are set out in Note VI to the financial statements prepared under PRC GAAP.

Related party	Products sold to related party		Products purchased from related party	
	Amount *(RMB'000)*	Percentage in similar transactions *(%)*	Percentage in similar transactions *(RMB'000)*	Amount *(%)*
Chongqing Iron & Steel Group Mining Company Limited	45,415	4.49	1,690,031	15.70
Chongqing Iron & Steel Group Iron Company Limited	9,470	0.94	58,118	4.84
Chongqing Chaoyang Gas Company Limited	465,061	45.97	625,137	98.17
Chongqing Wuxia Mining Company Limited	—	—	366,407	5.82
Chongqing Iron & Steel Group Construction and Engineering Company Limited	148,025	0.67	41,032	0.60
Chongqing Iron & Steel Group Design and Research Institute	—	—	11,661	0.22
Chongqing Iron & Steel Group San Feng Industrial Company	65,113	0.29	53,508	3.61
Chongqing Iron & Steel Group San Feng Technology Company	—	—	86,612	1.39
Chongqing Iron & Steel Group Industrial Company Limited	242,403	1.09	21,404	0.20
Chongqing Iron & Steel Group Refractory Materials Company Limited	—	—	18,310	5.89
Chongqing Si Gang Steel Company Limited	197,864	0.89		
Chongqing San Gang Steel Company Limited	335,827	1.52		
Chongqing Iron & Steel Group Steel Pipe Company Limited	318,318	1.44	—	—
Chongqing Iron & Steel (Group) Company Limited	77,849	7.70	—	—
Chongqing Iron & Steel Group Doorlead Realty Company Limited	7,628	0.03	—	—
Chongqing Huanya Construction Materials Company Limited	6,513	0.64	—	—
Others	4,898	—	10,502	—
Total	1,924,384	—	2,982,722	—

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

4. Related Party transactions of the Group during the year ended 31 December 2011 *(Continued)*

In addition, during the reporting period, the amount of related party transactions in respect to the Company's provision of labour service to and receipt of labour services from the Parent Company and its subsidiaries amounted to RMB53,113,000 and RMB579,335,000, respectively, and the land rental and advance paid on behalf of the controlling shareholder was RMB14,850,000 and RMB74,797,000 respectively.

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

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

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

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

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

Unit: RMB'000

Related party	Capital provided to related party (sales)		Capital provided by related party (purchase)	
	Amount	Balance	Amount	Balance
Chongqing Iron & Steel Group Mining Company Limited	45,415	2,259	1,690,031	2,407
Chongqing Iron & Steel Group Iron Company Limited	9,470	—	58,118	—
Chongqing Chaoyang Gas Company Limited	465,061	—	625,137	49,971
Chongqing Wuxia Mining Company Limited	—	—	366,407	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	148,025	1,488	41,032	29,767
Chongqing Iron & Steel Group Design and Research Institute	—		11,661	13,074
Chongqing Iron & Steel Group San Feng Industrial Company	65,113		53,508	2,173
Chongqing Iron & Steel Group San Feng Technology Company	—	—	86,612	12,856
Chongqing Iron & Steel Group Industrial Company Limited	242,403	—	21,404	81,503
Chongqing Iron & Steel Group Refractory Materials Company Limited	—		18,310	—
Chongqing Si Gang Steel Company Limited	197,864	130,756	—	
Chongqing San Gang Steel Company Limited	335,827	110,880	—	
Chongqing Iron & Steel Group Steel Pipe Company Limited	318,318	94,673	—	—
Chongqing Iron & Steel (Group) Company Limited	77,849	18,793	—	51,900
Chongqing Iron & Steel Group Doorlead Realty Company Limited	7,628	—	—	
Chongqing Huanya Construction Materials Company Limited	6,513	—	—	—
Others	4,898	14,129	10,502	1,248
Total	1,924,384	372,978	2,982,722	244,899

(VI) EMPLOYEE SOCIAL SECURITY AND BENEFITS

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

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

(VII) INCOME TAX

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

(VII) INCOME TAX *(CONTINUED)*

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

The western development EIT preferential policies enjoyed by the Company and its subsidiaries have expired on 31 December 2010. Up to the approval date of these financial statements, State Administration of Taxation has not published relevant documents about the continuance of the western development EIT preferential policies. However, according to the Notice regarding Tax Policies concerning In-depth Implementation of Western Development Strategy (Cai Shui No.[2011] No. 58), from 1 January 2011 to 31 December 2020, an EIT rate of 15% is applied for industries enjoying state incentives in western region. The Company and its subsidiaries estimated that it is very likely that such preferential policies will continue in the future. Therefore, during the year, there was no change in tax rate and preferential tax policy enjoyed by the Company and its subsidiaries.

(VII) INCOME TAX *(CONTINUED)*

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 Circular Guo Shui Fa [2008] No. 52 on Ceasing Granting Tax Credit and Exemption relating to Enterprise Income Tax on the Purchase of Domestic Manufactured Equipment issued by State Administration of Taxation, the Company did not apply for tax credit or exemption for purchase of domestic manufactured equipment, neither did it recognise related income tax after 1 January 2008. As at 31 December 2011, the remaining RMB34,619,000 deductible amount was not utilized (2010: RMB34,619,000).

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

According to the requirements from relevant notices of CSRC, domestic auditors KPMG Huazhen reviewed the capital appropriation of Company, Chongqing Iron & Steel (Group) Company Limited (controlling shareholder of the Company) and other related parties; and stated that: as at 31 December 2011, the capital transactions between the Group and its controlling shareholder and other related parties mainly arose from connected transactions constituted in ordinary operation activities between the Group and its related parties. Save for the above capital transactions arose from connected transactions in ordinary operation activities, no violation of Notice on Certain Issues in relation to Standards of Capital Transactions between Listed Companies and Related Parties and External Guarantees by the Listed Companies was found in the Group.

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

On 19 December 2008, the Parent Company issued the Undertaking Letter on Reducing and Standardizing Connected Transactions with Chongqing Iron & Steel Company Limited to the Company, undertaking to ensure the Company shall have independent business, complete assets, independent and complete production, supply and sales, and other auxiliary systems, to prevent and reduce unnecessary connected transactions.

On 19 December 2008, the Parent Group made an agreement with respect to the relocation issue: 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 and reduction of connected transactions; finally, the Parent Company will transfer or inject relevant projects or assets into the Company at fair price.

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

During the reporting period, the Parent Company did not violate its undertakings. On 31 March 2011, the Company and Parent Company entered into the Agreement for Authorised Use of Assets, pursuant to which the Parent Company agreed to provide its steel production lines and relevant auxiliary facilities in Changshou New District amounting to RMB10.8 billion for the Company's use for free. The term of the Agreement for Authorised Use of Assets commences from 1 April 2011 to 31 March 2012 (tentatively for one year); 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.

In October 2011, the Parent Company also authorized free use of the production line of RMB5.9 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 October 2011 to 31 March 2012.

As at 31 December 2011, the Parent Company authorized free use of the production line of RMB16.76 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use.

As at the date thereof, the Parent Company has started relevant work for material assets restructuring involving the Company, and the Company published the "Announcement of Chongqing Iron & Steel Company Limited on Suspension of Trading for Restructuring of Material Assets" on 5 March 2012.

(X) DURING THE REPORTING PERIOD, THERE WERE MATERIAL CUSTODY, CONTRACTING, LEASING OF ASSETS BETWEEN THE COMPANY AND OTHER COMPANIES, BUT THE COMPANY DID NOT HAVE ANY WEALTH MANAGEMENT MATTERS

On 31 March 2011, the Company and Parent Company entered into the Agreement for Authorised Use of Assets, pursuant to which the Parent Company agreed to provide its steel production lines and relevant auxiliary facilities in Changshou New District amounting to RMB10.8 billion for the Company's use for free. The term of the Agreement for Authorised Use of Assets commences from 1 April 2011 to 31 March 2012 (tentatively for one year); 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.

(X) DURING THE REPORTING PERIOD, THERE WERE MATERIAL CUSTODY, CONTRACTING, LEASING OF ASSETS BETWEEN THE COMPANY AND OTHER COMPANIES, BUT THE COMPANY DID NOT HAVE ANY WEALTH MANAGEMENT MATTERS *(CONTINUED)*

In October 2011, the Parent Company also authorized free use of the production line of RMB5.9 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 October 2011 to 31 March 2012.

As at 31 December 2011, the Parent Company authorized free use of the production line of RMB16.76 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use.

(XI) PROGRESS OF ENVIRONMENTAL RELOCATION

According to the requirements of environmental protection, industrial layout and planning of Chongqing Municipal Government, the Company actively implemented the environmental relocation strategy. As at 22 September 2011, the Company closed down all its production facilities in Dadukou District of Chongqing in the PRC and transferred all its production activities to Jiangnan Town, Changshou District of Chongqing in the PRC.

Upon approval by 2010 annual general meeting of the Company held on 27 May 2011, the Company has moved its registered address to No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC 401258. The Company's place of business will be relocated to the Management Building (管控大樓), No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC 401258 from 1 October 2011.

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

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2011

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	8 January 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of 33rd written resolution of the fifth Board	Lin 2011-002	22 January 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice on Convening 2011 First Extraordinary General Meeting	Lin 2011-003	28 January 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Resignation of Directors, Proposed Election of Directors and Proposed Dismissal of Overseas Auditors	Shareholder Circular of H Shares	28 January 2011	Shanghai Stock Exchange: www.sse.com.cn
Announcement of 60th written resolution of the fifth Board	Lin 2011-004	1 February 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Continued Connected Transactions	Lin 2011-005	1 February 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for January 2011	Lin 2011-006	11 February 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice on Convening 2011 Second Extraordinary General Meeting	Lin 2011-007	22 February 2011	Shanghai Stock Exchange: www.sse.com.cn
Continued Connected Transactions	Shareholder Circular of H Shares	22 February 2011	Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for February 2011	Lin 2011-008	8 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Board Meeting Notification	H Share Announcement	17 March 2011	Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2011 First Extraordinary General Meeting	Lin 2011-009	19 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2011 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement for resolutions of the 5th meeting of the Fifth Board of Directors	Lin 2011-010	19 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement for resolutions of the 7th meeting of the Fifth Supervisory Committee	Lin 2011-011	28 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement for the Resolutions of the 6th meeting of the Fifth Board of Directors	Lin 2011-012	28 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Supplemental Announcement for the 2010 Annual Report	Lin 2011-013	29 March 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Connected Transactions	Lin 2011-014	1 April 2011	Shanghai Stock Exchange: www.sse.com.cn
Connected Transaction -Acquisition of the Entire Issued Share Capital of Chongqing Iron & Steel Group Transportation Company Limited	Lin 2011-015	2 April 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice on Convening 2010 Annual General Meeting	Lin 2011-016	8 April 2011	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	8 April 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Board Meeting Notification	H Share Announcement	16 April 2011	Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2011 Second Extraordinary General Meeting	Lin 2011-018	22 April 2011	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	26 April 2011	Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2011 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Steel output bulletin for April 2011	Lin 2011-020	6 May 2011	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	13 May 2011	Shanghai Stock Exchange: www.sse.com.cn
Announcement of Resolutions Passed at 2010 Annual General Meeting	Lin 2011-022	30 May 2011	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	8 June 2011	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	20 June 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for June 2011	Lin 2011-025	8 July 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the Resignation of Staff Representative Supervisor and Election of Supervisor	Lin 2011-026	27 July 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of 80th written resolution of the fifth Board	Lin 2011-027	27 July 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Continuing Connected Transactions	Lin 2011-028	27 July 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	10 August 2011	Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	12 August 2011	Shanghai Stock Exchange: www.sse.com.cn
Notice of 2011 Third Extraordinary General Meeting of the Company	Lin 2011-029	12 August 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2011 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Announcement of Resolutions Passed at the 9th Meeting of the Fifth Supervisory Committee of the Company	Lin 2011-030	29 August 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Resolutions Passed at the 7th Meeting of the Fifth Board of Directors of the Company	Lin 2011-031	29 August 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for August 2011	Lin 2011-032	8 September 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the Provision of Guarantee for a Subsidiary	Lin 2011-033	8 September 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Board of Directors	Lin 2011-034	22 September 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement in Relation to Finance Leases of the Company	Lin 2011-035	28 September 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2011 Third Extraordinary General Meeting of the Company	Lin 2011-036	30 September 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for September 2011	Lin 2011-037	11 October 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of the Board of Directors of the Company	Lin 2011-038	19 October 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	20 October 2011	Shanghai Stock Exchange: www.sse.com.cn
Announcement on Holding An Online Group Reception Activity for Investors	Lin 2011-039	31 October 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XIII) THE COMPANY'S EXTRAORDINARY ANNOUNCEMENTS INDEXES FOR 2011 *(CONTINUED)*

Name of Announcements	No. of the announcement	Date of Disclosure	Media and internet website for disclosure
Steel output bulletin for October 2011	Lin 2011-040	9 November 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the Resignation of Vice Chairman	Lin 2011-041	30 November 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Acquisition of Residue Heat Power Stations	Lin 2011-043	2 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Payment of Interests for "10 CISL Bond"	Lin 2011-042	2 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for November 2011	Lin 2011-044	7 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement in Respect of Estimated Loss for 2011	Lin 2011-045	29 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Resolutions Passed at the 2011 Second Extraordinary Meeting of the Board of Directors	Lin 2011-046	30 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Investment in Jiangjin Base Project	Lin 2011-047	30 December 2011	China Securities Journal, Shanghai Securities News, S ecurities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Project Investment of a Controlled Subsidiary	Lin 2011-048	30 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Acquisition of Chongqing Steel	Lin 2011-049	30 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	30 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement in Relation to Finance Leases	Lin 2011-050	31 December 2011	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

KPMG

All Shareholders of Chongqing Iron and Steel Company Limited:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2011, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2011, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen

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

Gong Wei Li

China Beijing

Lin Jian Kun

28 March 2012

Consolidated balance sheet

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	2011	2010
Current assets			
Cash at bank and on hand	V.1	**2,325,290**	1,755,279
Bills receivable	V.2	**1,417,422**	1,531,832
Accounts receivable	V.3	**697,365**	590,570
Prepayments	V.4	**651,251**	823,033
Other receivables	V.5	**264,008**	95,850
Inventories	V.6	**6,603,218**	6,754,287
Other current assets	V.7	**415,137**	546,710
Total current assets		**12,373,691**	12,097,561
Non-current assets			
Long-term equity investments	V.8	**5,000**	20,000
Fixed assets	V.9	**7,344,844**	8,989,978
Construction in progress	V.10	**3,252,903**	798,835
Construction materials	V.11	**1,537,078**	276,134
Fixed assets to be disposed of	V.12	**2,026,600**	—
Intangible assets	V.13	**402,297**	333,159
Deferred tax assets	V.14	**23,528**	116,200
Other non-current assets	V.15	**84,500**	36,590
Total non-current assets		**14,676,750**	10,570,896
Total assets		**27,050,441**	22,668,457

The notes on pages 119 to 277 form part of these financial statements.

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	2011	2010
Current liabilities			
Short-term loans	V.18	**4,048,189**	3,244,509
Financial liabilities held for trading	V.19	**23,713**	8,642
Bills payable	V.20	**555,000**	—
Accounts payable	V.21	**4,808,932**	2,818,779
Advance from customers	V.22	**1,420,140**	1,617,640
Employee benefits payable	V.23	**182,429**	119,106
Taxes payable	V.24	**8,978**	90,953
Dividends payable		**—**	110
Interest payable	V.25	**36,733**	14,383
Other payables	V.26	**420,746**	282,545
Non-current liabilities due within one year	V.27	**4,762,143**	2,047,803
Other current liabilities	V.28	**7,683**	9,285
Total current liabilities		**16,274,686**	10,253,755
Non-current liabilities			
Long-term loans	V.29	**1,056,600**	2,698,476
Debentures payable	V.30	**1,966,848**	1,962,371
Long term payables	V.31	**3,254,896**	1,577,390
Special payables	V.32	**—**	8,968
Other non-current liabilities	V.33	**256,296**	420,601
Total non-current liabilities		**6,534,640**	6,667,806
Total liabilities		**22,809,326**	16,921,561

The notes on pages 119 to 277 form part of these financial statements.

Consolidated balance sheet (Continued)

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity (continued)	*Note*	2011	2010
Shareholders' equity			
Share capital	V.34	**1,733,127**	1,733,127
Capital reserve	V.35	**1,109,163**	1,163,621
Specific reserve	V.36	**1,560**	808
Surplus reserve	V.37	**605,633**	605,633
Retained earnings	V.38	**625,625**	2,096,707
Total equity attributable to shareholders of the Company		**4,075,108**	5,599,896
Minority interests		**166,007**	147,000
Total shareholders' equity		**4,241,115**	5,746,896
Total liabilities and shareholders' equity		**27,050,441**	22,668,457

These financial statements were approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Balance sheet

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	2011	2010
Current assets			
Cash at bank and on hand		**2,205,461**	1,508,073
Bills receivable		**1,408,423**	1,528,778
Dividends receivable		**11,546**	—
Accounts receivable	XII.1	**764,131**	456,239
Prepayments		**463,970**	768,409
Other receivables	XII.2	**259,427**	85,794
Inventories		**6,568,691**	6,740,158
Other current assets		**404,801**	545,495
Total current assets		**12,086,450**	11,632,946
Non-current assets			
Long-term equity Investments	XII.3	**286,044**	202,745
Fixed assets		**7,283,818**	8,927,168
Construction in progress		**2,750,191**	784,721
Construction materials		**1,537,078**	276,134
Fixed assets to be disposed of		**2,026,600**	—
Intangible assets		**321,823**	328,832
Deferred tax assets		**22,520**	115,244
Other non-current assets		**84,500**	36,590
Total non-current assets		**14,312,574**	10,671,434
Total assets		**26,399,024**	22,304,380

The notes on pages 119 to 277 form part of these financial statements.

Balance sheet (Continued)

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	2011	2010
Current liabilities			
Short-term loans		**3,942,189**	3,139,509
Financial assets held for trading		**23,713**	8,642
Bills payable		**560,000**	—
Accounts payable		**4,465,026**	2,774,757
Advance from customers		**1,417,302**	1,616,031
Employee benefits payable		**178,508**	115,067
Taxes payable		**7,167**	89,991
Interest payable		**36,733**	14,383
Other payables		**422,437**	276,649
Non-current liabilities due within one year		**4,762,143**	2,047,803
Other current liabilities		**7,684**	9,285
Total current liabilities		**15,822,902**	10,092,117
Non-current liabilities			
Long-term loans		**1,056,600**	2,698,476
Debentures payable		**1,966,848**	1,962,371
Long term payables		**3,254,896**	1,577,390
Special payables		**—**	160
Other non-current liabilities		**232,902**	420,601
Total non-current liabilities		**6,511,246**	6,658,998
Total liabilities		**22,334,148**	16,751,115

The notes on pages 119 to 277 form part of these financial statements.

As at 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity (continued)	Note	2011	2010
Shareholders' equity			
Share capital		**1,733,127**	1,733,127
Capital reserve		**1,140,611**	1,156,267
Surplus reserve		**575,654**	575,654
Retained earnings		**615,484**	2,088,217
Total shareholders' equity		**4,064,876**	5,553,265
Total liabilities and shareholders' equity		**26,399,024**	22,304,380

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Consolidated income statement

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2011**	2010
I. Operating income	V.39	**23,532,945**	16,675,889
II. Less: Operating costs	V.39	**22,571,662**	15,356,321
Business taxes and surcharges	V.40	**27,105**	17,655
Selling and distribution expenses	V.41	**372,449**	410,858
General and administrative expenses	V.42	**824,288**	587,838
Financial expenses	V.43	**750,047**	429,961
Impairment loss	V.44	**867,845**	35,664
Add: Gains from changes in fair value ("( )" for losses)	V.45	**(15,071)**	(8,642)
Investment income ("( )" for losses)	V.46	**—**	1,093
III. Operating profit ("( )" for losses)		**(1,895,522)**	(169,957)
Add: Non-operating income	V.47	**528,287**	187,584
Less: Non-operating expenses	V.48	**7,861**	1,827
Including: Losses from disposal of non-current assets		**461**	1,330
IV. Profit before income tax ("( )" for losses)		**(1,375,096)**	15,800
Less: Income tax expense	V.49	**95,979**	4,530
V. Net profit for the year ("( )" for net losses)		**(1,471,075)**	11,270
Attributable to:			
Shareholders of the Company ("( )" for net losses)		**(1,471,082)**	11,270
Minority interests		**7**	—

The notes on pages 119 to 277 form part of these financial statements.

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2011**	2010
VI. Earnings per share			
Basic earnings per share *(RMB)*			
("( )" for net losses)	V.50	**(0.849)**	0.007
Diluted earnings per share *(RMB)*			
("( )" for net losses)	V.50	**(0.849)**	0.007
VII. Other comprehensive income for the year		**—**	—
VIII. Total comprehensive income for the year			
("( )" for net losses)		**(1,471,075)**	**11,270**
Attributable to:			
Shareholders of the Company			
("( )" for net losses)		**(1,471,082)**	11,270
Minority interests		**7**	—

Note: For a business combination involving enterprises under common control occurred in 2011, the net profit made by the investee before the consolidation RMB 1,529,000.

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Income statement

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Note	**2011**	2010
I.	**Operating income**	XII.4	**23,388,326**	16,499,568
	Less: Operating costs	XII.4	**22,502,202**	15,239,021
	Business taxes and surcharges		**15,728**	8,434
	Selling and distribution expenses		**372,410**	410,858
	General and administrative expenses		**780,461**	548,224
	Financial expenses		**749,220**	429,250
	Impairment loss		**867,688**	32,676
	Add: Gains from changes in fair value ("( )" for losses)		**(15,071)**	(8,642)
	Investment income ("( )" for losses)	XII.5	**14,818**	1,079
II.	**Operating profit ("( )" for losses)**		**(1,899,636)**	(176,458)
	Add: Non-operating income		**527,456**	187,133
	Less: Non-operating expenses		**7,829**	1,812
	Including: Losses from disposal of non-current assets		**431**	1,322
III.	**Profit before income tax ("( )" for losses)**		**(1,380,009)**	8,863
	Less: Income tax expense		**92,724**	3,143
IV.	**Net profit for the year ("( )" for losses)**		**(1,472,733)**	5,720
V.	**Other comprehensive income for the year**		**—**	—
VI.	**Total comprehensive income for the year ("( )" for losses)**		**(1,472,733)**	5,720

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2011	2010
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**27,188,488**	20,635,739
Refund of taxes		**5,479**	5,407
Cash received relating to other operating activities	V.51(1)	**17,445**	46,321
Sub-total of cash inflows		**27,211,412**	20,687,467
Cash paid for goods and services		**(25,394,082)**	(21,268,637)
Cash paid to and for employees		**(1,075,123)**	(1,067,464)
Cash paid for all types of taxes		**(275,637)**	(362,463)
Cash paid relating to other operating activities	V.51(2)	**(15,257)**	(67,529)
Sub-total of cash outflows		**(26,760,099)**	(22,766,093)
Net cash outflow from operating activities	V.52(1)	**451,313**	(2,078,626)
II. Cash flows from investing activities:			
Cash received from disposal of investments		**15,000**	514
Cash received from return on investments		**—**	1,079
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**17,444**	11,995
Cash received relating to other investing activities	V.51(3)	**111,209**	9,408
Sub-total of cash inflows		**143,653**	22,996
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**(2,540,537)**	(1,517,390)
Cash paid for acquisition of investments		**—**	(16,575)
Net cash paid for acquisition of subsidiaries and other operating units		**(62,954)**	(37,862)
Cash paid relating to other investing activities		**—**	(100,000)
Sub-total of cash outflows		**(2,603,491)**	(1,671,827)
Net cash outflow from investing activities		**(2,459,838)**	(1,648,831)

The notes on pages 119 to 277 form part of these financial statements.

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2011	2010
III. Cash flows from financing activities:			
Cash received from investors		**19,000**	147,000
Including: Cash received from minority shareholders of subsidiaries		**19,000**	147,000
Cash received from borrowings		**6,373,398**	7,906,479
Cash received from issuance of debentures		**—**	1,962,000
Cash received from finance leases		**2,223,880**	491,350
Sub-total of cash inflows		**8,616,278**	10,506,829
Cash repayments of borrowings		**(5,575,600)**	(6,116,649)
Cash paid for dividends, profit distributions or interest		**(671,943)**	(372,523)
Other cash paid relating to financing activities	V.51(4)	**(596,139)**	(161,409)
Sub-total of cash outflows		**(6,843,682)**	(6,650,581)
Net cash inflow from financing activities		**1,772,596**	3,856,248
IV. Net increase in cash and cash equivalents ("( )" for decreases)	V.52(1)	**(235,929)**	128,791
Add: Cash and cash equivalents at the beginning of the year		**1,537,352**	1,408,561
V. Cash and cash equivalents at the end of the year	V.52(2)	**1,301,423**	1,537,352

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2011	2010
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**26,947,580**	20,412,160
Refund of taxes		**5,479**	5,407
Cash received relating to other operating activities		**17,440**	18,646
Sub-total of cash inflows		**26,970,499**	20,436,213
Cash paid for goods and services		**(25,275,302)**	(21,175,155)
Cash paid to and for employees		**(970,396)**	(968,192)
Cash paid for all types of taxes		**(262,026)**	(347,965)
Cash paid relating to other operating activities		**(15,219)**	(45,857)
Sub-total of cash outflows		**(26,522,943)**	(22,537,169)
Net cash outflow from operating activities	XII.6	**447,556**	(2,100,956)
II. Cash flows from investing activities:			
Cash received from disposal of investments		**15,000**	—
Cash received from return on investments		**3,272**	1,079
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**17,373**	11,942
Cash received relating to other investing activities		**11,192**	9,402
Sub-total of cash inflows		**46,837**	22,423
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**(2,242,293)**	(1,454,644)
Cash paid for acquisition of investments		**—**	(15,000)
Net cash paid for acquisition of subsidiaries and other operating units		**(113,954)**	(190,862)
Sub-total of cash outflows		**(2,356,247)**	(1,660,506)
Net cash outflow from investing activities		**(2,309,410)**	(1,638,083)

The notes on pages 119 to 277 form part of these financial statements.

Cash flow statement (Continued)

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2011	2010
III. Cash flows from financing activities			
Cash received from borrowings		**6,202,398**	7,801,459
Cash received from issuance of debentures		**—**	1,962,000
Cash received from finance leases		**2,223,880**	491,350
Sub-total of cash inflows		**8,426,278**	10,254,809
Cash repayments of borrowings		**(5,405,600)**	(6,111,649)
Cash paid for dividends, profit distribution or interest		**(671,238)**	(357,893)
Cash paid relating to other financing activities		**(596,139)**	(161,030)
Sub-total of cash outflows		**(6,672,977)**	(6,630,572)
Net cash inflow from financing activities		**1,753,301**	3,624,237
IV. Net increase in cash and cash equivalents ("( )" for decreases)	XII.6	**(108,553)**	(114,802)
Add: cash and cash equivalents at the beginning of the year		**1,290,146**	1,404,948
V. Cash and cash equivalents at the end of the year		**1,181,593**	1,290,146

These financial statements have been approved by the Board of Directors of the Company on 28 March 2011.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 119 to 277 form part of these financial statements.

Consolidated statement of changes in shareholder's equity

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		2011							2010						
		Attributable to shareholders of the Company							Attributable to shareholders of the Company						
Item	*Note*	**Share capital**	**Capital reserve**	**Specific reserve**	**Surplus treasury**	**Retained earnings**	**Minority interests**	**Total**	Share capital	Capital reserve	Specific reserve	Surplus treasury	Retained earnings	Minority interests	Total
Balance at the end of the previous year		**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			**21,913**		**22,181**	**1,298**		**45,392**	—	37,285	166	29,979	4,201	1,389	73,020
Balance at the beginning of the year		**1,733,127**	**1,163,621**	**808**	**605,633**	**2,096,707**	**147,000**	**5,746,896**	1,733,127	1,201,669	166	605,061	2,087,270	1,389	5,628,682
Changes in equity for the year															
1. Net profit for the year ("( )" for losses)		**—**	**—**	**—**	**—**	**(1,471,082)**	**7**	**(1,471,075)**	—	—	—	—	10,009	—	10,009
2. Other comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—
Sub-total of 1 & 2		**—**	**—**	**—**	**—**	**(1,471,082)**	**7**	**(1,471,075)**	—	—	—	—	10,009	—	10,009
3. Appropriate of profits															
— Appropriation for surplus reserve	V. 37	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	572	(572)	—	—
— Distributions to shareholders		**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—
4. Specific reserve															
— Accrued		**—**	**—**	**1,378**	**—**	**—**	**—**	**1,378**	—	—	1,000	—	—	—	1,000
— Utilized		**—**	**—**	**(626)**	**—**	**—**	**—**	**(626)**	—	—	(358)	—	—	—	(358)
5. Adjustment of capital reserve for business combination under common control		**—**	**(62,954)**	**—**	**—**	**—**	**—**	**(62,954)**	—	(37,862)	—	—	—	—	(37,862)
6. Purchase of minority interest		**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	(186)	—	—	—	(1,389)	(1,575)
7. Investment in subsidiary		**—**	**—**	**—**	**—**	**—**	**19,000**	**19,000**	—	—	—	—	—	147,000	147,000
8. Others *(Note V. 32)*		**—**	**8,496**	**—**	**—**	**—**	**—**	**8,496**	—	—	—	—	—	—	—
Balance at the end of the year		**1,733,127**	**1,109,163**	**1,560**	**605,633**	**625,625**	**166,007**	**4,241,115**	1,733,127	1,163,621	808	605,633	2,096,707	147,000	5,746,896

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 16 to 150 form part of these financial statements.

Statement of changes in shareholder's equity

For the year ended 31 December 2011
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		2011					2010				
Item	Note	Share capital	Capital reserve	Specific reserve	Surplus treasury	Total	Share capital	Capital reserve	Specific reserve	Surplus treasury	Total
Balance at the end of the previous year/ the beginning of the year		**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
Changes in equity for the year											
1. Net profit for the year ("( )" for losses)		—	—	—	(1,472,733)	(1,472,733)	—	—	—	5,720	5,720
2. Other comprehensive income for the year		—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	(1,472,733)	(1,472,733)	—	—	—	5,720	5,720
3. Appropriate of profits											
— Appropriation for surplus reserve		—	—	—	—	—	—	—	572	(572)	—
— Distributions to shareholders		—	—	—	—	—	—	—	—	—	—
4. Adjustment of capital reserve for business combination under common control		—	(15,656)	—	—	(15,656)	—	(8,117)	—	—	(8,117)
Balance at the end of the year		**1,733,127**	**1,140,611**	**575,654**	**615,484**	**4,064,876**	1,733,127	1,156,267	575,654	2,088,217	5,553,265

These financial statements have been approved by the Board of Directors of the Company on 28 March 2012.

Legal Representative: ____________________ Chief Financial Officer: ____________________

Chief Accountant: ____________________ (Company stamp)

The notes on pages 16 to 150 form part of these financial statements.

I. COMPANY STATUS

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

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under State Council. For the implementation of a part of the restructuring, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda") under the Restructuring Agreement. As consideration, the Company issued 650,000,000 state-owned legal person shares of RMB 1 each to the Parent Group. The assets and liabilities mentioned above have been assessed by Zhongzi Assets Appraisal Office, and the net assets were valued at RMB 999,538,500. The legality of the valuation was reviewed and confirmed by the circular (Guo Zi Ping [1997] No. 706) issued by the State-owned Assets Supervision and Administration Bureau on 22 July 1997.

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

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

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

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

I. COMPANY STATUS *(CONTINUED)*

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

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 ("Da Du Kou Distrct") to Yanjia Industry Zone, Jiangnan Town, Changshou District of Chongqing ("Changshou New Zone"). The Company is also included in the relocation plan. On 22 March 2011, Chongqing Municipal Government approved the Parent Group's "Report on Shutting Down the Da Du Kou District Steel Production Facilities", agreed for the Company to shut down all production facilities completely in Da Du Kou District before 25 September 2011

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.

I. COMPANY STATUS *(CONTINUED)*

Considering the extra expenses occurred in the environmental relocation of the Company, after the approval of State-owned Assets Supervision and Administration Commission ("SASAC"), the Parent Group have authorized free use of the production line of RMB 3.99 billion for steel smelting production line and its auxiliary public facilities which had reached an expected conditions for use, the authorized period is from 1 April 2010 to 31 March 2011 tentatively. And in December 2010, the Parent Group have also authorized free use of the production line of RMB 1.97 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 ("Authorized free use of assets in 2010"). On 31 March 2011, the authorization agreement of freely using the assets in 2010 mentioned above expired, the Parent Group authorized the Company to continually freely use the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which already reached the expected usable condition, amounting to around RMB 10.86 billion; the authorized usage time is from 1 April 2011 to 31 March 2012. In September 2011, the Parent Group further authorized the Company the free use the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which already reached the expected usable condition, amounting to around RMB 5.9 billion; the authorized perios is from 1 October 2011 to 31 March 2012.

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 1 April 2011, the Company consolidated 100% shares of Chongqing Iron & Steel Group Transportation Company Limited ("Chongqing Transportation") under the common control of the Parent Group.

On 22 May 2011, the Company set up a new company, Jingjiang San Feng Steel Processing & Distribution Company Limited ("San Feng Steel"), as controlling shareholder.

On 22 September 2011, the Company shut down the production facilities in Da Du Kou District, and the Company's main production and business operating activities had been transferred to Changshou New Zone gradually. By 31 December 2011, the Company's main equipments located in Changshou New Zone of the 4100mm wide thick plate, the 1780mm hot rolled plate and the 2700mm medium size plate production lines had achieved the expected usable conditions.

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, steel billets and coking by-products.

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

1 Basis of preparation

The financial statements have been prepared on the basis of going concern.

As at 31 December 2011, the Group's current liabilities exceeded its current assets by RMB 3,900,995,000. As the Group has been granted available bank facilities amounting to RMB 3,878,200,000 (Note X.3(2)) and according to the board memorandum of profit forecast and working capital forecast for 14 months till 28 February 2013 prepared by the directors of the Group, the Group has sufficient working capital to ensure its continuing operation. The directors of the Group consider it appropriate for the financial statements to be prepared on a going concern basis.

2 Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises – Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC) 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 of the Company as at 31 December 2011, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

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 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 and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

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

5 Accounting treatments for a business combination involving enterprises under common control and enterprises not under common control

(1) Business combinations involving enterprises 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 par value of shares issued) is adjusted to share premium (or capital premium) in the capital reserve. If the balance of share premium (or capital premium) is insufficient, any excess is adjusted to retained earnings. Any costs directly attributable to the combination are recognised in profit or loss for the current period when occurred. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

(2) Business combinations involving enterprises not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. Where 1) the aggregate of the fair value at the acquisition date of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds 2) the acquirer's interest in the fair value at the acquisition date of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where 1) is less than 2), the difference is recognised in profit or loss for the current period. The costs of the issuance of equity or debt securities as a part of the consideration paid for the acquisition are included as a part of initial recognition amount of the equity or debt securities. Other acquisition-related costs arising from the business combination are recognised as expenses in the periods in which the costs are incurred. The difference between the fair value and the carrying amount of the assets transferred is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if satisfying the recognition criteria, are recognised by the Group at their fair value at the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

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

6 Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. The financial position, financial performance and cash flows 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 the ultimate controlling party first obtained control. The opening balances and the comparative figures of the consolidated financial statements are also restated. In the preparation of the consolidated financial statements, the subsidiary's assets and liabilities based on their carrying amounts are included in the consolidated balance sheet, and financial performance is included in the consolidated income statement, respectively, from the date that the ultimate parent company of the Company obtains the control the subsidiary to be consolidated.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation 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 (the share premium) in the consolidated balance sheet. If the credit balance of capital reserve (the share premium) is insufficient, any excess is adjusted to retained earnings.

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

6 Consolidated financial statements *(Continued)*

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, minority interests and other related items in shareholders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when control is lost.

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

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

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

7 Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

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

8 Foreign currency transactions and translation of financial statements denominated in foreign currencies

Foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates at the dates of these transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China (PBOC).

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences, except for those arising from the principal and interest of specific foreign currency borrowings for the purpose of acquisition, construction of qualifying assets (see Note II.15), are recognised in profit or loss. 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 resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income 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) Recognition and valuation of financial assets and financial liabilities

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

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

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

9 Financial instruments *(Continued)*

(1) Recognition and valuation of 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 measured 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 measured at amortised cost using the effective interest method.

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

9 Financial instruments *(Continued)*

(1) Recognition and valuation of financial assets and financial liabilities (Continued)

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories.

Available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition.

Other available-for-sale financial assets are measured at fair value subsequent to initial recognition 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 as other comprehensive income in capital reserve. When an investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Dividend income from the available-for-sale equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note II.19 (4)).

— 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 contingencies (see Note II.18).

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

9 Financial instruments *(Continued)*

(1) Recognition and valuation of financial assets and financial liabilities (Continued)

— Other financial liabilities *(Continued)*

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.

(2) Presentation of financial assets and financial liabilities

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.

(3) Determination of fair value

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.

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.

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

9 Financial instruments *(Continued)*

(4) 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 derecognition, the difference between the two amounts below is recognized in profit or loss:

— the 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, cancelled or expires.

(5) 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, an impairment loss is recognised.

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

(a) significant financial difficulty of the issuer or obligor

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

(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer

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

9 Financial instruments *(Continued)*

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

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

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

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

9 Financial instruments *(Continued)*

(5) 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 reclassified to 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.

(6) Equity instruments

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

The consideration received from the issuance of equity instruments net of transaction costs is recognised shareholders' equity.

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

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

10 Impairment of receivables

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

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

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

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

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

Judgment basis or amount criteria for receivables that are individually significant	Each amount due from the top five debtors.
Method of provisioning for bad and doubtful debts for receivables that are individually significant and assessed individually	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 flow (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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:*

Reason for assessing individually for impairment of receivables 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, an impairment is assessed on an individual basis.
Method of provisioning for bad and doubtful debts	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 flow (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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

Receivables that have not been individually assessed as impaired in the above assessment of Notes (1) and (2), are included in the collective assessment of impairment for receivables sharing similar credit risk characteristics.

Basis for determining the group	Accounts receivable are divided into two groups according to the business nature of customers as follows.
Group 1	Third party
Group 2	Related party

Method of provisioning for receivables that are collectively assessed for impairment

Group 1	Aging analysis method
Group 2	No provision

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

10 Impairment of receivables *(Continued)*

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

The provisioning for receivables among groups using the ageing analysis method:

Aging	Percentage of provisions
Within 3 months (inclusive)	0%
4–12 months (inclusive)	5%
1–2 years (inclusive)	25%
2–3 years (inclusive)	50%
Over 3 years	100%

(4) For other receivables, impairment is assessed on an individual basis.

11 Inventories

(1) Classification

Inventories include raw material, work in progress, 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 transferred out

Cost of inventories transferred out is calculated using the weighted average method.

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

11 Inventories *(Continued)*

(3) Basis for determining the net realisable value of inventories and provision methods for decline in value of inventories

Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition. 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.

At the balance sheet date, inventories are carried at the lower of cost and net realizable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value of materials held for use in the production is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the quantity of inventory held to satisfy sales or service contracts is measured based on the contract price. If the quantities held by the Group are more than the quantities of inventories specified in sales contracts, the net realisable value of the excess portion of inventories is measured based on general selling prices.

Any excess of the cost over the net realizable value of each item of inventories is recognised as a provision for diminution in the value of inventories, and is recognised in profit or loss.

(4) Inventory system

The Group maintains a perpetual inventory system.

(5) Amortisation methods for consumables including low-value consumables and packaging materials

Consumables including low-value consumables and packaging materials are amortised in full when received for use. The amortisations are included in the cost of the related assets or recognised in profit or loss for the current period.

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

12 Long-term equity investment

(1) 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 enterprise under common control is the Company's share of the carrying amount 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, the initial investment cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. 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 additional investment cost at the acquisition date.

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

— A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid 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.

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

12 Long-term equity investment *(Continued)*

(2) Subsequent measurement

(a) Investments in subsidiaries

— In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. At period end, the investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses

— 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)).

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method for subsequent measurement, unless the investment is classified as held for sale.

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

12 Long-term equity investment *(Continued)*

(2) Subsequent measurement (Continued)

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

The Group 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'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 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 profit or loss after deducting the amortisation of the debit balance of the equity investment difference, which was recognised by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount 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 value 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.

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

12 Long-term equity investment *(Continued)*

(2) Subsequent measurement (Continued)

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

— The Group 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 for subsequent measurement. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment.

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:

— Whether no single investor is in a position to control the investee's operating activities unilaterally

— Whether strategic decisions relating to the investee's main operating activities require the unanimous consent of each investor

— If one investor is appointed, through contract or agreement by all investors, to manage the investee's ordinary activities, whether this investor must act within the financial and operating policies that have been agreed upon by all investors.

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:

— Whether the Group has representation on the board of directors or equivalent governing body of the investee

— Whether the Group participates in the policy-making processes of the investee

— Whether the Group has material transactions with the investee

— Whether the Group dispatches management personnel to the investee

— Whether the Group provides essential technical information to the investee.

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 of fixed assets

Fixed assets represent the tangible assets held by the Group for use in the production of goods or for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets is measured in accordance with the policy set out in Note II.14.

Where parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognized as a separate fixed asset.

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

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

13 Fixed assets *(Continued)*

(2) Depreciation of fixed assets

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

Except for the fixed assets suspended for the compensation of the Parent Group (refer to Note II.27 (4)), the estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

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

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

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

(4) Recognition and measurement of fixed assets acquired under finance leases

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

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

13 Fixed assets *(Continued)*

(5) Disposal of fixed assets

The carrying amount of a fixed asset shall be derecognized:

— when the fixed asset is on disposal; or

— when no future economic benefits are expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

14 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note II.15), and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is included in construction in progress before it is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note II.17).

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

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

15 Borrowing costs

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

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

During the capitalisation period, the amount of interest (including amortization of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

— Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalized is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

— Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognized amount of the borrowings.

During the capitalisation 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 recognised as a financial expense in the period in which they are incurred.

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

15 Borrowing costs *(Continued)*

The capitalisation period is the period from the date of commencement of capitalization of borrowing costs to the date of cessation of capitalisation, 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. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts over three months.

16 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Notes II.17). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortized on the straight-line method over its estimated useful life.

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

Item	Amortization period (years)
Land use right	50 years
Trademark	10 years

An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group does not have any intangible assets with indefinite useful lives.

Expenditure on an internal research and development project is classified into expenditures on the research phase and expenditures on the development phase.

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

16 Intangible assets *(Continued)*

Expenditures on research phase are recognised 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, associates and jointly controlled enterprises

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

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

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

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

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

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognized, it is not reversed in a subsequent period.

18 Provisions

A provision is recognized for an obligation related to a contingency if the company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

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

19 Revenue recognition

Revenue is the gross inflow of economic benefit arising in the course of the company's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognized in profit or loss when it is probable that the economic benefits will flow to the company, the revenue and costs can be measured reliably and the following respective conditions are met.

(1) Sale of goods

Revenue from sale of goods is recognized when all of the general conditions stated above and following conditions are satisfied:

— The significant risks and rewards of ownership of goods have been transferred to the buyers;

— The Group retains neither continuing managerial involvements to the degree usually associated with ownership nor effective control over the goods sold.

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

(2) Rendering of services

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

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognized in the income statement by reference to the stage of completion of the transaction based on the progress of work performed or the ratio of cost happened for proportion of total estimated cost.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss and no service revenue is recognized.

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

19 Revenue recognition *(Continued)*

(3) Revenue from construction contracts

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

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

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

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

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

(4) Interest income

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

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

20 Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in the cost of relevant assets or expenses in the current period.

(1) Social insurance and housing fund

Pursuant to the relevant laws and regulations of the PRC, employees of the Group participate in the social insurance system established and managed by government organisations. The Group makes social insurance contributions, including contributions to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance etc., as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the government for the benefit of its employees. The social insurance and housing fund contributions are recognised as part of the cost of assets or charged to profit or loss on an accrual basis. In addition, the Group also participates in the non-social retirement benefit plans organized for employees by the Parent Group. Except for the above contributions, the Group does not have any other obligations in this respect.

(2) 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.

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

21 Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the 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.

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 utilised.

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.

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

22 Deferred tax assets and liabilities *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

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

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

— the same taxable entity; or

— different taxable entities which either to 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.

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 part of the cost of another related asset or as expenses on a straight-line basis over the lease term.

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

23 Operating and finance leases *(Continued)*

(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 recognized 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. At the commencement of the lease term, 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.

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 principles 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 as long-term payables or non-current liabilities due within one year, respectively, in the balance sheet.

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

24 Profit distributions to shareholders

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

25 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the 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 or joint control over both the enterprises or individuals and the Group

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

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

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

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

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

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

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

25 Related parties *(Continued)*

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

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

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

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

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

(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.

26 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. 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, and

— for which discrete financial information on financial positions, operating results and cash flow is available

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

26 Segment reporting *(Continued)*

Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

— the nature of each product and service

— the nature of production process

— the type or class of customers for their products and services

— the methods used to distribute their products or provide their services

— the influence brought by law, administrative regulations on production of products and provision of services

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

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.

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

27 Significant accounting estimates and judgments *(Continued)*

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 recognised. 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 objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

(2) Provision for diminution in value of inventories

As described in Note II.11, the net realisable value of inventories is under management's regular review, and as a result, provision for diminution in value of inventories is recognized for the excess of inventories' carrying amounts over their net realizable value. When making estimates of net realizable value, the Group takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and the Group's historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product saleability, manufacturing technology and the actual use of the inventories, resulting in the changes in provision for diminution in value of inventories. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

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

27 Significant accounting estimates and judgments *(Continued)*

(3) Impairment of other assets excluding inventories, financial assets and other long-term equity investments

As described in Note II.17, assets other than 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, an impairment loss is recognised.

The recoverable amount of an asset (or an asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset (or the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount 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 assumptions.

(4) Depreciation and amortization of assets such as fixed assets, intangible assets

As described in Note II.13 and 16, assets such as fixed assets and intangible assets are depreciated and amortized over their useful lives after taking into account residual value. The estimated useful lives of the assets are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives of the assets are determined based on historical experience of similar assets and estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization is revised prospectively.

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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

III. TAXATION

1 Main types of taxes and corresponding rates

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

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

The income tax rates applicable to the subsidiaries are as follows:

	2011	2010
San Feng Logistics	**25%**	25%
Chongqing Electronics	**15%**	15%
Chongqing Transportation	**15%**	15%
San Feng Steel	**25%**	Nil

III. TAXATION *(CONTINUED)*

2 Tax preferential and approvals

(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 and Chongqing Transportation 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 income tax rate of 15% during the period 2001 to 2010. Therefore, Chongqing Electronics's and Chongqing Transportation's tax rate was reduced to 15% from 2008 to 2010.

III. TAXATION *(CONTINUED)*

2 Tax preferential and approvals *(Continued)*

The tax preferential policy of western development program has expired on 31 December 2010. Up to the approval date of financial statement, State Administration of Taxation has not published relevant documents about the continuance of the western development corporate income tax preferential policies. However, according to Implementing the Western Development Program about taxation policy issued by MOF (Cai Shui Zi No.58 [2011]), the income tax rate is still 15% for the companies of state-encouraged industry in western from 1 January 2011 to 31 December 2020. The Company and its subsidiaries estimate that the continuance of the tax preferential policy is highly possible, therefore there is no change in the tax rates and preferential treatments that the Company and its subsidiaries are entitled to compared with the previous year.

(2) The Company purchased certain domestic manufactured equipment between 2004 and 2007. In accordance with Cai Shui Zi [2000] No. 49 the Notice concerning the Reduction in Enterprise Income Tax for Purchase of Domestic Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises issued by the MOF and the State Administration of Taxation, part of the purchase costs of the domestic manufactured equipment could be utilized to reduce the Company's income tax. 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. On 31 December 2011, the amount to be applied for tax deduction not utilized is RMB 34,619,000 (2010: RMB 34,619,000).

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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

IV. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing amount of other items that in substance from net investment in the subsidiary	Share-holding percentage (%)	Voting rights percentage (%)	Included in consolidated financial statements (Y/N)	Closing amount of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code
San Feng Jingjiang Port Logistics Company Limited	Company Limited	No. 1 Kangqiao Road, Xingang District, Jingjiang	Li Rensheng	Logistics	300,000	Goods-loading, lighterage, storage, traffic agent, stowage, common carrier	300,000	–	51%	51%	Y	147,007	–	55025866-3
Jingjiang San Feng Steel Processing & Distribution Company Limited	Company Limited	No. 1 Kangqiao Road, Xingang District, Jingjiang	Chen Hong	Steel Processing and Distribution	100,000	Metal cutting processing; Piecing & shearing processing of scrap steel; And provide corresponding technical consulting services; General cargo storage; Sales of scrap steel & steel	70,000	–	51%	51%	Y	19,000	–	57669207-0

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Background of major subsidiaries *(Continued)*

(2) Subsidiaries acquired under common control

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing amount of other items that in substance from net investment in the subsidiary	Share-holding percentage (%)	Voting rights percentage (%)	Included in consolidated financial statements (Y/N)	Closing amount of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code
Chongqing Iron & Steel Group Electronics Company Limited	Company Limited	No.5 Ganghua Road, Da Du Kou District, Chongqing	Xu Zhende	Construction and installation	10,626	Development. production and sale of computer software; electronic products; construction and installation of integrated computer network automation system	10,626	–	100%	100%	Y	–	–	50427800-6
Chongqing Iron & Steel Group Transportation Company Limited	Company Limited	Office No.3, Chong Gang Gang Tie Village, Da Du Kou Distric	Zhou Hong	Logistic Service	21,000	General & dangerous cargo, tourist & shuttle bus transportation; Class 1 vehicle and dangerous goods transport vehicle maintenance & repair; Ordinary engineering machinery repair, etc.	21,000	–	100%	100%	Y	–	–	20299344-2

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Entities that newly consolidated during the year

Subsidiaries that are newly consolidated during the year

Name	*Note*	Rationale for conclusion as control	31 Dec 2011 Equity	2011 Net profits
Chongqing Transportation	IV. 3	100% Voting rights	45,755	3,636
San Feng Steel		51% Voting rights	70,000	—

The Company set up a new company, San Feng Steel, together with Jiangsu New Yangzijiang Shipbuilding Co., Ltd, Evgreengroup Co., Ltd, Chongqing Shipping (Group) Co., Ltd and Jingjiang Tianjiao Material Co., Ltd. The registered capital of San Feng Steel is RMB 100,000,000. The Company is the controlling shareholder, holding 51% share of San Feng Steel. The paid in capital of San Feng Steel as at 31 December 2011 is RMB 70,000,000. The Company has fully subscribed the capital of RMB 51,000,000 in May and November 2011. On 23 May 2011, San Feng Steel obtained its operating license.

On the consolidation date of 1 April 2011, the Company acquired 100% of the shares in Chongqing Transportation held by the Parent Group, with payment of RMB 62,954,000 in cash.

3 Business combinations involving enterprises under common control during the year

Investee	Note	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
Chongqing Transportation	(1)	Chongqing Transportation and the Company are under the control of the Parent Group, and the control is not temporary	Parent Group	56,433	1,529	5,473

(1) Chongqing Transportation is a company registered in Chongqing in January 1996.

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Business combinations involving enterprises under common control during the year *(Continued)*

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

Item – Chongqing Transportation	Combination date	31 Dec 2010
Cash at bank and on hand	903	1,822
Bills receivable	450	—
Accounts receivable	27,688	125,083
Prepayments	1,807	1,399
Other receivables	5,109	6,921
Inventories	1,172	1,704
Other current assets	—	443
Fixed assets	38,125	40,012
Construction in progress	887	—
Deferred tax assets	508	508
Total assets	76,649	177,892
Short-term loans	5,000	105,000
Accounts payable	3,306	11,658
Advances from customers	353	208
Employee benefits payable	598	—
Taxes payable	14	329
Dividends payable	110	110
Other payables	19,860	15,085
Special payables	110	110
Total liabilities	29,351	132,500
Net assets	47,298	45,392

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

	2011			2010		
Item	**Original currency**	**Exchange rate**	**RMB**	Original currency	Exchange rate	RMB
Cash on hand						
RMB	**—**	**—**	**696**	—	—	337
Deposits with banks						
RMB	**—**	**—**	**1,295,629**	—	—	1,529,303
US Dollars	**15**	**6.3009**	**94**	1,118	6.6227	7,405
HK Dollars	**67**	**0.8107**	**54**	67	0.8509	57
Sub-total			**1,295,777**			1,536,765
Other monetary funds						
RMB	**—**	**—**	**1,028,578**	—	—	216,240
US Dollars	**38**	**6.3009**	**239**	292	6.6227	1,937
Sub-total			**1,028,817**			218,177
Total			**2,325,290**			1,755,279

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Cash at bank and on hand *(Continued)*

Other cash and cash equivalents include:

	2011			2010		
Item	**Original currency**	**Exchange rate**	**RMB**	Original currency	Exchange rate	RMB
Restricted						
—Guarantees for letter of credit:						
RMB	**—**	**—**	**1,023,628**	—	—	215,990
US Dollars	**38**	**6.3009**	**239**	292	6.6227	1,937
Sub-total			**1,023,867**			217,927
Unrestricted						
—Cash in transit						
RMB	**—**	**—**	**4,950**	—	—	250
Total			**1,028,817**			218,177

2 Bills receivable

(1) At year end, all bills receivables held by the Group are bank acceptances due within one year.

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of bills receivable. Bills receivable due from related parties are set out in Notes VI.6 (1).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Bills receivable *(Continued)*

(3) The top five pledged bills receivable of the Group at the end of the year:

Issuer	Issuing date	Due date	Amount	Note
1. Shanghai Huachangyuan Industry Investment Co., Ltd	2011.11.14	2012.06.14	14,000	Bank acceptances bills
2. Shuntian Shipbuilding (Yangzhou) Co., Ltd	2011.09.19	2012.03.19	10,000	Bank acceptances bills
3. Shanghai Dazong Logistic Co., Ltd	2011.10.26	2012.02.26	10,000	Bank acceptances bills
4. Zhangjiagang Free Trade Zone Junming International Trade Co., Ltd	2011.11.08	2012.05.08	10,000	Bank acceptances bills
5. Ningbo Baoyi Trade Co., Ltd	2011.11.25	2012.05.25	10,000	Bank acceptances bills
Total			54,000	

(4) As at 31 December 2011, commercial bills receivable pledged as security by the Group amounted to RMB 123,563,000 (2010: nil). These bills receivable will be due before 14 June 2012.

(5) At the end of the year, no bills were transferred to accounts receivable due to non-performance of the issuers.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable

(1) *Accounts receivable by customer type are as follows:*

Type	2011	2010
Third party	**488,853**	398,660
Related party	**372,978**	350,691
Sub-total	**861,831**	749,351
Less: Provision for bad and doubtful debts	**164,466**	158,781
Total	**697,365**	590,570

(2) *Accounts receivable due from shareholders holding 5% or more of the voting rights of the Company:*

	2011		2010	
Debtor	**Carrying amount**	**Provision for bad and doubtful debt**	Carrying amount	Provision for bad and doubtful debt
Parent Group	**18,793**	**—**	125,313	—

The amount due from other related parties included in the balance of accounts receivable see Note. VI. 6(2).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

(3) The ageing analysis of accounts receivable is as follows:

Aging	2011	2010
Within 1 year (inclusive)	**697,726**	586,461
1 and 2 years (inclusive)	**5,000**	3,242
2 and 3 years (inclusive)	**1,758**	1,646
Over 3 years	**157,347**	158,002
Sub-total	**861,831**	749,351
Less: Provisions for bad and doubtful debt	**164,466**	158,781
Total	**697,365**	590,570

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

(4) Accounts receivable by category:

		2011				2010			
		Carrying amount		**Provision for bad and doubtful debts**		Carrying amount		Provision for bad and doubtful debts	
Category	*note*	**Amount**	**Percentage *(%)***	**Amount**	**Percentage *(%)***	Amount	Percentage *(%)*	Amount	Percentage *(%)*
Individually insignificant but assessed individually for impairment	(5)	**10,358**	**1%**	**10,358**	**6%**	10,358	1%	10,358	7%
Collectively assessed for impairment *(*)*									
Group 1	(6)	**488,853**	**57%**	**154,108**	**94%**	398,660	53%	148,423	93%
Group 2		**362,620**	**42%**	**—**	**—**	340,333	46%	—	—
Sub-total		**851,473**	**99%**	**154,108**	**94%**	738,993	99%	148,423	93%
Total		**861,831**	**100%**	**164,466**	**100%**	749,351	100%	158,781	100%

* This category includes accounts receivables with no provision made on an individual basis.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

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

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

(5) Provision for bad and doubtful debts for accounts receivable which are individually insignificant but assessed for impairment individually:

Content	Carrying amount	Provisions for bad and doubtful debt	Percentage
Individually insignificant and assessed individually for impairment	10,358	10,358	100%

As at 31 December 2011, the Group's amounts due from related parties with ageing over 3 years mainly include the amount of RMB 10,358,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to the 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 full provision of RMB 2,710,000 was therefore made for the debts in 2005. Due to the 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 full provision of RMB 7,648,000 was therefore made for the debts.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

(6) Accounts receivable which are collectively assessed for impairment using the aging analysis method:

	2011			2010		
	Carrying amount			Carrying amount		
Aging	**Amount**	**Percentage** *(%)*	**Provision for bad and doubtful debts**	Amount	Percentage *(%)*	Provision for bad and doubtful debts
Within 3 months (inclusive)	**231,421**	**48%**	**—**	233,676	58%	—
4 to 12 months (inclusive)	**105,028**	**21%**	**5,251**	15,387	4%	770
Sub-total	**336,449**	**69%**	**5,251**	249,063	62%	770
1 and 2 years(inclusive)	**3,880**	**1%**	**970**	1,576	1%	394
2 and 3 years(inclusive)	**1,275**	**0%**	**638**	1,525	1%	761
Over 3 years	**147,249**	**30%**	**147,249**	146,496	36%	146,498
Total	**488,853**	**100%**	**154,108**	398,660	100%	148,423

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

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

Debtor	Relationship with the Company	Amount	Aging	Percentage of total accounts receivable *(%)*
1. Chongqing Si Gang Steel Co., Ltd	Related party	130,756	within 1 year (inclusive)	15%
2. Shanghai Chonggang Trade Co., Ltd	Third party	121,647	within 1 year (inclusive)	14%
3. Chongqing San Gang Steel Co., Ltd	Related party	110,880	within 1 year (inclusive)	13%
4. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	94,673	within 1 year (inclusive)	11%
5. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third party	41,135	within 1 year (inclusive)	5%
Total		499,091		58%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment

(1) *The prepayments by category:*

Item	2011	2010
Material prepayments	**527,053**	744,902
Prepayments for construction and equipment	**—**	5,848
Prepaid land premiums	**124,198**	72,283
Total	**651,251**	823,033

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

(3) *Prepayments by ageing:*

Aging	2011 Amount	2011 Percentage (%)	2010 Amount	2010 Percentage (%)
Within 1 year (inclusive)	**589,948**	**90%**	752,584	91%
1 and 2 years (inclusive)	**17,621**	**3%**	46,459	6%
2 and 3 years (inclusive)	**30,498**	**5%**	5,626	1%
Over 3 years	**13,184**	**2%**	18,364	2%
Total	**651,251**	**100%**	823,033	100%

The ageing is counted starting from the date prepayments is recognised. Payments aged over one year are the prepayments for construction land for Jingxing Dolomite Expansion Phase II paid to Chongqing Wangsheng District Bureau of Land and Resource, and the amount of prepayment reclassified from long-term prepayment for raw materials (Note V.15).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment *(Continued)*

(4) Prepayment due from the top five debtors:

Debtor	Relation-ship with the Company	Amount	Percentage of total prepayment (%)	Date of prepayment	Reason for unsettlement
1. Hubei Zhenghao Xinyuan Industry Co., Ltd	Third party	132,991	21%	2011	Goods not arrived
2. China Coal Energy Co., Ltd	Third party	74,045	11%	2011	Goods not arrived
3. Chongqing Energy Investment Group	Third party	53,936	8%	2011	Goods not arrived
4. Chongqing Yuxi Mining (Group) Co., Ltd	Third party	39,020	6%	2011	Goods not arrived
5. Sinosteel Trading Co., Ltd	Third party	33,118	5%	2011	Goods not arrived
Total		333,110	51%		

5 Other receivables

(1) Other receivables by customer type:

Customer type	2011	2010
The third parties	**145,362**	112,808
Related parties	**135,604**	—
Sub-total	**280,966**	112,808
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**264,008**	95,850

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables *(Continued)*

(2) Other receivables due from shareholders holding 5% or more of the voting rights of the Company:

	2011		2010	
Debtor	Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Patent Group	**135,604**	**—**	—	—

(3) The ageing analysis of other receivables is as follows:

Ageing	2011	2010
Within 1 year (inclusive)	**252,291**	85,525
1 and 2 years (inclusive)	**4,085**	4,104
2 and 3 years (inclusive)	**2,998**	1,718
Over 3 years	**21,592**	21,461
Sub-total	**280,966**	112,808
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**264,008**	95,850

The ageing is counted starting from the date when other receivables are recognised.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables *(Continued)*

(4) Other receivables by category:

	2011				2010			
	Carrying amount		Provision for bad and doubtful debt		Carrying amount		Provision for bad and doubtful debt	
Category	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and assessed individually for impairment	**220,486**	**78%**	**16,958**	**100%**	69,679	62%	16,958	100%
Individually insignificant and assessed individually for impairment	**60,480**	**22%**	**—**	**—**	43,129	38%	—	—
Total	**280,966**	**100%**	**16,958**	**100%**	112,808	100%	16,958	100%

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

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

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

5 Other receivables *(Continued)*

(6) Other receivables due from the top five debtors

Debtor	Relationship with the Company	Amount	Aging	Percentage of total other receivables *(%)*
1. Parent Group	Related party	135,604	With 1 year (inclusive)	48%
2. Chongqing Customs	Third party	68,016	With 1 year (inclusive)	24%
3. Tax Bureau of Changshou District, Chongqing	Third party	11,974	With 1 year (inclusive)	4%
4. Zhanjiang Economic Development Zone Chongqing Iron & Steel Company Zhanjiang Industrial & Trading Joint Group Company *	Third party	10,240	Over 3 years	4%
5. People' s Court of the Neijiang City in Sichuan Province*	Third party	5,587	Over 3 years	2%
Total		231,421		82%

* These amounts have been fully provided for.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories

(1) Inventories by category:

Item	2011 Book value	2011 Provision	2011 Carrying amount	2010 Book value	2010 Provision	2010 Carrying amount
Raw materials	**4,717,368**	**587,586**	**4,129,782**	4,346,077	2,464	4,343,613
Work in progress	**1,308,843**	**167,771**	**1,141,072**	1,319,316	14,867	1,304,449
Finished goods	**770,833**	**144,780**	**626,053**	561,480	10,500	550,980
Reusable materials	**781,348**	**75,037**	**706,311**	614,581	59,336	555,245
Total	**7,578,392**	**975,174**	**6,603,218**	6,841,454	87,167	6,754,287

(2) An analysis of the movements of inventories for the year is as follows:

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	4,346,077	20,102,981	19,731,690	4,717,368
Work in progress	1,319,316	24,017,522	24,027,995	1,308,843
Finished goods	561,480	24,536,806	24,327,453	770,833
Reusable materials	614,581	890,138	723,371	781,348
Sub-total	6,841,454	69,547,447	68,810,509	7,578,392
Less: Provision for diminution in value	87,167	915,912	27,905	975,174
Total	6,754,287	68,631,535	68,782,604	6,603,218

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories *(Continued)*

(3) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Provision made for the year	Written backduring the year		Balance at the end of the year
			Reversal	Written-off	
Raw materials	2,464	587,660	—	2,538	587,586
Work in progress	14,867	167,771	—	14,867	167,771
Finished goods	10,500	144,780	—	10,500	144,780
Reusable materials	59,336	15,701	—	—	75,037
Total	87,167	915,912	—	27,905	975,174

Parts of the production lines of the Parent Group underwent trial operation in 2011. The immaturity of the production technology has led to a low yield of finished products during the trial operation. The provision for losses arising from the excess of unit cost over the net realisable value, totalling RMB 53,794,000 (2010: RMB 483,987,000).

The written down provision in 2011 is mainly arising from the realization of sale of the provisional inventories.

7 Other current assets

Item	2011	2010
Deductible input VAT	**412,582**	543,910
Prepaid corporate income tax	**2,555**	2,800
Total	**415,137**	546,710

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

8 Long-term equity investments

(1) Long-term equity investments by category:

Item	2011	2010
Other long-term equity investments	**5,500**	20,500
Less: Provision for impairment	**500**	500
Total	**5,000**	20,000

(2) Movements of long-term equity investments for the year are as follows:

Investee	Initial investment cost	Balance at the beginning of the year	Movement of addition and reduction	Balance at the end of the year	Share-holding percentage	Voting Rights (%)	Provision for impairment	Provision made during the year	Cash dividend for the year
Cost method									
Xiamen Shipbuilding Industry Co., Ltd. (Xiamen Shipbuilding)	5,000	5,000	—	5,000	2%	2%	—	—	—
Jiangsu HuaYuan Metal Processing Company Limited (Jiangsu HuaYuan)	15,000	15,000	(15,000)	—	5%	5%	—	—	—
Chongqing Ying Kang Company	500	500	—	500	5%	5%	500	—	—
Total	20,500	20,500	(15,000)	5,500			500	—	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets

(1) Fixed assets

Item	Plant & buildings	Machinery & equipment	Motor vehicles	Total
Cost				
Balance at the beginning of the year	3,884,926	8,833,312	112,240	12,830,478
Additions during the year	584,305	2,163,715	8,611	2,756,631
Disposal during the year	2,158,237	5,609,136	3,694	7,771,067
Balance at the end of the year	2,310,994	5,387,891	117,157	7,816,042
Less: Accumulated depreciation				
Balance at the beginning of the year	963,037	2,759,807	61,749	3,784,593
Charge for the year	73,718	294,179	10,010	377,907
Written off on disposal	949,723	2,741,599	3,375	3,694,697
Balance at the end of the year	87,032	312,387	68,384	467,803
Less: Provision for impairment				
Balance at the beginning of the year	4,685	48,077	3,145	55,907
Charge for the year	—	—	—	—
Written off on disposal	4,685	47,791	36	52,512
Balance at the end of the year	—	286	3,109	3,395
Carrying amounts				
At the end of the year	2,223,962	5,075,218	45,664	7,344,844
At the beginning of the year	2,917,204	6,025,428	47,346	8,989,978

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets *(Continued)*

(1) ***Fixed assets*** *(Continued)*

The Group recognized RMB 2,754,780,000 as fixed assets transferred from construction in progress.

Except for Note.V.17, the Group has no other mortgage or guarantee of the fixed assets on 31 December 2011 (2010: nil).

(2) Fixed assets renovated and utilized due to relocation

The renovated and utilized fixed assets have been transferred to construction in progress and construction materials at the suspended carry amount. Details of suspended and transferred fixed assets due to relocation are as follows:

	2011			
Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Transferred into construction in progress				
Plant and buildings	60,796	16,129	—	44,667
Machinery and equipment	1,865,605	758,235	1,597	1,105,773
Motor vehicles	16	16	—	—
Sub-total	1,926,417	774,380	1,597	1,150,440
Transferred into construction materials				
Plant and buildings	148,821	67,076	—	81,745
Machinery and equipment	787,280	356,438	1,484	429,358
Motor vehicles	—	—	—	—
Sub-total	936,101	423,514	1,484	511,103
Total	2,862,518	1,197,894	3,081	1,661,543

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets *(Continued)*

(3) Fixed assets suspended and to be disposed due to relocation

As stated in Note II. 27 (4), the net residual value of those fixed assets suspended from production due to the environmental relocation was changed to their carrying value at the time of suspension of production. That is, full provision for depreciation had been made for those fixed assets at the year end, and no more provision would be required. The carrying value of the Group's fixed assets suspended from production due to environmental relocation in 2011 was as follows:

	2011			
Item	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Transfer into fixed assets to be disposed of				
Plant and buildings	1,939,011	863,212	4,685	1,071,114
Machinery and equipment	2,925,100	1,607,295	44,710	1,273,095
Motor vehicles	2,777	2,524	—	253
Total	4,866,888	2,473,031	49,395	2,344,462

As stated in Note I, the Parent Group has agreed to compensate the Company for the impairment loss of fixed assets arising from the environmental relocation based on the net book value at the time the fixed assets were suspended less disposal proceeds. The Company therefore has not recognized any impairment of these fixed assets as at 31 December 2011.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets *(Continued)*

(4) Fixed assets acquired under finance leases

		2011				2010			
Item		Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment									
Jian Xin	(a)	1,230,672	88,782	–	1,141,890	936,576	30,283	–	906,293
Min Sheng I	(b)	795,092	311,140	–	483,952	795,092	307,478	–	487,614
Min Sheng II	(c)	440,000	–	–	440,000	–	–	–	–
Kun Lun	(d)	1,075,063	51,697	–	1,023,366	–	–	–	–
Total		3,540,827	451,619	–	3,089,208	1,731,668	337,761	–	1,393,907

(a) Finance lease from Jian Xin

On 28 September 2009, the Company signed an asset transfer contract with Jian Xin Financial Leasing Co., Ltd. ("Jian Xin") and disposed of certain machinery equipment which are awaiting commissioning, with a carrying amount of RMB 1,230,672,000 to Jian Xin at a consideration of RMB 1,400,000,000. On the same date, the Company signed a leasing contract with Jian Xin for the equipments; the lease period is from 29 September 2009 to 29 September 2014, or 60 months. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB 1,400,000,000, 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.

As at 31 December 2011, the equipment under the financial lease agreements have all reached the expected usable conditions, and transferred to fixed assets. (2010: In these leased equipments, the parts of fixed assets already reached the expected usable conditions corresponded to the cost and the book values of RMB 936,576,000 and 906,293,000 respectively, and the part of construction in progress to be debugging correspond to the book value of RMB 294,096,000.)

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

9 Fixed assets *(Continued)*

(4) Fixed assets acquired under finance leases (Continued)

(a) Finance lease from Jian Xin *(Continued)*

Based on the above lease agreement, the occurrence of any of the following would constitute a default on the lessee's part: (a) the lessee asset-liability level exceeds 70%; (b) the lessee defaults on agreements with any other financial institutions other than China Construction Bank, with an accumulated outstanding amount of more than RMB 50,000,000; and (c) the lessee should inform the lessor in writing regarding a default event within three working days. The Company informed Jian Xin regarding its default on 23 December 2011. In its reply letter dated 31 December 2011, Jian Xin "exempts the responsibility of your company regarding the said default until 31 December 2011. A grace period is granted until 30 June 2013. Jian Xin will not terminate the lease, recover or remove the equipment leased under the lease agreement due to the said default in the grace period, and will not require your company to stop using or operating the lease equipment".

(b) Finance lease from Min Sheng I

On 12 April 2010, the Company signed a transfer contract with Min Sheng Financial Leasing Co., Ltd. ("Min Sheng") for certain machinery equipment with a book value of RMB 795,092,000 and a carrying amount of RMB 510,221,000, at a consideration of RMB 510,000,000. On the same date, the Company signed a leasing contract with Min Sheng for the above 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 RMB 510,000,000, 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 RMB 10,000.

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

9 Fixed assets *(Continued)*

(4) Fixed assets acquired under finance leases (Continued)

(c) Finance lease from Min Sheng II

On 12 April 2010, the Company entered into finance lease agreements with Min Sheng, pursuant to which Min Sheng agreed to pay and lease back the equipment to the Company at a consideration of RMB 440,000,000, for a term of 36 months starting from 15 May 2011 to 15 May 2014. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB 440,000,000, the lease rate is 5% lower than the interest rate for a four-year loan designated in RMB quoted by the PBOC. According to the lease agreement, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the lessor at a notional price of RMB 10,000.

As at 31 December 2011, the equipment under the financial lease agreements have reached usable condition and transferred to fixed assets (2010: book value of the leased equipment transferred to fixed assets was nil; book value of the leased equipment under construction in progress was nil; book value of the leased equipment under construction materials was RMB 220,000,000).

(d) Finance lease from Kun Lun

On 26 September 2011, the Company signed a transfer contract with Kun Lun Financial Leasing Co., Ltd. ("Kun Lun") and disposed of certain machinery equipment with a book value of RMB 1,075,063,000 and a carrying amount of RMB 1,031,982,000, to Kun Lun at a consideration of RMB 1,000,000,000. On the same date, the Company signed a leasing contract with Kun Lun for the relevant equipment; the lease period is from 12 October 2011 to 12 October 2015, or 48 months. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB1,000,000,000, the lease rate is the interest rate for a 3-5 year loan designated in RMB quoted by the PBOC. According to the asset transfer contract and the leasing agreement, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the lessor at a notional price of RMB 1.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets *(Continued)*

(5) Fixed assets leased out under operating leases

Item	2011	2010
Plant and buildings	—	17,855
Machinery and equipment	—	51
Total	—	17,906

(6) Fixed assets with pending certificates of ownership

As at 31 December 2011, the Company was in the process of obtaining ownership certificates of certain plants and buildings with cost of RMB 741,245,000 and carrying amount of RMB 727,587,000 (2010: cost of RMB 674,120,000 and carrying amount of RMB 631,157,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress

(1) Construction in progress

Item	2011 Cost	2011 Provision for impairment	2011 Carrying amount	2010 Cost	2010 Provision for impairment	2010 Carrying amount
1780 mm hot-rolled plates project	—	—	—	7,017	—	7,017
4100 mm wide-thick plates project	—	—	—	500,599	—	500,599
2700 mm medium-size plates project	—	—	—	169,764	—	169,764
Sintering project	**533,668**	—	**533,668**	—	—	—
Coke oven project	**797,860**	—	**797,860**	—	—	—
Wire rod production line project	**827,828**	—	**827,828**	—	—	—
Recycle heat power station	**85,677**	—	**85,677**	—	—	—
Limestone transportation system	**48,660**	—	**48,660**	46,448	—	46,448
Jingjiang Base	**499,921**	—	**499,921**	13,088	—	13,088
Jiangjin Base	**389,357**	—	**389,357**	—	—	—
Others	**69,932**	—	**69,932**	61,919	—	61,919
Total	**3,252,903**	—	**3,252,903**	798,835	—	798,835

The book value of construction in progress capitalized at the end of year included capitalized borrowing costs of RMB 88,079,000 (2010: RMB 30,795,000). The capitalization rate used by the Group for determining the annual capitalization interest is 6.27% (2010: 5.77%).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(Continued)*

(2) The Group's major constructions in progress as at 31 December 2011

Projects	Budget	Beginning Balance	Addition	Improvement transfer-in (Note V. 9(2))	Transfer to field asset	Ending balance	Percentage of input to budget	Projects progress	Accumulated capitalized interest	Including: capitalized interest for this year	Rate for capitalize interest for the year	Sources of funds
1780 mm hot-rolled plates project	1,400,000	7,017	106,294	—	113,311	—	174%	100%	101,716	4,356	6.27%	Fund raised/ self-financing
4100 mm wide-thick plates project	1,918,000	500,599	144,830	—	645,429	—	145%	100%	166,069	9,801	6.27%	Bank loans/ self-financing
2700 mm medium-size plates project	876,880	169,764	1,380,465	377,626	1,927,855	—	177%	100%	54,893	47,600	6.27%	Bank loans/ self-financing
Sintering project	461,870	—	533,668	—	—	533,668	116%	84%	17,533	17,533	6.27%	Bank loans/ self-financing
Coke oven project	1,098,546	—	797,860	—	—	797,860	73%	75%	29,329	29,329	6.27%	Bank loans/ self-financing
Wire rod production line project	2,659,500	—	412,673	415,155	—	827,828	16%	46%	41,217	41,217	6.27%	Bank loans/ self-financing
Recycle heat power station	375,000	—	85,677	—	—	85,677	23%	23%	—	—	—	Bank loans/ self-financing
Limestone transportation system	61,180	46,448	2,212	—	—	48,660	80%	80%	—	—	—	Bank loans/ self-financing
Jingjiang Base	1,300,000	13,088	486,833	—	—	499,921	38%	70%	—	—	—	Bank loans/ self-financing
Jiangjin Base	1,046,000	—	31,698	357,659	—	389,357	3%	3%	—	—	—	Bank loans/ self-financing
Others	—	61,919	76,198	—	68,185	69,932	—	—	14	—	—	
Total	11,196,976	798,835	4,058,408	1,150,440	2,754,780	3,252,903			410,771	149,836		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(Continued)*

(3) Construction in progress under finance lease

Item	*Note*	2011	2010
Machinery and equipment:			
Jian Xin	V.9(4)(a)	**—**	294,096
Unismart I	(a)	**178,394**	—
Unismart II	(b)	**35,000**	—
Hua Rong	(c)	**96,417**	—
Total		**309,811**	294,096

(a) Unismart I

On 31 January 2011, the Company and Unismart International Leasing Co., Ltd ("Unismart") signed a finance lease contract and an entrusted purchase contract, pursuant to which Unismart would pay and lease back the equipment selected by the Company from its designated suppliers according to the requirements of the projects of the Company. The agreed lease term is 60 months, from 31 January 2011 to 30 January 2016. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB 491,000,000, the lease rate is the interest rate for a 5 year loan designated in RMB quoted by the PBOC. According to the leasing agreement, upon the expiry of the lease period, the Company has the right to choose whether to further lease or purchase the leased equipments, and if the Company chooses to purchase, the ownership of the equipment shall be automatically transferred to the lessor.

As at 31 December 2011, the Company had purchased part of the leased equipments, of which the part of construction in process to be debugging corresponds to a book value of RMB 178,394,000, and the part of construction materials to be installed corresponds to a book value of RMB 63,906,000 (2010: nil.).

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

10 Construction in progress *(Continued)*

(3) Construction in progress under finance lease (Continued)

(b) Unismart II

On 6 April 2011, the Company and Unismart entered a finance lease contract and an entrusted purchase contract, pursuant to which Unismart would pay and lease back the equipment selected by the Company from its designated suppliers according to the requirements of the projects of the Company. The agreed lease term is 60 months, from 7 April 2011 to 6 June 2016. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB 574,000,000, the lease rate is the interest rate for a 5 year loan designated in RMB quoted by the PBOC. According to the leasing agreement, upon the expiry of the lease period, the Company has the right to choose whether to further lease or purchase the leased equipments, and if the Company chooses to purchase, the ownership of the equipment shall be automatically transferred to the lessor.

As at 31 December 2011, the Company had purchased part of the leased equipments, of which the part of construction in process to be debugging corresponds to a book value of RMB 35,000,000, and the part of construction materials to be installed corresponds to a book value of RMB 440,000,000 (2010: nil.)

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

10 Construction in progress *(Continued)*

(3) Construction in progress under finance lease (Continued)

(c) Hua Rong

On 14 October 2011, the Company and Hua Rong Leasing Co., Ltd. ("Hua Rong") entered a finance lease contract, pursuant to which the Company would choose the supplier and the equipments according to the requirements of the projects and Hua Rong would purchase these equipments at the total amount of RMB 630,000,000 and then lease them to the Company. The agreed lease term is 60 months, from 24 November 2011 to 10 December 2016. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB 630,000,000, the lease rate is the 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 ownership of the equipment shall be transferred to the lessor at a notional price of RMB 1.

As at 31 December 2011, the Company had purchased part of the leased equipments, of which the part of construction in process to be debugging corresponds to a book value of RMB 96,417,000, and the part of construction materials to be installed corresponds to a book value of RMB 52,893,000 (2010: nil).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

11 Construction materials

(1) Construction materials

Item	2011	2010
Construction materials for large equipment	**1,024,109**	244,577
Construction materials for special equipment	**512,969**	31,557
Total	**1,537,078**	276,134

(2) Construction materials under financial leases

Item	*Note*	2011	2010
Machinery and equipment			
Min Sheng II	V.9(4)(c)	**—**	220,000
Unismart I	V.10(3)(a)	**63,906**	—
Unismart II	V.10(3)(b)	**440,000**	—
Unismart III	(a)	**440,000**	—
Hua Rong	V.10(3)(c)	**52,893**	—
China Railway	(b)	**17,490**	—
Total		**1,014,289**	220,000

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

11 Construction materials *(Continued)*

(2) Construction materials under financial leases (Continued)

(a) Unismart III

On 30 December 2011, the Company and Unismart signed a finance lease contract and an entrusted purchase contract, pursuant to which Unismart would pay and lease back the equipment selected by the Company from its designated suppliers according to the requirements of the projects of the Company. The agreed lease term is 24 months, from 30 December 2011 to 29 December 2013. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB 550,000,000, the lease rate is the interest rate for a 3 year loan designated in RMB quoted by the PBOC. According to the leasing agreement, upon the expiry of the lease period, the Company has the right to choose whether to further lease or purchase the leased equipments, the ownership of the equipment shall be automatically transferred to the lessor.

As on 31 December 2011, the Company had purchased part of the leased equipment, which is pending installation, and the corresponding book value of the construction materials is RMB 440,000,000 (2010: nil).

(b) China Railway

On 28 July 2011, the Company and China Railway Leasing Co., Ltd. ("China Railway") entered into a finance lease contract and an entrusted purchase contract, pursuant to which China Railway would pay and lease back the equipment selected by the Company from its designated suppliers according to the requirements of the projects of the Company. The agreed lease term is 48 months starting from the date when the China Railway pays the purchase price of the leased equipment. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB 80,609,000, the lease rate is 5% higher than the interest rate for a 3~5 year loan designated in RMB quoted by the PBOC. According to the leasing agreement, if no default occurs during the lease term, the ownership of the equipment shall be transferred to the lessor at a notional price of RMB 7,000.

As on 31 December 2011, China Railway had purchased part of the leased equipment, which is pending debugging, and the corresponding book value of the construction materials is RMB 17,490,000 (2010: nil).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

12 Fixed assets to be disposed of

Item	2011	2010	Reason for disposal
Plant and buildings	**1,021,148**	—	Environmental relocation
Machinery and equipment	**1,005,246**	—	Environmental relocation
Motor vehicles	**206**	—	Environmental relocation
Total	**2,026,600**	—	

Fixed assets suspended for disposal in Da Du Kou District has been transferred into fixed assets to be disposed of (Note V.9(3)).

Fixed assets suspended and disposed due to relocation is as follows:

Item	2011	2010
Disposal income	**225,726**	—
Less: disposal cost	**43,468**	—
Net gain on disposal	**182,258**	—
Less: book value of the disposed assets	**317,862**	—
Net loss	**(135,604)**	—

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. As at 31 December 2011, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 135,604,000 (Note VI.6(3)(a)).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

13 Intangible assets

Item	Land use rights	Trademark	Total
Book value			
Balance at the beginning of the year	352,179	6,478	358,657
Additions during the year	78,511	—	78,511
Reductions during the year	—	—	—
Balance at the end of the year	430,690	6,478	437,168
Accumulated depreciation			
Balance at the beginning of the year	19,020	6,478	25,498
Additions during the year	9,373	—	9,373
Reductions during the year	—	—	—
Balance at the end of the year	28,393	6,478	34,871
Net book value			
Balance at the end of the year	402,297	—	402,297
Balance at the beginning of the year	333,159	—	333,159

The trademark was invested by the Parent Group during the restructuring of the Company. The initial amount was determined based on the appraisal value issued by the independent valuer, Zhongzi Assets Assessment Co., Ltd. certified by the State-owned Assets Administration Department at the time of the restructuring of the Company.

As at 31 December 2011, the book value of the land use rights used by the Group as the mortgage for bank loans is RMB 76,247,000 (2010: nil), refer to Note V.17.

As at 31 December 2011, the Company was in the process of obtaining ownership certificates of certain land use rights with carrying amount of RMB 94,461,000 (2010: RMB 90,000,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets

(1) Recognised deferred tax assets

	2011		2010	
Item	**Deductible temporary differences**	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Provision for impairment against assets	**6,722**	**1,008**	159,279	23,892
Deductible tax losses	**150,133**	**22,520**	606,745	91,012
Loss for changes in fair value of financial liability held for trading	**—**	**—**	8,642	1,296
Total	**156,855**	**23,528**	774,666	116,200

As at 31 December 2011, in considering the expected recovery or settlement of the deferred tax assets, the Company computed the book value of the deferred tax asset by adopting the applicable tax rate of 15% in respect of calculating the repossessing of the assets or discharging of the liabilities in the future.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets *(Continued)*

(2) Details of unrecognised deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Details of unrecognized deferred tax assets at the end of the year are as follows:

Item	2011	2010
Deductible temporary difference	**113,097**	24,006
Deductible tax losses	**210,534**	—
Total	**323,631**	24,006

The carrying amount of deferred tax asset is reviewed at each balance sheet date. The Group reduced the carrying amount of deferred tax asset recognised in the previous year and unrecognized the deferred tax asset occurred in 2011, as it is no longer probable that sufficient taxable profit in the future would be available to allow the benefit of deferred tax asset to be utilized.

(3) Expiration of deductible tax losses for unrecognised deferred tax assets

Year	2011	2010	Note
2014	**68,492**	—	Year of expiration
2016	**142,042**	—	Year of expiration
Total	**210,534**	—	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

15 Other non-current assets

Item	2011	2010
Prepayments for purchase of raw materials	**21,150**	22,340
Guarantee monies for finance lease	**63,350**	14,250
Total	**84,500**	36,590

Other non-current assets are long-term prepayments for the purchase of raw materials and guarantee monies for finance lease. Long-term prepayments for the purchase of raw materials will be settled between 2009 and 2013. Guarantee monies for finance lease will be refunded from the lessor when the finance lease ends.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of other non-current assets.

16 Provisions for impairment

				Decrease in the year		
Item	*Note*	Balance at the beginning of the year	Charge for the year	Reversal	Written-off	Balance at the end of the year
Accounts receivable	V.3	158,781	5,727	—	42	164,466
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	87,167	915,912	—	27,905	975,174
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.9	55,907	—	—	52,512	3,395
Total		319,313	921,639	—	80,459	1,160,493

The reasons for the recognition of impairment losses are set out in the notes of respective assets.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

17 Restricted assets

As at 31 December 2011, the assets with restrictions placed on their ownership were as follows:

Item	*Note*	Balance of the beginning of the year	Charge for the year	Decrease during the year	Balance at the end of the year
Cash at bank - Restricted cash deposits for letters of credit	V.1	217,927	1,598,063	792,123	1,023,867
Bills receivable – pledged bank acceptance	V.2	—	386,493	262,930	123,563
Finance leases – Fixed assets, construction in progress and construction materials	V.9(4) 10(3) 11(2)	1,908,003	2,505,305	—	4,413,308
Intangible assets – land use rights	V.13	—	76,247	—	76,247
Total		2,125,930	4,566,108	1,055,053	5,636,985

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

18 Short-term loans

	2011				
Item	**Annual interest rate**	**Currency**	**Principal**	**Exchange rate**	**RMB**
Loan on credit	5.31%~6.56%	RMB	—	—	280,000
Loan with mortgage	7.2%	RMB	—	—	58,000
Loan with guarantee	5.04%~7.22%	RMB	—	—	1,900,879
Loan with guarantee	Libor+1.20% ~ 3-month Libor+4.00%	USD	163,273	6.3009	1,028,767
Loan with pledge	4.00%~4.8%	RMB	—	—	331,976
Loan with pledge	3-month-Libor ~ 3-month-Libor + 3.90%	USD	71,191	6.3009	448,567
Total					4,048,189

	2010				
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Loan on credit	5.35%~5.81%	RMB	—	—	120,000
Loan with guarantee	5.58%~6.33%	RMB	—	—	2,865,000
Loan with guarantee	Libor+1.00%~ Libor+2.50%	USD	39,185	6.6227	259,509
Total					3,244,509

The loans with guarantee are guaranteed by the Parent Group (Note VI.5 (3)) and Chongqing Yu Fu Assets Management Group Co., Ltd.

The pledges for the loans with pledge are the bank acceptance bills and security deposits of the Group (Notes V.1 and V. 2(4)).

The mortgages for the loans with mortgage are the land use rights of the Group (Note V. 13).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

19 Financial liabilities held for trading

Item	*Note*	2011	2010
Foreign currency derivatives	(1)	**18,344**	3,804
Interest rate derivatives	(2)	**5,369**	4,838
Total		**23,713**	8,642

(1) On 26 January 2011 and 11 August 2011, based on the US dollar loan agreement between the Company and the Bank of China ("BOC"), the two parties signed a foreign exchange forward contract, agreed on the transactions to be carried out on 26 January 2012 and 11 August 2012 respectively, with the forward transactions exchange rates 6.5285 and 6.3324 respectively, amounting to USD 11,545,000 and USD 18,107,000 respectively.

On 11 January 2011, 13 January 2011 and 15 February 2011, the Company and BOC signed three foreign exchange forward contracts based on the loan agreement, agreed on the transactions to be carried out on 11 January 2012, 13 January 2012 and 15 February 2012, with the forward transactions exchange rates 6.5750, 6.5375 and 6.5750 respectively, amounting to USD 9,312,000, USD 12,468,000 and USD 24,446,000 respectively.

(2) On 23 April 2010, the Company entered into interest rate swap agreements with Standard Chartered Bank with total nominal principal amounts of USD 50,000,000 based on the loan agreement. The Company agreed to pay at a fixed interest rate of 3.9% and receive at a floating interest rate of LIBOR + 2.5%.

On 29 September 2010, the Company entered into a US dollar interest rate swap agreement with HSBC with a nominal principal amount of USD 43,785,000 based on the loan agreement. The Company agreed to pay at a fixed interest rate of 4.12% and receive at a floating interest rate of 3-month LIBOR + 3%.

20 Bills payable

All the bills are bank acceptance bills due within one year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

21 Accounts payable

(1) Accounts payable by category:

Item	2011	2010
Raw material accounts payable	**2,444,965**	1,950,565
Accounts payable for construction and equipment	**2,363,967**	868,214
Total	**4,808,932**	2,818,779

(2) No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable. Accounts payable due to related party see Note VI.6 (4).

(3) Ageing analysis of accounts payable:

	2011		2010	
Aging	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	**4,524,861**	**94%**	2,734,119	97%
1 year - 2 years (inclusive)	**223,225**	**5%**	30,560	1%
2 years - 3 years (inclusive)	**15,450**	**0%**	10,104	0%
Over 3 years	**45,396**	**1%**	43,996	2%
Total	**4,808,932**	**100%**	2,818,779	100%

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

As at 31 December 2011, payables aged over 3 years mainly represented payables for construction equipment and other procurement payables. Construction payables mainly represent project quality deposit. Other procurement payables have not yet settled because of the quality problem of the supplied goods. As at the date of approval of these financial statements, the above payables remained unsettled.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

22 Advances from customers

(1) Advances are payments prepaid by customers of the Company. As at 31 December 2011, advances from customers due over one year is the long-term payment on goods received in advance in 2008 and 2009 and to be realized within one year (Note V.33).

(2) The amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of advances from customers:

Name of enterprise	2011	2010
Parent Group	—	6,942

23 Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
I. Salaries, bonus, allowances	10,413	678,964	668,137	21,240
II. Staff welfare fees	5,090	46,168	41,165	10,093
III. Social insurances	—	—	—	—
Including:				
1. Medical insurance premium	—	94,161	94,161	—
2. Pension insurance premium	62,868	197,833	130,545	130,156
3. Unemployment insurance premium	15	6,667	6,210	472
4. Work injury insurance premium	—	4,692	4,692	—
5. Maternity insurance premium	71	2,714	2,785	—
IV. Housing fund	—	50,718	50,718	—
V. Termination benefits (including early retirement cose) *	—	28,750	12,348	16,402
VI. Others	40,649	27,779	64,362	4,066
Including: union fund and employee education fund	5,545	16,958	18,437	4,066
Total	119,106	1,138,446	1,075,123	182,429

* The termination benefits in 2011 stated above include the compensation payment of RMB 12,348,000 for the termination of certain labour contract relationships.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

24 Taxes payable

Item	2011	2010
VAT	**702**	79,528
Business tax	**778**	824
Corporate income tax	**909**	141
City maintenance and construction tax	**111**	5,643
Others	**6,478**	4,817
Total	**8,978**	90,953

25 Interests payable

Item	2011	2010
Interests payable for long-term loans installment interests and due principal	**26,400**	4,050
Interests payable for debentures	**10,333**	10,333
Total	**36,733**	14,383

26 Other payables

(1) *Other payables by category:*

Item	2011	2010
Payables to related parties *(Note.VI.6(6)(a))*	**244,899**	98,654
Payables to third party	**175,847**	183,891
Total	**420,746**	282,545

(2) *The amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of other payables:*

Name of enterprises	2011	2010
Parent Group	**51,900**	52,690

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

27 Non-current liabilities due within one year

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

Item	Note	2011	2010
Long-term loans due within one year		**3,343,175**	1,716,240
Long-term payables due within one year	(5)	**1,418,968**	331,563
Total		**4,762,143**	2,047,803

(2) Long-term loans due within one year

			2011		
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Credit loans	**6.23%~6.56%**	**RMB**	**—**	**—**	**337,000**
Credit loans	**Libor+2.30%**	**USD**	**14,000**	**6.3009**	**88,213**
Guaranteed loans	**5.40%~7.56%**	**RMB**	**—**	**—**	**1,777,499**
Guaranteed loans	**Libor+2.5%~ Libor+3%**	**USD**	**181,000**	**6.3009**	**1,140,463**
Total					**3,343,175**

			2010		
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Credit loans	5.85%	RMB	—	—	150,000
Guaranteed loans	Libor+3.00%	USD	61,500	6.6227	407,296
Guaranteed loans	5.56%~7.56%	RMB	—	—	1,158,944
Total					1,716,240

Guaranteed loans were guaranteed by the Parent Group (Note.VI.5(3)) and Chongqing Yu Fu Assets Management Group Co., Ltd.

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

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

(3) Breach of loan covenants

(a) HSBC consortium

On 2 September 2010, the Group entered into a loan agreement with the HSBC consortium. As of 31 December 2011, RMB 499,944,000 and USD 61,500,000 had been extended to the Group, totaling RMB 887,449,000.

According to the loan agreement, test on the financial covenants should be conducted "on a consolidated basis with reference to the audited annual consolidated financial statements submitted within 120 days after the financial year end and unaudited consolidated financial statements submitted within 90 days after the end of interim financial year". As at 31 December 2011, the Group has breached the financial covenants stipulated in the loan agreement. According to the loan agreement, the loans become immediately due and payable, and/or all or parts of the loans are repayable on demand in the case of breach. As a result, the Group reclassified the long-term loans with a carrying value of RMB 887,449,000 as "Long-term loans due within one year" as at 31 December 2011. The Group had received an exemption letter from HSBC on 10 January 2012 which agreed to exempt the Group from the financial covenants for the two financial periods as of 31 December 2010 and 30 June 2011. The Group is communicating with the HSBC consortium in relation to the breach of covenants as of 31 December 2011 and still hasn't received any formal reply from the HSBC consortium before the publication of the financial statement.

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

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

(3) Breach of loan covenants *(Continued)*

(b) China Development Bank

On 13 June 2011 and 18 August 2011, the Group entered into two foreign exchange loan agreements with the China Development Bank Co., Ltd of USD 140,000,000 and USD 70,000,000 respectively. As of 31 December 2011, all the loans mentioned above had been extended to the Group, totaling RMB 1,323,189,000.

According to the foreign exchange loan agreement, by conducting test on these financial statements, the Group has breached the financial covenants in the foreign exchange loan agreements as of 31 December 2011. According to the foreign exchange loan agreements, the lender has the right to declare the early repayment of the loans, and demand repayment of both the principal and interests of the loans within a limited period. As a result, the Group reclassified the long-term loans with a carrying value of RMB 1,323,189,000 as "Long-term loans due within one year" as at 31 December 2011.

Any contingencies associated with the breaching of the financial covenants, refer to Note VII.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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

(4) As at 31 December 2011, the top five long-term loans due within one year are:

	2011					
Lender	Inception date	Maturity date	Interest rate	Currency	Amount in foreign currency	Amount in RMB
			(%)			
1. Standard Charted Bank Consortium	2009-12-21	2012-06-20	6.29%	RMB	—	596,750
2. HSBC Bank Consortium	2010-09-17	2013-09-30	6.41%	RMB	—	349,944
3. China Development Bank	2011-09-06	2014-08-21	6 months Libor+3.2%	USD	50,000	315,045
4. HSBC Bank Consortium	2010-09-17	2013-09-30	Libor+3%	USD	43,050	271,254
5. Industrial and Commercial Bank	2010-06-21	2012-06-11	6.10%	RMB	—	147,000
Total						1,679,993

(5) Long-term payables due within one year

As at 31 December 2011, long-term payables due within one year included net obligations under finance leases of RMB 1,418,968,000 (gross amount of RMB 1,495,580,000 net of unrecognized finance charges of RMB 76,612,000). As at 31 December 2010, long-term payables due within one year included net obligations under finance leases of RMB 331,563,000 (gross amount of RMB 350,254,000 net of unrecognized finance charges of RMB 18,691,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

28 Other current liability

Item	2011	2010
Deferred income — government allowance	**893**	893
Deferred income — unrealised income of sale and leaseback transactions	**6,790**	8,392
Total	**7,683**	9,285

Other current liabilities are the deferred income expected to be realized in one year, see Note V.33.

29 Long-term loans

(1) Long-term loans by category

	2011				
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Loan on credit	**6.98%**	**RMB**	**—**	**—**	**100,000**
Loan with guarantee	**6.41%~7.32%**	**RMB**	**—**	**—**	**956,600**
Total					**1,056,600**

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

29 Long-term loans *(Continued)*

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

	2010				
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Loan on credit	5.56%	RMB	—	—	347,000
Loan on credit	Libor+2.30%	USD	15,000	6.6227	99,341
Loan with guarantee	5.73%~5.85%	RMB	—	—	1,921,000
Loan with guarantee	Libor+2.50%	USD	50,000	6.6227	331,135
Total					2,698,476

Loan with guarantee were guaranteed by the Parent Group (Note VI.5 (3)).

(2) *As at 31 December 2011, the top five long-term loans*

	2011					
Lender	Inception date	Maturity date	Interest rate *(%)*	Currency	Amount in foreign currency	Amount in RMB
1. Agriculture Bank of China	2010-11-26	2013-11-25	6.41%	RMB	—	196,000
2. Huaxia bank	2011-11-25	2013-11-21	6.98%	RMB	—	100,000
3. Industrial Bank	2010-10-11	2013-10-10	6.41%	RMB	—	98,000
4. Bank of Communication	2011-04-28	2013-01-11	6.40%	RMB	—	93,100
5. Agriculture Bank of China	2010-09-30	2013-09-10	5.60%	RMB	—	73,000
Total						560,100

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 Debentures payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,962,371	4,477	—	1,966,848

The analysis of debentures payable is set out as follows:

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable at the beginning of the year	Interest accrued during the year	Interest paid during the year	Interests payable at the end of the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 December 2010	7 year	2,000,000	10,333	124,000	124,000	10,333	1,966,848

The Company used effective interest rate method to calculate bonds payable transaction costs and used amortized cost to calculate subsequent measurement. Actual annual interest rate is 6.55% in 2011 (2010: 6.55%).

31 Long-term payables

Item	2011	2010
Obligations under finance leases	**3,254,896**	1,577,390

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payables

(1) Obligations under finance leases

	2011					
Lending enterprises	Amount	Unrecognised finance charge	Less: amounts within a year	Ending balance	Interest rate	Note
Jian Xin	1,461,971	229,594	403,127	829,250	11.12%	(a)
Min Sheng I	279,935	11,829	181,311	86,795	5.97%	
Min Sheng II	405,819	31,342	156,647	217,830	7.43%	
Unismart I	587,553	82,126	82,861	422,566	7.71%	
Unismart II	686,768	102,702	96,728	487,338	7.75%	
Unismart III	480,584	40,584	158,871	281,129	8.45%	(a)
China Railway	99,307	18,813	10,910	69,584	8.95%	(a)
Kun Lun	1,148,817	105,080	305,105	738,632	8.49%	(b)
Hua Rong	184,005	38,825	23,408	121,772	8.95%	(a)
Total	5,334,759	660,895	1,418,968	3,254,896		

	2010					
Lending enterprises	Amount	Unrecognised finance charge	Less: amounts within a year	Ending balance	Interest rate	Note
Jian Xin	1,627,064	371,297	151,455	1,104,312	10.62%	(a)
Min Sheng I	462,862	29,676	180,108	253,078	5.80%	
Min Sheng II	220,000	—	—	220,000	7.43%	
Total	2,309,926	400,973	331,563	1,577,390		

The long-term payables are amortised using effective interest rate.

(a) The long-term payables were guaranteed by the Parent Group (Note VI.5 (3)).

(b) The long-term payables were guaranteed by Chongqing Yu Fu Assets Management Group Co., Ltd.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payable *(Continued)*

(2) Cash flow under finance leases

The total future minimum lease payments under finance leases after the balance sheet date, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date), are payable as follows:

Minimum lease payments	2011	2010
Within 1 year (inclusive)	**1,495,580**	430,638
1 to 2 years (inclusive)	**1,868,281**	780,238
2 to 3 years (inclusive)	**1,157,858**	868,788
Over 3 years	**813,040**	492,581
Sub-total	**5,334,759**	2,572,245
Less: Unrecognised finance charges	**660,895**	400,973
Total	**4,673,864**	2,171,272

The above obligations under finance leases due within one year are the payable to lessors, net of the unrecognised finance charges, see Note V.27.

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

32 Specific payable

Item	Balance at the beginning of the year	Addition during the year	Deduction during the year	Balance at the end of the year
Relocation compensation	8,698	—	8,698	—
Others	270	—	270	—
Total	8,968	—	8,968	—

Due to the urban overall planning of demolition, Chongqing Electronics received house demolition compensation of RMB 8,698,000 from the government through direct government budget allocation, after deducting the losses of fixed assets and related expenses of RMB 202,000, the remaining balance of RMB 8,496,000 was transferred to capital reserve, see Note V.35.

33 Other non-current liabilities

Item	*Note*	**2011**	2010
Other financial liabilities	(1)	**410,242**	596,543
Less: part expected to be realized in one year	V.22	**310,242**	346,543
Sub-total		**100,000**	250,000
Deferred income - government grants	(2)	**40,575**	16,374
Deferred income - unrealized income of sale and leaseback transactions	(3)	**123,404**	163,512
Less: expected to realised in one year	V.28	**7,683**	9,285
Sub-total		**156,296**	170,601
Total		**256,296**	420,601

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

33 Other non-current liabilities

(1) According to relevant agreements, the Company received a few advances from customers totaling RMB 1,000,000,000 in 2008 and 2009. Such amounts were settled on a monthly basis during the period from June 2008 to December 2013. The customer was entitled to a certain amount of discount in selling prices every month. Such long-term advance was recognized as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the effective interest rate method. In 2011, the effective interest rate was 5.81%~6.31% (2010: 5.40~5.72%); interest expense for financial liabilities has been recognized at RMB 23,062,000 (2010: RMB 40,494,000).

(2) Government grants

Item	2011	2010
Grants due to the construction of environmental protection equipment and facilities	**17,182**	16,374
Land allowance	**23,393**	—
Total	**40,575**	16,374

As at 31 December 2011, deferred income - government grants are the amortized balance of the government grants pertinent to assets amounting to RMB 43,336,000, received by the Group accumulatively (2010: RMB 18,625,000). These government grants were recognized as deferred income and evenly amortized over the estimated useful life of relevant assets. The amortization amount in 2011 amounted to RMB 1,616,000 (2010: RMB 899,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

33 Other non-current liabilities *(Continued)*

(3) The Company entered into sale and leaseback finance leasing transactions with Jian Xin in 2009, Min Sheng in 2010 and Kun Lun in 2011 respectively (Note V.9(4)), and the difference between the selling prices and the book value of the assets is deferred, amounted to RMB 137,125,000 (2010: RMB 169,107,000). This difference is amortized in accordance with the depreciation progress of these assets under finance leasing, as an adjustment to the depreciation cost, and the amortization amounted to RMB 8,126,000 in 2011 (2010: RMB 5,595,000).

34 Share capital

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Shares not subject to trading restrictions				
• RMB - denominated ordinary share - domestically listed A shares	1,195,000	—	—	1,195,000
• Overseas listed foreign shares - Hong Kong listed H shares	538,127	—	—	538,127
Total	1,733,127	—	—	1,733,127

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

35 Capital reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premiums	888,934	—	62,954	825,980
Other capital reserves	270,127	—	—	270,127
Transfer from items under previous standards	4,560	8,496	—	13,056
Total	1,163,621	8,496	62,954	1,109,163

36 Specific reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Specific reserve	808	1,378	626	1,560

The special provision is provided for production safety expenses and other similar expenses based on construction and installation project costs and sales of dangerous goods. The year-end balance of this account represents unutilized safety production expenses and other similar expenses.

37 Surplus reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	605,633	—	—	605,633

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Retained earnings

Item	*Note*	Amounts
Retained earnings at the beginning of the year		2,096,707
Add: net profits for the year attributable to shareholders of the Company ("( )" for losses)		(1,471,082)
Less: statutory surplus reserve	(1)	—
Retained earnings at the end of the year		625,625

According to the prospectus, the Extraordinary General Meeting convened on 16 April 2003 passed a resolution that all of its existing and new shareholders are entitled to the retained earnings before the date of issuance of A share in 2007 after the completion of issuance of A share in 2007. As at 31 December 2011, the Company's retained earnings amounted to RMB 625,625,000, which shall be shared on a pro-rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

(1) Appropriation to surplus reserves

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the board of directors, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital.

In 2011, the Company did not appropriate any net profit to statutory surplus reserve (2010: RMB 572,000).

The amount appropriated to discretionary surplus reverse is proposed by the board of directors and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. The Company did not appropriate any profit to the discretionary surplus reserve in 2011.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Retained earnings *(Continued)*

(2) Distribution of ordinary share dividends

During the board of directors meeting on 28 March 2012, the directors of the Company resolved to declare no dividend in respect of 2011 (2010: nil).

(3) Retained earnings at the end of the year

The Company's surplus reserve attributable to the Company for the year is RMB 1,648,000 (2010: RMB 429,000).

As at 31 December 2011, the consolidated retained earnings attributable to the Company included an appropriation of RMB 2,077,000 to surplus reserve made by the subsidiaries (2010: RMB 429,000).

39 Operating income, operating costs

(1) Operating income, operating costs

Item	2011	2010
Operating income from principal activities	**23,449,445**	16,604,470
Other operating income	**83,500**	71,419
Operating income	**23,532,945**	16,675,889
Operating costs from principal activities	**22,515,869**	15,299,837
Other operating costs	**55,793**	56,484
Operating costs	**22,571,662**	15,356,321

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

39 Operating income, operating costs *(Continued)*

(2) Principal activities (by industry)

Industry	2011 Operating income	2011 Operating costs	2010 Operating income	2010 Operating costs
Iron and steel	**23,302,190**	**22,391,485**	16,427,691	15,147,449
Electronic engineering design, construction and installation	**95,352**	**81,419**	119,654	97,733
Transportation	**51,903**	**42,965**	57,125	54,655
Total	**23,449,445**	**22,515,869**	16,604,470	15,299,837

(3) Principal activities (by product)

Product	2011 Operating income from principal activities	2011 Operating cost from principal activities	2010 Operating income from principal activities	2010 Operating cost from principal activities
Steel plates	**7,764,550**	**7,451,510**	8,802,753	8,015,648
Hot-rolled coil	**8,168,129**	**8,213,454**	905,799	942,763
Steel billets	**1,058,460**	**1,021,259**	955,858	896,548
Steel sections	**3,145,078**	**2,890,959**	3,103,872	2,906,801
Wire rods	**1,573,575**	**1,419,557**	1,704,030	1,556,370
Cool-rolled sheets	**464,978**	**524,899**	200,963	222,925
By-product	**1,127,420**	**869,847**	754,416	606,394
Others	**147,255**	**124,384**	176,779	152,388
Total	**23,449,445**	**22,515,869**	16,604,470	15,299,837

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

39 Operating income, operating costs *(Continued)*

(4) The Company's operating income from the top five customers in 2011

Name of customer	Operating income	Percentage of total operating income
Chongqing Wanda Steel Strip Co., Ltd	1,437,145	6%
Shanghai Chonggang Trade Co., Ltd	1,145,643	5%
Chongqing Energy Investment Group Material Co., Ltd.	1,144,260	5%
Sichuan Tianhao Metallurgy Industry Co., Ltd	817,089	4%
Changjiang Shipping Materials Corporation	779,377	3%
Total	5,323,514	23%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

40 Business taxes and surcharges

Item	2011	2010
Business tax	**10,545**	8,627
City maintenance and construction tax	**10,033**	6,318
Education surcharge	**4,384**	2,710
Local education surcharge	**2,143**	—
Total	**27,105**	17,655

41 Selling and distribution expenses

Item	2011	2010
Labour cost	**20,596**	22,319
Transportation fee	**226,066**	241,377
Ship inspection fee	**87,314**	110,145
Others	**38,473**	37,017
Total	**372,449**	410,858

42 General and administrative expenses

Item	2011	2010
Labour cost	**265,057**	222,728
Repair fee	**459,427**	270,455
Land using fee	**14,914**	19,822
Others	**84,890**	74,833
Total	**824,288**	587,838

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

43 Financial expenses

Item	2011	2010
Interest expenses from loans and payables	**908,310**	563,668
Less: Borrowing costs capitalised	**149,836**	116,613
Net interest expenses	**758,474**	447,055
Interest income from deposits and receivables	**(11,209)**	(9,422)
Exchange gains	**(89,059)**	(28,612)
Expense from discounted bills	**83,985**	7,512
Other financial expenses	**7,856**	13,428
Total	**750,047**	429,961

44 Impairments losses

Item	2011	2010
Account receivables	**5,727**	4,109
Other receivables	**—**	10,240
Inventories	**862,118**	21,315
Total	**867,845**	35,664

45 Gains from changes in fair value ("( )" for losses)

Item	2011	2010
Derivatives held for trading		
Changes in fair value during the year	**(15,071)**	(8,642)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

46 Investment income

Investment income by item

Item	2011	2010
Income from long-term equity investments under cost method	—	1,079
Investment income from disposal of long-term equity investments	—	14
Total	—	1,093

47 Non-operating income

(1) Non-operating income by item is as follows:

Item	*Note*	2011	2010	Recorded in extraordinary gain and loss
Gains on disposal of fixed assets		**2,242**	9,154	2,242
Government grants	(2)	**4,521**	10,715	4,521
Received tax return		**5,479**	5,409	5,479
Income from gas emission reduction		**10,894**	7,052	10,894
Relocation compensation	(3)	**503,204**	153,194	503,204
Others		**1,947**	2,060	1,947
Total		**528,287**	187,584	528,287

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

47 Non-operating income

(2) Government grants

Item	*Note*	**2011**	2010
Social insurance fund to financial bureau	(a)	**2,703**	9,816
Special appropriation for environmental protection	V.33(2)	**892**	899
Deferred income amortisation land allowance	V.33(2)	**724**	—
Relocation compensation	V.32	**202**	—
Total		**4,521**	10,715

(a) Subsidies to enterprises having difficulty stabilizing positions approved by the Chongqing Human Resource and Social Security Bureau, in line with the Notice on Further Enhancing Work regarding Position Stabilization Subsidies and Post-Job Training Subsidies (Yu Ren She Fa [2009] No.120).

(3) Relocation compensation

The Parent Group had authorised free use of the production line of RMB 16.76 billion for steel production line and its auxiliary public facilities, refer to Note I. The charge for using the production line and its auxiliary facilities is regarded by the Parent Group as the compensation of relevant expense of the Group during the environmental relocation, refer to Note VI.5(5)(vii).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

48 Non-operating expenses

Item	2011	2010	Recorded in extraordinary gain and loss
Losses on disposal of fixed assets	**461**	1,330	461
Donation expenses	**1,970**	255	1,970
Losses on debt restructuring	**565**	—	565
Others	**4,865**	242	4,865
Total	**7,861**	1,827	7,861

49 Income tax expenses

Item	*Note*	2011	2010
Current tax expenses for the period based on tax law and corresponding regulations		**3,307**	1,520
Changes in deferred tax assets	(1)	**92,672**	3,010
Total		**95,979**	4,530

(1) *The analysis of changes in deferred tax assets is set out below:*

Item	2011	2010
Origination and reversal of temporary differences	**(52)**	25,530
Change in unrecognised temporary differences	**92,724**	—
Recognition of previously unrecognized tax losses	**—**	(22,520)
Total	**92,672**	3,010

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

49 Income tax expenses

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Item	2011	2010
Profit before taxation ("( )" for losses)	**(1,375,096)**	15,800
Expected income tax expenses at a tax rate of 15%	**(206,264)**	2,370
Add: Unrecognised temporary deductible losses	**210,534**	—
Unrecognised temporary differences	**89,091**	44
Non-deductible expenses	**2,618**	2,278
Residential enterprise dividends income	**—**	(162)
Income tax expenses	**95,979**	4,530

50 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:

	2011	2010
Consolidated net profit of the Company attributable to ordinary shareholders ("( )" for losses)	**(1,471,082)**	11,270
Weighted average number of ordinary shares outstanding ('000 shares)	**1,733,127**	1,733,127
Basic earnings per share ("( )" for losses)	**(0.849)**	0.007

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. As at 31 December 2011, there were no issuance of dilutive potential ordinary shares (2010: nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

51 Supplement to income statement

Expenses are analysed by their nature as follows:

Item	2011	2010
Operating income	**23,532,945**	16,675,889
Less: Changes in inventories of finished goods and work in progress	**(198,880)**	(650,562)
Raw materials and consumables used	**20,691,699**	15,302,600
Employee benefits expenses	**1,138,446**	1,113,937
Depreciation and amortisation expenses	**387,280**	360,087
Impairment losses	**867,845**	35,664
Financial expenses	**750,047**	429,961
Others	**1,271,604**	68,402
Profit before income tax ("( )" for losses)	**(1,375,096)**	15,800

(1) Other cash received relating to operating activities

Item	Amount
Government grants	4,403
Others	13,042
Total	17,445

(2) Other cash paid relating to operating activities

Item	Amount
Bank charges	7,856
Others	7,401
Total	15,257

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

51 Supplement to income statement *(Continued)*

(3) *Other cash received relating to investing activities*

Item	Amount
Interest income on deposits of bank	11,209
Lending returned from the Parent Group *(Note VI.6(2)(a))*	100,000
Total	111,209

(4) *Other cash paid relating to financing activities*

Item	Amount
Cash deposit for finance leases	49,100
Principal for finance leases	547,039
Total	596,139

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplement to cash flow statement

(1) Supplemental information to cash flow statement

Supplemental Information	2011	2010
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("( )" for losses)	**(1,471,075)**	11,270
Add: Impairment provisions for fixed assets	**867,845**	35,664
Depreciation of fixed assets	**377,907**	352,978
Amortization of intangible assets	**9,373**	7,109
Losses on disposal of fixed assets (gains denoted with "( )")	**(1,781)**	(7,824)
Loss on change of fair value (gain denoted with "( )")	**15,071**	8,642
Financial expenses (income denoted with "( )")	**635,144**	397,198
Investment losses (gain denoted with "( )")	**—**	(1,093)
Decrease in deferred tax assets (increase denoted with "( )")	**92,672**	3,010
Decrease in gross inventories (increase denoted with "( )")	**(764,843)**	(2,646,180)
Decrease in operating receivables (increase denoted with "( )")	**216,578**	(1,840,258)
Increase in operating payables (decrease denoted with "( )")	**1,200,362**	1,632,796
Decrease in restricted cash (increase denoted with "( )")	**(725,940)**	(31,938)
Net cash flow from operating activities	**451,313**	(2,078,626)
(b) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance leases	**901,482**	220,000
(c) Change in cash and cash equivalents:		
Cash at the end of the year	**1,301,423**	1,537,352
Less: Cash at the beginning of the year	**1,537,352**	1,408,561
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "( )")	**(235,929)**	128,791

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplement to cash flow statement *(Continued)*

(2) Cash and cash equivalents

Item	2011	2010
Cash and cash equivalents	**1,301,423**	1,537,352
Including: Cash on hand	**696**	337
Bank deposits available on demand	**1,295,777**	1,536,765
Other monetary fund available on demand	**4,950**	250
Cash equivalents	**—**	—
Closing balance of cash and cash equivalents	**1,301,423**	1,537,352

Note: Cash and cash equivalents disclosed above exclude cash with restricted usage and amount of investments with short maturity period.

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1 Information on the parent of the Company

Company name	Organization code	Registered place	Business nature	Registered capital	Shareholding percentage	Proportion of voting rights
Chongqing Iron & Steel Group Limited Company	202803370	No.1, Building No.1, Dayan Village III Dadukou District, Chongqing, the PRC	Sintering, iron smelting, rolling and the by-products of iron and steel mining, milling, machinery, electronic, transportation by automobile, construction, refractory materials	1,650,706	46%	46%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Information on the parent of the Company *(Continued)*

(1) Registered capital and changes therein

	Balance at the beginning of the year	Increase in the year	Decrease in the year	Balance at the end of the year
Parent Group	1,650,706	—	—	1,650,706

(2) Shares of the Company held by the Parent Group and changes therein

	2011		2010	
	Amount	**Percentage**	Amount	Percentage
Parent Group	**800,800**	**46%**	835,800	48%

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 MOF, SASAC and National Council for Social Security Fund on 19 June 2009, "an incorporated company shall transfer some state-owned shares (10 % of the shares actually issued) to the National Council for Social Security Fund at the time of initial public offering".

On 17 June 2011, according to the requirements in the "Notice of the State-owned Assets Supervision and Administration Commission of the State Council of Chongqing Municipal Government on the Procedure for Transferring State-owned Shares" (Yu-SASAC [2011] No.50), China Securities Depository and Clearing Corporation Limited transferred 35,000,000 shares of the Company held by the Parent Group to the account of the National Council for Social Security Fund at nil consideration. Upon the completion of this equity transfer, the Parent Group holds 800,800,000 shares of the Company, representing 46.21% of the total shares of the Company.

2 Information on the subsidiaries of the Company

Details of information on the subsidiaries of the Company, refer to Note IV.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Transactions with its key management personnel

Remuneration of key management personnel	*Note*	Fees	Basic salaries, housing allowances and other allowances	Bonuses	Pension	2011 Total
Director						
Deng Qiang	(1)(5)	—	—	—	—	—
Mr. Dong Lin	(1)(5)	—	—	—	—	—
Mr. Yuan Jinfu	(1)	—	—	—	—	—
Mr. Chen Shan	(7)	—	27	225	34	286
Mr. Sun Yijie		—	30	204	37	271
Mr. Li Rensheng		—	28	205	37	270
Mr. Chen Hong		—	30	231	37	298
Mr. Liu Xing		71	—	—	—	71
Mr. Liu Tianni		71	—	—	—	71
Mr. Zhang Guolin		71	—	—	—	71
Supervisors						
Mr. Zhu Jiangpai	(1)	—	—	—	—	—
Ms. Chen Hong		—	25	161	37	223
Mr. Gao Shoulun	(6)		16	131	22	169
Mr. Li Zheng	(1) (3)	—	—	—	—	—
Mr. Li Meijun	(1) (3)	—	—	—	—	—
Mr. Dou Hui	(6)		11	44	15	70
Key management personnel						
Mr. Wu Zisheng	(4)	—	7	137	9	153
Mr. You Xiao'an		—	27	161	37	225
Mr. Guan Zhaohui	(4)	—	26	180	37	243
Ms. Gong Jun		—	25	151	37	213
Total		213	252	1,830	339	2,634

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Transactions with its key management personnel *(Continued)*

Remuneration of key management personnel	Note	Fees	Basic salaries, housing allowances and other allowances	Bonuses	Pension	2011 Total
Director						
Mr. Dong Lin	(1)	—	—	—	—	—
Mr. Yuan Jinfu	(1)	—	—	—	—	—
Mr. Chen Shan		—	29	229	15	273
Mr. Sun Yijie		—	29	219	15	263
Mr. Li Rensheng		—	27	219	15	261
Mr. Chen Hong		—	30	229	15	274
Mr. Liu Xing		60	—	—	—	60
Mr. Liu Tianni		60	—	—	—	60
Mr. Zhang Guolin		60	—	—	—	60
Supervisors						
Mr. Zhu Jianpai	(1)	—	—	—	—	—
Mr. Huang Youhe	(1)(2)	—	—	—	—	—
Ms. Chen Hong		—	25	139	15	179
Mr. Gao Shoulun		—	26	167	15	208
Mr. Li Zheng	(3)	—	—	—	—	—
Mr. Li Meijun	(3)	—	—	—	—	—
Key management personnel						
Mr. You Xiao'an		—	26	169	15	210
Mr. Wu Zisheng		—	27	219	15	261
Ms. Gong Jun	(2)	—	17	13	5	35
Ms. Song Ying	(2)	—	16	151	11	178
Total		180	252	1,754	136	2,322

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

3 Transactions with its key management personnel *(Continued)*

(1) According to contracts entered with the Company in 2009, the salaries of Mr. Dong Lin, Mr. Yuan Jin Fu, Mr. Zhu Jian Pai and Mr. Huang You He will be paid by the Parent Group. According to contracts agreed with the Company in 2010, the salaries of Mr. Li Zheng and Mr. Li Meijun will be paid by the Parent Group. According to contracts agreed with the Company in 2011, the salaries of Mr. Deng Qiang will be paid by the Parent Group.

(2) During the first extraordinary general meeting held on 18 August 2010, the resignation of Mr. Huang You He and Ms. Gong Jun as a Supervisor, effective from 18 August 2010, was discussed and approved. According to the 43rd written resolution of the fifth Board of Directors dated 10 September 2010, the resignation of Ms. Song Ying and the appointment of Ms Gong Jun as the Financial Administrator was approved.

(3) During the first extraordinary general meeting held on 18 August 2010, Mr. Li Zheng and Mr. Li Meijun were elected as Shareholder Supervisors of the fifth Board of Supervisors through cumulative voting.

(4) According to the 59th written resolution of the fifth Board of Directors dated 21 January 2011, the resignation of Mr. Guan Zhaohui as a Deputy General Manager was approved; and during the 69th written resolution of the fifth Board of Directors dated 30 March 2011, Mr. Wu Zisheng resigned from the position of Deputy General Manager due to health reasons.

(5) During the first extraordinary general meeting for 2011 held on 18 March 2011, the appointment of Mr. Deng Qiang as a Non-executive Director of the Company and the resignation of Mr. Dong Lin as Director, the President of the Board, Chairman of the Strategic Committee and other related positions were approved.

(6) On 25 July 2011, Gao Shoulun resigned from the the fifth Chongqing Iron & Steel Co., Ltd. Workers' Representative Supervisor position due to job change. During the 63rd head meeting of the second Workers' Congress of the Company held on 25 July 2011, Mr. Dou Hui was selected as the fifth Representative Supervisor of the Company.

(7) The Board of Directors received the resignation letter of Mr. Chen Shan, the Vice President of the Board, on 29 November 2011. Due to work adjustment reasons, Mr. Chen Shan resigned from the duties of Director of the Company, Vice President of the Board, member of the Strategic Committee, etc. The resignation of Mr. Chen was effective upon the delivery of the resignation letter to the Board of Directors of the Company.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Related parties in which the Company has no control

Name of related party	Organization code	Relationship with the Company
Chongqing Iron & Steel Group Export and Import Company Limited	20280613-3	Under the same parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	62190279-5	Under the same parent company
Chongqing Iron & Steel Group Logistics Services Company Limited	20299347-7	Under the same parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited	00928742-3	Under the same parent company
Chongqing Iron & Steel Group Mining Company Limited	20299276-5	Under the same parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited	20287686-0	Under the same parent company
Chongqing Iron & Steel Group Iron Company Limited	20355285-X	Under the same parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited	20343945-1	Under the same parent company
Chongqing Iron & Steel Group Refractory Materials Company Limited	20305150-2	Under the same parent company
Chongqing Iron & Steel Group Doorlead Realty Company Limited	20298850-4	Under the same parent company
Chongqing San Gang Steel Company Limited	75624734-5	Under the same parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	20288163-5	Under the same parent company
Chongqing Si Gang Steel Company Limited	75009293-6	Under the same parent company
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	Under the same parent company
Chongqing Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construct Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company
Chongqing Iron & Steel Group Industrial Company Limited	20298762-4	Under the same parent company
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	66359560-7	Under the same parent company
Chongqing Luneng Environment Industry Company Limited	20332595-6	Under the same parent company

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Related parties in which the Company has no control *(Continued)*

Name of related party	Organization code	Relationship with the Company
Chongqing 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 ("Chonggang HK")	16393102-000-10-08-0	Under the same parent company
Chongqing Sanfeng Environment Industry Group Company Limited	69925005-3	Under the same parent company
Chongqing Fengsheng Environment Protection Company Limited	69391416-2	Under the same parent company
Chengdu Jiujiang Environment Protection and Electricity Company Limited	67431581-8	Under the same parent company
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	75929686-3	Under the same parent company
Chongqing Tongxing Refuse Disposal Company Limited	73395998-0	Under the same parent company
Chongqing Chonggang Mining Exploitation and Investment Company Limited	69656683-7	Under the same parent company
Chongqing Sanfeng Xinke Steel Structure Ge Ban Company Limited	76594464-4	Under the same parent company
Chongqing Mining Investment Overseas Company Limited	1599001	Under the same parent company
Chongqing Digidie Auto Body Company Limited	78424189-9	Under the same parent company jointly control
Chongqing Xin Gang Chang Long Logistics Company Limited	66641868-1	Under the same parent company jointly control

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions

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

(a) The Group

		2011		2010	
	Purchase of products	Transaction amount	Percentage in the total amount of similar transactions (%)	Transaction amount	Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**1,690,031**	**15.70%**	765,624	8.20%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**625,137**	**98.17%**	387,736	90.52%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**366,407**	**5.82%**	303,387	11.41%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**86,612**	**1.39%**	31,104	1.51%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**58,118**	**4.84%**	561,173	65.89%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**53,508**	**3.61%**	57,144	2.21%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**41,032**	**0.60%**	199,223	12.10%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and ore	**21,404**	**0.20%**	26,427	0.28%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**18,310**	**5.89%**	19,897	19.96%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**11,661**	**0.22%**	145,109	8.81%
Others		**10,502**		12,371	
Total		**2,982,722**		2,509,195	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions *(Continued)*

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

(b) The Company

		2011		2010	
	Purchase of products	**Transaction amount**	**Percentage in the total amount of similar transactions** *(%)*	Transaction amount	Percentage in the total amount of similar transactions *(%)*
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**1,690,030**	**15.70%**	765,624	8.20%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**625,074**	**98.16%**	387,736	90.52%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**366,407**	**5.82%**	303,387	11.41%
San Feng Logistics	Ore	**193,110**	**1.96%**	—	—
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**86,612**	**1.39%**	31,104	1.51%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**58,118**	**4.84%**	561,173	65.89%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**53,395**	**3.61%**	57,144	2.21%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**41,032**	**0.60%**	199,223	12.10%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and ore	**21,054**	**0.20%**	26,427	0.28%
Chongqing Electronics	Spare parts	**19,090**	**2.26%**	16,771	3.46%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**18,310**	**5.89%**	19,897	19.96%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**11,661**	**0.22%**	145,109	8.81%
Chongqing Transportation	Scrap steels	**9,760**	**0.65%**	2,070	3.55%
Others		**10,258**		12,372	
Total		**3,203,911**		2,528,037	

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

5 Related-party transactions *(Continued)*

(1) Set out below are the 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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions *(Continued)*

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

(a) The Group

		2011		2010	
	Sale of Products	Transaction amount	Percentage in the total amount of similar transactions *(%)*	Transaction amount	Percentage in the total amount of similar transactions *(%)*
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**465,061**	**45.97%**	342,740	48.73%
Chongqing San Gang Steel Company Limited	Steel products	**335,827**	**1.52%**	230,194	1.47%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**318,318**	**1.44%**	262,767	1.68%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**242,403**	**1.09%**	143,434	0.88%
Chongqing Si Gang Steel Company Limited	Steel products	**197,864**	**0.89%**	220,190	1.40%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products	**148,025**	**0.67%**	102,330	0.62%
Parent Group	Accessories	**77,849**	**7.70%**	144,160	0.91%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Accessories	**65,113**	**0.29%**	20,471	0.13%
Chongqing Iron & Steel Group Mining Company Limited	Energy	**45,415**	**4.49%**	17,558	2.50%
Chongqing Iron & Steel Group Iron Company Limited	Accessories	**9,470**	**0.94%**	—	0.00%
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Steel products	**7,628**	**0.03%**	22,412	0.14%
Chongqing Huanya Construction Materials Company Limited	Accessories	**6,513**	**0.64%**	7,636	0.08%
Others		**4,898**		15,032	
Total		**1,924,384**		1,528,924	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions *(Continued)*

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

(b) The Company

		2011		2010	
	Sale of Products	Transaction amount	Percentage in the total amount of similar transactions (%)	Transaction amount	Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**464,937**	**45.96%**	342,740	48.73%
Chongqing San Gang Steel Company Limited	Steel products	**335,823**	**1.52%**	230,194	1.47%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**318,318**	**1.44%**	262,767	1.68%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**239,457**	**1.08%**	143,434	0.88%
Chongqing Si Gang Steel Company Limited	Steel products	**197,864**	**0.89%**	220,190	1.40%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products	**147,930**	**0.67%**	102,330	0.62%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Steel products	**65,105**	**0.29%**	20,471	0.13%
Chongqing Iron & Steel Group Mining Company Limited	Energy	**44,343**	**4.38%**	17,558	2.50%
Parent Group	Accessories	**12,154**	**1.20%**	57,787	0.39%
Chongqing Iron & Steel Group Iron Company Limited	Accessories	**9,470**	**0.94%**	—	0.00%
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Steel products	**7,628**	**0.03%**	22,412	0.14%
Chongqing Huanya Construction Materials Company Limited	Accessories	**6,513**	**0.64%**	7,636	0.08%
Others		**7,832**		18,171	
Total		**1,857,374**		1,445,690	

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

5 Related-party transactions *(Continued)*

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

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

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

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

As at 31 December 2011, the short-term and long-term (including long-term loans due within one year) bank borrowings of the Group and the Company amounted to RMB 2,136,548,000 and RMB 3,433,494,000 (2010: RMB 3,019,509,000 and RMB 3,818,375,000) respectively and were guaranteed by the Parent Group (Note V.18, 27 and 29).

All liabilities under the lease agreement between the Company and Jian Xin, Kun Lun, Hua Rong, Unismart, China Railway (Note V.31(1)) are guaranteed by the Parent Group. The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

The Parent Group and other related parties did not charge the Company in respect of the above pledges and guarantees.

(4) *Guarantees for the Parent Group and subsidiaries' loans provided by the Company:*

As at 31 December 2011, the short-term loan bank borrowing of Chongqing Transportation and San Feng Logistics amounted to RMB 5,000,000 and RMB 80,000,000 (2010: nil) respectively and were guaranteed by the Company.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions *(Continued)*

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

(a) The Group

	Note	**2011** Transaction amount	**2011** Percentage in the total amount of similar transactions *(%)*	2010 Transaction amount	2010 Percentage in the total amount of similar transactions *(%)*
Social welfare expenses paid by the Parent Group	(i)	**74,797**	**20.50%**	90,190	36.89%
Fees paid for supporting services	(ii)	**579,335**	**32.03%**	247,018	29.85%
Rental expenses for land use right	(iii)	**14,850**	**100.00%**	19,769	100.00%
Fees received for supporting	(iv)	**53,113**	**58.99%**	66,963	44.10%
Entrusted trial operation gains/losses settlement	(v)	**40,293**	**100.00%**	539,666	100.00%
Fees paid for purchasing ore	(vi)	**2,252**	**100.00%**	1,334	100.00%
Authorized use of assets	(vii)	**503,204**	**100.00%**	153,194	100.00%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related-party transactions *(Continued)*

(5) Other transactions between the Company and the Parent Group and its subsidiaries: *(Continued)*

(b) The Company

	Note	2011 Transaction amount	2011 Percentage in the total amount of similar transactions (%)	2010 Transaction amount	2010 Percentage in the total amount of similar transactions (%)
Social welfare expenses paid by the Parent Group	(i)	**74,797**	**22.76%**	86,157	35.24%
Fees paid for supporting services	(ii)	**828,210**	**34.74%**	409,027	49.49%
Rental expenses for land use right	(iii)	**14,850**	**100.00%**	19,769	100.00%
Fees received for supporting	(iv)	**451**	**0.96%**	863	2.64%
Entrusted trial operation gains/losses settlement	(v)	**40,293**	**100.00%**	539,666	100.00%
Fees paid for purchasing ore	(vi)	**2,252**	**100.00%**	1,334	100.00%
Authorized use of assets	(vii)	**503,204**	**100.00%**	153,194	100.00%

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

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

5 Related-party transactions *(Continued)*

(5) Other transactions between the Company and the Parent Group and its subsidiaries: *(Continued)*

(i) 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.

(ii) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agency services provided by Parent Group and its subsidiaries. The services were charged at prices determined by reference to market price of such services or a profit mark-up above the cost of providing such services as agreed in accordance with, or price provided by relevant authorities of Chongqing Municipal Government.

(iii) Rental expenses payable to the Parent Group are in accordance with the lease agreements entered into between the Company and the Parent Group.

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

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

5 Related-party transactions *(Continued)*

(6) *Other transactions between the Company and Parent Group and its subsidiaries* *(Continued)***:**

(v) According to the Production Line Trial Run Commissioning Contract signed between the Company and the Parent Group on 24 December 2009, the two parties shall make settlements on a monthly basis for the gains or losses incurred during the trial run of the Parent Group's steel smelting production line, while for the trial runs of the Company's 4100mm wide plate and 1780mm hot rolled plate production lines and auxiliary public facilities, the gains or losses shall be apportioned according to the proportional value of the assets held by each party; thus the Parent Group may need to pay or receive the calculated difference 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 RMB 1 million each month to the Company as management fees during the trial runs. 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 RMB 500,000. After the debugging, the Parent Company will authorize the Company free use of these assets, see Note VI.5 (5)(vii).

In September 2011, commissioned by the Parent Group, the Company launched the debugging process for the #3 blast furnace equipments which belong to the Parent Group in Changshou New Zone. The revenue or losses during the debugging process would be undertaken by the Parent Group. The agreed commission period for debugging is from 1 September 2011 to 30 September 2011. After commissioning, the Parent Group would authorize the Company fee use of these assets, see Note VI. 5(5)(vii).

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

5 Related-party transactions *(Continued)*

(6) Other transactions between the Company and Parent Group and its subsidiaries** (Continued)**:

(vi) In May 2010, the Company entered into an agency agreement with Chonggang HK for the latter to procure imported materials for the Company. The agency agreement was replaced by a procurement agreement entered into between the two parties commencing in July 2011. However, according to the procurement agreement, Chonggang HK should undertake the procurement based on the Company's procurement plans, and the Company, Chonggang HK and the third party suppliers should enter a tripartite procurement agreements ("tripartite procurement agreements") after the Company's confirming the procurement prices. Meanwhile, the Company and Chonggang HK shall be jointly and severally liable for any liability arising out of or in connection with the tripartite procurement agreements. Besides, the Company should pay Chonggang HK an agency fee of USD 0.1 or USD 0.2 per ton of iron ore. Chonggang HK therefore effectively continues to act as the procurement agent of the Company notwithstanding the change from an agency agreement to procurement agreement.

In 2011, Chonggang HK procured RMB 3,172,248,000 (2010: RMB 2,042,455,000) worth of iron ore for the Company for an agency fee of RMB 2,252,000 (2010: RMB 1,334,000). As at 31 December 2011, the agency fee payable to Chonggang HK by the Company amounted to RMB 288,195,000 (2010: RMB 218,370,000).

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

5 Related-party transactions *(Continued)*

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

(vii) As all the production land of the Company in Da Du Kou District is rented from the Parent Group, according to the requirements of energy saving and emission reduction, industrial layout and planning of Chongqing Municipal Government, the Company has completed the shutting down of the productions lines in Da Du Kou District and relocated its principal operations to Changshou New Zone before 22 September 2011. According to the relevant compensation as stipulated in the land lease agreement between the Company and the Parent Group (as stated in Note I), and the Parent Group's promise to the Company on 19 December 2008 on the environment protection relocation for self-raising funds for the construction of Changshou New Zone and further authorizing the Company to operate and administrate the steel production related projects or assets (as to realise the commitment to avoid intra-industry competition made by the Parent Group to the Company), the Company requested the Parent Group in 2010 to authorize the Company free use of the steel smelting production line and its auxiliary public facilities invested by the Parent Group in Changshou New Zone to compensate the extra expenditures occurred in the during the relocation.

As approved by SASAC, the Parent Group authorized the free use of the production line of RMB 3.99 billion for the steel smelting production line and the auxiliary public facilities which had reached an expected conditions for use in April 2010, the authorized period is from 1 April 2010 to 31 March 2011 (for 1 year tentatively). In December 2010, the Parent Group further authorized free use of the production line of RMB 1.97 billion for the steel smelting production line and the auxiliary public facilities which had reached the expected conditions for use, the authorized period is from 1 December 2010 to 31 March 2011 ("Authorized free use of assets in 2010").

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

5 Related-party transactions *(Continued)*

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

(vii) *(Continued)*

On 31 March 2011, the authorization agreement of free use assets in 2010 mentioned above expired, the Parent Group authorized the Company to continue the free use of the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which already reached the expected usable condition, amounted to approximately RMB 10.86 billion; the authorized period is from 1 April 2011 to 31 March 2012. On 31 March 2011, the Company made an announcement in relation to an opinion letter of the independent directors on the related party transaction, and according to the independent directors of the Company - Mr. Zhang Guolin and Mr. Liu Tianni, "the terms and conditions of the new assets usage authorization agreement are concluded under normal commercial terms, could be recognised as fair and reasonable. The transaction under the agreement is in accordance with the overall interests of the Company and all the shareholders". In October 2011, the Parent Group further authorized the Company to the free use of the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which already reached the expected usable condition, amounted to approximately RMB 5.9 billion; the authorized periods is from 1 October 2011 to 31 March 2012.

As at 31 December 2011, the Parent Group had authorized the Company to the free use of the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which have already reached the expected usable condition, amounted to approximately RMB 16.76 billion. According to the calculation by both the Parent Group and the Company, the actual additional expenses incurred due to the environment relocation of the Company in 2011 is RMB 495,660,000 (2010: RMB 147,125,000), and the fees for the use these assets is RMB 503,204,000 in 2011 (2010: RMB 153,194,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Balance of accounts due from and due to related parties

(1) Bills receivable

(a) The Group and the Company

Related Party	2011	2010
Chongqing San Gang Steel Company Limited	**17,870**	25,386
Chongqing Si Gang Steel Company Limited	**22,770**	11,724
Chongqing Iron & Steel Group Steel Pipe Company Limited	**1,000**	38,144
Total	**41,640**	75,254

(2) Account receivable

(a) The Group

Related Party	2011	2010
Chongqing Si Gang Steel Company Limited	**130,756**	109,669
Chongqing San Gang Steel Company Limited	**110,880**	38,994
Chongqing Iron & Steel Group Steel Pipe Company Limited	**94,673**	34,868
Parent Group *	**18,793**	125,313
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,648**	7,648
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	**2,277**	2,277
Chongqing Iron & Steel Group Mining Company Limited	**2,259**	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**1,488**	24,291
Others	**4,204**	7,631
Sub-total	**372,978**	350,691
Less: Provision for bad and doubtful debts	**10,358**	10,358
Total	**362,620**	340,333

* On 1 April 2010, Chongqing Transportation lent RMB 100,000,000 to the Parent Group which had been repaid by the Parent Group on 28 February 2011.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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

(2) Account receivable (Continued)

(b) The Company

Related Party	2011	2010
Chongqing Si Gang Steel Company Limited	**130,264**	109,539
Chongqing San Gang Steel Company Limited	**110,880**	38,990
San Feng Logistics	**97,134**	—
Chongqing Iron & Steel Group Pipe Company Limited	**94,673**	34,868
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	**7,369**	7,369
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**—**	22,159
Others	**5,180**	4,754
Sub-total	**445,500**	217,679
Less: Provision for bad and doubtful debts	**10,079**	10,079
Total	**435,421**	207,600

(3) Other receivables

(a) The Group and the Company

Related Party	2011	2010
Parent Group	**135,604**	—

The Parent Group has agreed to compensate the Company for the impairment loss of fixed assets due to the environmental relocation based on the net book value at the time the fixed assets were suspended less the disposal proceeds. As at the year-end date, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 135,604,000 (Note V.12).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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

(4) Accounts payables

(a) The Group and the Company

Related Party	2011	2010
Chonggang HK *(Note VI.5(5)(vi))*	**288,195**	218,370

(5) Advances from customers

(a) The Group and the Company

Related Party	2011	2010
Parent Group	**—**	6,942

(6) Other payables

(a) The Group

Related Party	2011	2010
Chongqing Iron & Steel Group Industrial Company Limited	**81,503**	2,800
Parent Group	**51,900**	52,690
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**49,971**	5,384
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**29,767**	—
Chongqing Iron & Steel Group Design and Research Institute	**13,074**	31,618
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**12,856**	2,506
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**2,173**	786
Chongqing Iron & Steel Group Mining Company Limited	**2,407**	573
Others	**1,248**	2,297
Total	**244,899**	98,654

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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

(6) Other payables (Continued)

(b) The Company

Related parties	2011	2010
Chongqing Iron & Steel Group Industrial Company Limited	**81,333**	2,636
Parent Group	**51,900**	52,394
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**49,903**	5,384
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**29,767**	—
Chongqing Transportation	**18,075**	1,786
Chongqing Electronics	**15,757**	19,137
Chongqing Iron & Steel Group Design and Research Institute	**13,074**	31,618
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**12,452**	1,587
Others	**2,287**	2,564
Total	**274,548**	117,106

(7) The Group and Company has no collaterals, guarantees for inter-company balances with related parties, and no fixed period for repayment.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VII. CONTINGENCIES

As at 31 December 2011, the Company has the following disclosable significant or contingent events as follows:

(1) Breaches on financial covenants

Regarding Note V.27(3), breaches on certain financial covenants pursuant to the HSBC Consortium and China Development Bank loan agreement, notwithstanding there were breaches prior to 31 December 2011, the Group considers it unnecessary to account for any potential interest penalty or breach penalty to HSBC Consortium and China Development Bank.

VIII. COMMITMENTS

1 Capital commitments

Item	*Note*	2011	2010
Investment contracts contracted for but not yet performed or performed partially		**—**	15,000
Significant construction contracts contracted for but not yet performed or prepared to perform		**4,142,977**	2,139,148
Significant fixed assets contracts contracted for but not yet performed or prepared to perform		**—**	—
Significant construction contracts authorized but not yet contracted for	(1)	**1,048,324**	1,411,549
Finance leases contracted for and being performed or to be performed.		**5,334,759**	2,572,245
Total		**10,526,060**	6,137,942

(1) Subsequent to the written resolution of the second Board of Directors ad hoc meeting held on 29 December 2011, the Company intended to invest RMB 1,046,000,000 for the construction of pig iron production project in Jiangjin, and authorized the management to take responsibility of the specific implementation issues of the project.

(2) During the year 2011, the Group paid RMB 1,170,312,000 for construction and equipment which recorded in capital commitment of 2010.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VIII. COMMITMENTS *(CONTINUED)*

2 Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Item	2011	2010
Within 1 year (inclusive)	**53**	19,821
After 1 year but within 2 years (inclusive)	**53**	17,627
After 2 years but within 3 years (inclusive)	**53**	17,627
After 3 years	**1,924**	65,246
Total	**2,083**	120,321

IX. POST BALANCE SHEET EVENTS

1 Profit appropriation after the balance sheet date

(1) On 14 October 2011, the Company and Hua Rong entered into a finance lease contract and an entrusted purchase contract (Note V.10(3). On 4 January 2012, the Company has received the second phase finance lease fund amounting to RMB 252,000,000.

(2) On 2 March 2012, the Company made an announcement of "Suspension of Trading for Restructuring of Material Assets" that the Parent Group is planning for material assets restructuring involving the Company. As of the date of approval of these financial statements, the Company and the Parent Group are consulting the relevant authorities regarding the related policies and conducting assessment of such plan. As there is uncertainty about the matter in question, the Company cannot estimate its effect on the financial position and operating results.

2 Profit appropriation after the balance sheet date

During the board of directors meeting on 28 March 2012, the directors of the Company resolved to declare no dividend in respect of 2011 (2010: nil).

X. OTHER MATERIAL EVENTS

1 Leases

Details of finance lease, refer to Note V. 9(4), 10(3), 11(2) and 31(1).

2 Segment reporting

The Group has three reportable segments, which are iron and steel, electronic construction and installation and logistics segment, determined based on the structure of its internal organization, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance. Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses will be allocated to each segment based on revenue.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, 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.

Financial performance is the amount of revenue after deducting expenses, depreciation, amortization and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

Reportable information on the Group's reporting segments in 2011 is set out as follows:

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Operating income from external transactions	**23,385,278**	16,499,568	**95,352**	118,272	**52,315**	58,049	**—**	—	**23,532,945**	16,675,889
Operating income from inter-segment transactions	**3,048**	—	**112,730**	73,256	**363,177**	117,085	**(478,955)**	(190,341)	**—**	—
Operating income	**23,388,326**	16,499,568	**208,082**	191,528	**415,492**	175,134	**(478,955)**	(190,341)	**23,532,945**	16,675,889
Operating expenses	**24,861,059**	16,493,848	**195,254**	187,239	**411,844**	173,873	**(464,137)**	(190,341)	**25,004,020**	16,664,619
Operating profit	**(1,472,733)**	5,720	**12,828**	4,289	**3,648**	1,261	**(14,818)**	—	**(1,471,075)**	11,270
Supplementary information:										
— interest income from bank loans	**11,192**	9,402	**7**	6	**10**	14	**—**	—	**11,209**	9,422
— interest expense from bank loans	**757,720**	446,741	**—**	—	**754**	314	**—**	—	**758,474**	447,055
— depreciation and amortization expenses	**376,871**	350,571	**1,107**	1,859	**9,302**	324	**—**	—	**387,280**	352,754
— impairment loss for the year	**867,688**	32,676	**84**	2,988	**73**	—	**—**	—	**867,845**	35,664
Total assets	**26,399,024**	22,304,380	**87,313**	89,059	**1,027,669**	476,911	**(463,525)**	(201,893)	**27,050,441**	22,668,457
Total liabilities	**22,334,148**	16,751,115	**45,799**	58,073	**611,900**	131,520	**(182,521)**	(19,147)	**22,809,326**	16,921,561

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

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

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

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. If transactions involve financial derivatives, counterparty must have good credit rating, and has signed net settlement agreement with the Group. In view of the counterparty credit rating is good, management of the Group does not expect the counterparty will be unable to perform their duties. Credit risk is primarily attributable to receivables.

The Group requires prepayment by cash or bills from most of its customers prior to delivery. As for accounts receivable and other receivables, the limit on sales credit is determined by the Group's credit assessment on customers. In the normal course, the Group does not obtain collateral from its customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in Note V.3 and Note V.5 respectively.

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

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(2) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group's liquidity management is to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity was carried out on a regular basis by the Group to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Group held negotiation with financial institutions for enough banking facilities. The Group's banking facility was granted by several financial institutions in the PRC. As at 31 December 2011, the Group had an undrawn standby credit of RMB 3,878,200,000. Drawn borrowing facilities were recorded in non-current borrowings and current borrowings respectively. The maturity analysis of long-term loans is disclosed in Note V.29.

As at 31 December 2011, in addition to Note V. 9(4)(a) and Note V. 27(3), the Company had breached the financial covenants with relevant financial institutions of other loans with principals totaling RMB 951,751,000. However, the Company had received exemption letters from the relevant financial institutions exempting its financial covenants prior to the balance sheet date. The Company therefore will not be liable for any responsibility arising from the breach of the financial covenants.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(3) Interest rate risk

Interest-bearing financial instruments at fixed rates and at variable rates expose the Group to fair value interest risk and cash flow interest rate risk respectively. The Group adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Group has achieved an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. Interest rates for short-term and long-term liabilities are set out in Note V. 18, 27, 29, 31 and 33. As at 31 December 2011, the fair value of derivative financial instruments of the interest rate swap contract recorded is RMB 5,369,000 (2010: RMB 4,838,000). The changes in the fair value of derivative financial instruments is recognized in profit and loss, see Note V.45.

Sensitivity analysis

As at 31 December 2011, it is estimated that a general increase of 100 basis points with all other variables held constant, would decrease the Group's net profit by RMB 64,605,000 (2010: RMB 57,273,000).

The sensitivity analysis was made on the assumption that the change in interest rate had occurred at the balance sheet date and such changes had been applied to all financial instruments of the Group. Percentage of change was made on reasonable estimate of interest rate change between balance sheet date and next such date. The analysis is performed on the same basis for 2010.

(4) Foreign currency risk

As the Group's sales of products and purchases of raw material for production are mainly carried out in Renminbi, foreign currency risk is primarily attributable to the foreign currency deposits and loans. In order to avoid foreign currency risk related to US dollar loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. As at 31 December 2011, the fair value of derivative financial instruments recorded as financial liability is RMB 18,344,000 (2010: RMB 3,804,000). The changes in the fair value of derivative financial instruments is recognized in profit and loss, see Note V.45.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(4) *Foreign currency risk* (Continued)

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

Item	2011 USD	2010 USD
Deposits with bank	**333**	7,405
Short-term loans	**(1,477,334)**	(259,509)
Long-term loan due within one year	**(1,228,676)**	(407,296)
Long-term loans	**—**	(430,476)
Net amount	**(2,705,677)**	(1,089,876)

Major foreign exchange rates applied by the Group:

	Average rate		Reporting date middle mid-spot	
	2011	2010	**2011**	2010
USD	**6.4618**	6.7255	**6.3009**	6.6227

Assuming other variables remain unchanged, a 5% strengthening of the Renminbi against the US dollar as at 31 December would increase the Group's profit after tax by approximately RMB 114,991,000 (2010: RMB 46,237,000).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2010.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(5) Other price risks

As the Group sells steel and iron products at market prices, it is exposed to market price fluctuations.

(6) Fair values

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Group's bank loans are evaluated at discounted cash flow based on similar financial instruments' prevailing market interest rates, and approximate to the book value.

The fair value of forward exchange contracts is either based on their listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar interest rate instrument at the measurement date.

The Group's other long-term equity investments without public quotations do not have a significant impact on the financial condition and operating result of the Group.

There were no significant differences between the book value and fair value of the Group's financial assets and financial liabilities as at 31 December 2011.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

XI. COMPARATIVE FIGURES

The comparative figures of 2011 represented figures for the year from 1 January 2010 to 31 December 2010. Due to business combination under common control shall be regarded as the current state of existence at the beginning of the combination parties, the Group has adjusted the comparative figures of 2010.

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

1 Accounts receivable

(1) Accounts receivable by customer type:

Type	2011	2010
Third party	**480,215**	394,501
Related party	**445,500**	217,679
Sub-total	**925,715**	612,180
Less: Provision for bad and doubtful debts	**161,584**	155,941
Total	**764,131**	456,239

(2) The ageing analysis of accounts receivables is as follows:

Ageing	2011	2010
Within 1 year (inclusive)	**776,435**	456,013
1 and 2 years (inclusive)	**3,480**	992
2 and 3 years (inclusive)	**800**	340
Over 3 years	**145,000**	154,835
Sub-total	**925,715**	612,180
Less: Provisions for bad and doubtful debt	**161,584**	155,941
Total	**764,131**	456,239

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(3) Accounts receivable by category:

		2011				2010			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
Category	Note	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually insignificant and assessed individually for impairment	(4)	10,079	1%	10,079	6%	10,079	2%	10,079	6%
Collectively assessed for impairment	(a)								
Group 1	(5)	480,215	52%	151,505	94%	394,501	64%	145,862	94%
Group 2		435,421	47%	—	—	207,600	34%	—	—
Sub- total		915,636	99%	151,505	94%	602,101	98%	145,862	94%
Total		925,715	100%	161,584	100%	612,180	100%	155,941	100%

(a) This category includes accounts receivable having been individually assessed but not impaired.

(b) The Company does not hold any collateral over the above accounts receivable which provision for bad and doubtful debts have been made.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(4) *Provision for bad and doubtful debts for accounts receivable which are individually significant and assessed for impairment individually:*

Content	Carrying amount	Bad debt provision	Percentage
Individually insignificant but provisioning individually	10,079	10,079	100%

As at 31 December 2011, the Company's amounts due from related parties which aged over 3 years mainly include the total amount of RMB 10,079,000 due from Chongqing Iron & Steel Group Yingsite Mould Company Limited and Chongqing Iron & Steel Group Thermal Ceramics Company Limited. Due to the unsatisfactory financial conditions of Chongqing Iron & Steel Group Yingsite Mould Company Limited, the Company's management considered that it was unlikely to recover the amount. A full provision of RMB 2,710,000 was therefore made for the debts in 2005. Due to the cessation of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company's management considered that it was unlikely to recover the amount. A full provision of RMB 7,369,000 was therefore made for debts in 2006.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(5) Accounts receivable which are collectively assessed for impairment using the ageing analysis method:

	2011			2010		
	Balance			Balance		
Aging	Amount	Percent-age	Bad debt provision	Amount	Percent-age	Bad debt provision
Within 3 months (inclusive)	**226,240**	**47%**	**—**	233,676	59%	—
Within 4 to 12 months (inclusive)	**104,695**	**22%**	**5,235**	14,789	4%	739
Sub- total of within 1 year	**330,935**	**69%**	**5,235**	248,465	63%	739
1 to 2 years (inclusive)	**3,480**	**1%**	**870**	992	0%	248
2 to 3 years (inclusive)	**800**	**0%**	**400**	340	0%	170
Above 3 years	**145,000**	**30%**	**145,000**	144,704	37%	144,705
Total	**480,215**	**100%**	**151,505**	394,501	100%	145,862

(6) Accounts receivable written-off during this year:

In 2011, the Company did not have any accounts receivable written off and related provision (2010: nil).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(7) *Accounts receivable due from the top five debtors of the Company:*

Debtors	Relationship with the Company	Amount	Aging	Percentage of total accounts receivable
1. Chongqing Si Gang Steel Co., Ltd	Related party	130,264	within 1 year (inclusive))	14%
2. Shanghai Chonggang Trade Co., Ltd	Third parry	121,647	within 1 year (inclusive)	13%
3. Chongqing San Gang Steel Co., Ltd	Related party	110,880	within 1 year (inclusive)	12%
4. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	94,673	within 1 year (inclusive)	10%
5. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third parry	41,135	within 1 year (inclusive)	5%
Total		498,599		54%

(8) *No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of accounts receivable (Note. VI 6(2)).*

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables

(1) Other receivables by customer type:

Type	2011	2010
Related parties	**135,604**	—
The third parties	**140,781**	102,752
Sub-total	**276,385**	102,752
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**259,427**	85,794

(2) The ageing analysis of other receivables is as follows:

Aging	2011	2010
Within 1 year (inclusive)	**247,973**	75,564
1 to 2 years (inclusive)	**3,922**	4,019
2 to 3 years (inclusive)	**2,927**	1,715
Above 3 years	**21,563**	21,454
Sub-total	**276,385**	102,752
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**259,427**	85,794

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(Continued)*

(3) Other receivables by category:

	2011			
	Carrying amount		Provision for bad and doubtful debts	
Category	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and assessed individually for impairment	**220,485**	**80%**	**15,827**	**93%**
Individually insignificant and assessed individually for impairment	**55,900**	**20%**	**1,131**	**7%**
Total	**276,385**	**100%**	**16,958**	**100%**

	2010			
	Carrying amount		Provision for bad and doubtful debts	
Category	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and assessed individually for impairment	62,758	61%	16,958	100%
Individually insignificant and assessed individually for impairment	39,994	39%	—	—
Total	102,752	100%	16,958	100%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(Continued)*

(4) *The amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of other receivables:*

Debtor	2011 Carrying amount	2011 Provision for bad and doubtful debt	2010 Carrying amount	2010 Provision for bad and doubtful debt
Parent Group	**135,604**	**—**	—	—

Other receivables due from other related parties, see Note VI.6(3).

(5) *Other receivables due from the top five debtors*

Debtor	Relationship with the Company	Amount	Aging	Percentage of total other receivables *(%)*
1. Parent Group	Related party	135,604	With 1 year (inclusive)	48%
2. Chongqing Customs	Third party	68,016	With 1 year (inclusive)	24%
3. Tax Bureau of Changshou District, Chongqing	Third party	11,974	With 1 year (inclusive)	4%
4. Zhanjiang Economic Development Zone Chongqing Iron & Steel Company Zhanjiang Industrial & Trading Joint Group Company *	Third party	10,240	Over 3 years	4%
5. People' s Court of the Neijiang City in Sichuan Province *	Third party	5,587	Over 3 years	2%
Total		231,421		82%

* These amounts have been fully provided for.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment

(1) Long-term equity investments by category:

Item	2011	2010
Investments in subsidiaries	**281,044**	182,745
Other long-term equity investments	**5,000**	20,000
Sub-total	**286,044**	202,745
Less: Provision for impairment	**—**	—
Total	**286,044**	202,745

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

Investee	Accounting for method	Initial invest-ment cost	Balance at the beginning of the year	Movement of addition and reduction	Balance at the end of the year	Share-holding percentage (%)	Voting Rights (%)	Provision for impairment	Pro-vision made during the year	Cash dividend for the year
Xiamen Shipbuilding	Cost method	5,000	5,000	—	5,000	2%	2%	—	—	—
San Feng Logistics	Cost method	153,000	153,000	—	153,000	51%	51%	—	—	—
Jiangsu Huayuan	Cost method	15,000	15,000	(15,000)	—	5%	5%	—	—	—
Chongqing Electronics	Cost method	29,745	29,745	—	29,745	100%	100%	—	—	—
Jingjiang San Feng Steel Processing & Distribution	Cost method	51,000	—	51,000	51,000	51%	51%	—	—	—
Chongqing Transportation	Cost method	47,299	—	47,299	47,299	100%	100%	—	—	—
Total	—	301,044	202,745	83,299	286,044	—	—	—	—	—

Details of information on the subsidiaries of the Company, see Note IV.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income, operating costs

(1) Operating income, operating costs

Item	2011	2010
Operating income from principal activities	**23,305,238**	16,429,074
Other operating income	**83,088**	70,494
Operating income	**23,388,326**	16,499,568
Operating costs from principal activities	**22,445,915**	15,182,598
Other operating costs	**56,287**	56,423
Operating costs	**22,502,202**	15,239,021

(2) Principal activities (by product)

Product	2011 Operating income from principal activities	2011 Operating cost from principal activities	2010 Operating income from principal activities	2010 Operating cost from principal activities
Steel plates	**7,764,550**	**7,451,510**	8,802,753	8,015,648
Hot-rolled coil	**8,168,129**	**8,213,454**	905,799	942,763
Steel billets	**1,058,460**	**1,021,259**	955,858	896,548
Steel sections	**3,145,078**	**2,890,959**	3,103,872	2,906,801
Wire rods	**1,573,575**	**1,419,557**	1,704,030	1,556,370
Cool-rolled sheets	**464,978**	**524,899**	200,963	222,925
By-product	**1,130,468**	**924,277**	755,799	641,543
Total	**23,305,238**	**22,445,915**	16,429,074	15,182,598

(3) Information on the Company's operating income from top five customers, see Note V.39(4).

5 Investment income

Item	2011	2010
Income from long-term equity investments under cost method	**14,818**	1,079

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Supplement to cash flow statement

Supplemental Information	2011	2010
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("( )" for losses)	**(1,472,733)**	5,720
Add: Impairment provisions for fixed assets	**867,688**	32,676
Depreciation of fixed assets	**369,862**	343,562
Amortisation of intangible assets	**7,009**	7,009
Losses on disposal of fixed assets (gains denoted with "( )")	**(1,710)**	(7,716)
Loss on change of fair value (gain denoted with "( )")	**15,071**	8,642
Financial expenses (income denoted with "( )")	**634,407**	396,845
Investment losses (gain denoted with "( )")	**(14,818)**	(1,079)
Decrease in deferred tax assets (increase denoted with "( )")	**92,724**	3,143
Decrease in gross inventories (increase denoted with "( )")	**(744,371)**	(2,649,901)
Decrease in operating receivables (increase denoted with "( )")	**207,672**	(1,855,199)
Increase in operating payables (decrease denoted with "( )")	**1,212,695**	1,647,280
Decrease in restricted cash (increase denoted with "( )")	**(725,940)**	(31,938)
Net cash flow from operating activities	**447,556**	(2,100,956)
(b) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance lease	**901,482**	220,000
(c) Change in cash and cash equivalents:		
Cash at the end of the year	**1,181,593**	1,290,146
Less: Cash at the beginning of the year	**1,290,146**	1,404,948
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "( )")	**(108,553)**	(114,802)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

1 EXTRAORDINARY GAIN AND LOSS

Item	*Note*	2011	2010
Disposal of non-current asset		**1,781**	7,824
Tax refunds, exemptions and reductions on an occasional basis		**5,479**	5,407
Government grants recognized through profit or loss		**4,521**	10,715
Profit or loss of subsidiaries generated before combination date of a business combination involving entities under common control		**1,529**	3,731
Actual additional expenditure incurred in relation to the environmental relocation	(1)	**(495,660)**	(147,125)
Amount for free use of the Parent Group's assets		**503,204**	153,194
Other non-operating income and expenses other than the above items		**5,441**	8,639
Less: Amount of effect on taxation		**4,211**	6,372
Total		**22,084**	36,013

The above extraordinary gain and loss items are before taxation.

(1) In accordance with the requirements of Chongqing Municipal Government on emissions reduction, industry distribution and strategic planning, the Company had moved to Changshou New Zone with the Parent Group on 22 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 (as stated in Note I). As estimated by both the Parent Group and the Company, the actual additional expenses incurred in relation to the environmental relocation in 2011 by the Company amounted to RMB 495,660,000, and the costs that should be measured in relation to the authorized use of the above assets in 2011 amounted to RMB 503,204,000 (as stated in Note. VI.5(5)(vii)).

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE

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

		Earnings per share	
Profit under reporting period	Weighted average return on net asset *(%)*	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	(30.52%)	(0.849)	(0.849)
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	(30.97%)	(0.862)	(0.862)

Documents Available For Inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. Original copy of the auditor's report prepared under PRC GAAP which has been signed by certified public accountants, Mr. Lin Jian Kun and Mr. Gong Wei Li, and stamped by KPMG Huazhen.

3. The original copies of all documents and announcements of the Company which have been publicly disclosed during the reporting period in China Securities Journal, Shanghai Securities News and Securities Times.

4. Summary of the Annual Report which was published in China Securities Journal, Shanghai Securities News and Securities Times.