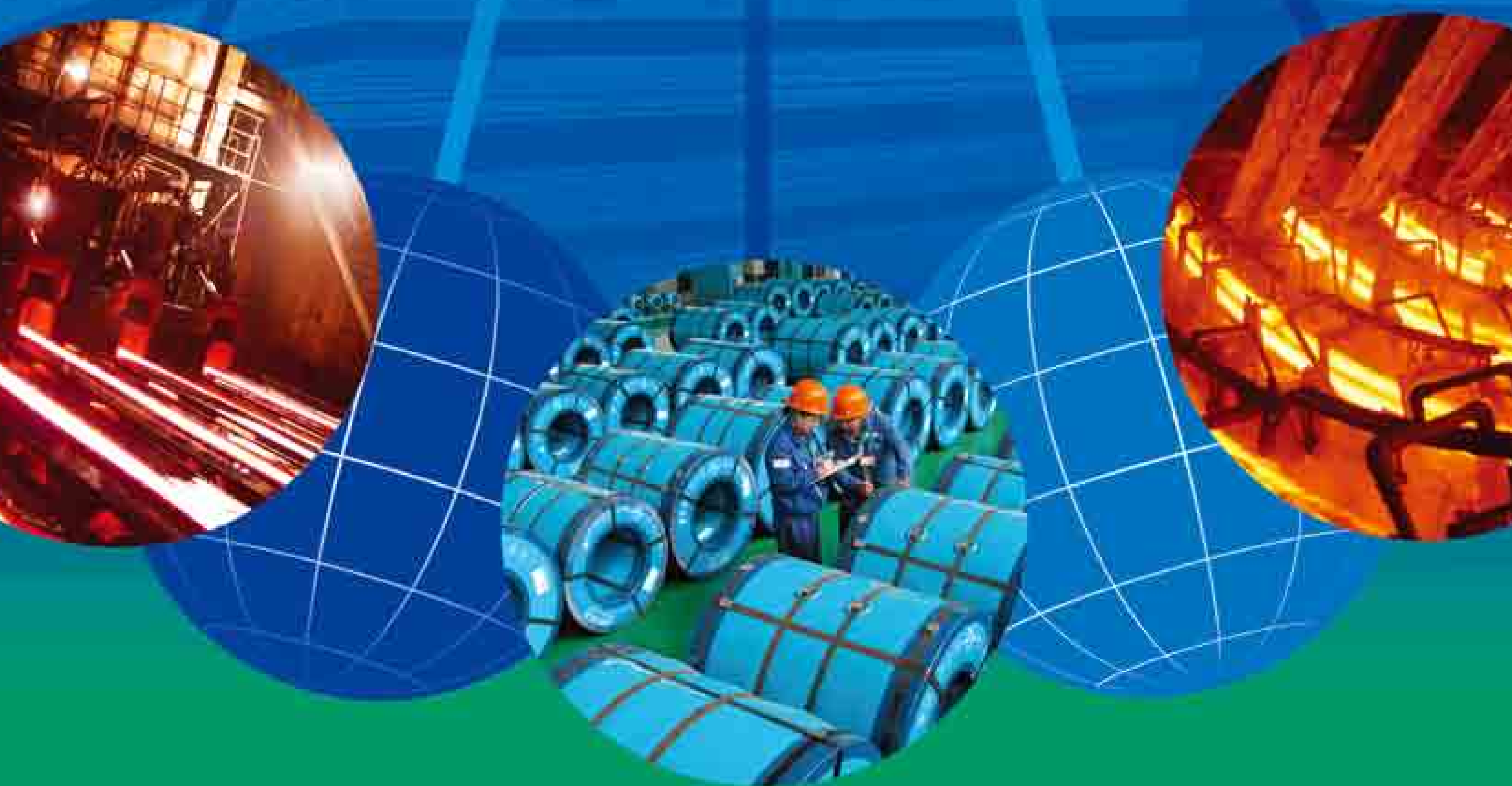
重慶鋼鐵股份有限公司
Chongqing Iron & Steel Company Limited

2012 Interim 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. Mr. Deng Qiang, the Chairman of the Company, and Ms. Gong Jun, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness and completeness of the financial statements in the interim report.

3. The interim financial statements of the Company and its subsidiaries (the "Group") are unaudited, but have been reviewed by the Audit Committee of the Board of the Company.

4. The financial data in this interim report are prepared under PRC GAAP.

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

(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 of the Company:	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
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Securities representative:	Peng Guoju
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, office address and correspondence address:	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
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Telephone:	8623-68983482
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Website:	http://www.cqgt.cn

(I) BASIC INFORMATION *(Continued)*

E-mail: dms@email.cqgt.cn

Name of newspapers designated for information disclosure of the Company: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Website for publishing the interim report: http://www.sse.com.cn and http://www.hkexnews.hk

Place for preparation and reference of the interim report: Secretariat of the Board of Directors of Chongqing Iron & Steel Company Limited

Place of listing of the Company's Shares: Shanghai Stock Exchange (A shares)/ The Stock Exchange of Hong Kong Limited (H shares)

Abbreviated name of Shares: 重慶鋼鐵 (A shares)/Chongqing Iron (H shares)

Stock code: 601005 (A shares)/1053 (H shares)

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

Unit: RMB'000

Items	At the end of the reporting period	At the end of last year	Increase/decrease at the end of reporting period from the end of last year *(%)*
Total assets	**28,488,463**	27,050,441	5.32
Owner's equity (or shareholders' equity)	**3,592,819**	4,241,115	–15.29
Net asset per share attributable to shareholders of the Company *(RMB)*	**1.98**	2.35	–15.74

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

	The reporting period (Jan–Jun)	The same period last year	Increase/ decrease in the reporting period from the same period last year *(%)*
Operating profit	**–811,868**	–193,732	–319.07
Total profit	**–648,030**	15,103	–4390.74
Net profit	**–648,036**	14,120	–4689.49
Net profit after extraordinary gain and loss	**–648,059**	12,735	–5,188.80
Basic earnings per share *(RMB)*	**–0.374**	0.008	–4,775.00
Diluted earnings per share *(RMB)*	**–0.374**	0.008	–4,775.00
Net cash flow from operating activities	**1,859,238**	–924,096	301.20
Net cash flow per share from operating activities *(RMB)*	**1.07**	–0.53	301.89
Return on net assets (weighted average) *(%)*	**–17.28**	0.25	Decreased by 17.53 percentage points

Extraordinary gain and loss items and amounts during the reporting period

Unit: RMB'000

Extraordinary gain and loss item	**Amount**
Gain on disposal of non-current asset	–1,769
Actual additional expenses for preparation of environmental relocation	–163,739
Relevant usage fees which should be measured for use of relevant assets of the Parent Company for free	162,739
Other non-operating income and expenses except items above	2,868
Less: Amount of effect on taxation	76
Total	23

(I) CHANGES IN SHARE CAPITAL DURING THE REPORTING PERIOD

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

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

1. As at the end of the reporting period, the total number of shareholders of the Company was 96,248, of which 95,941 shareholders were the holders of A shares and 307 shareholders were holders of H Shares.

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

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

Unit: share

Name of shareholder	Type of shareholder	Shareholding percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Company Limited	State-owned legal person shareholder	46.21%	800,800,000	0	47,600,000
HKSCC NOMINEES LIMITED	Holder of foreign shares	30.37%	526,298,270	0	Unknown
National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) ("NCSSF")	Domestic state-owned legal person shareholders	2.02%	35,000,000	0	Unknown
Guotai Junan Securities Co., Ltd. — Client Credit Trading Guarantee Securities Account (國泰君安證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.26%	4,551,952	0	Unknown

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

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

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

Unit: share

Name of shareholder	Type of shareholder	Shareholding percentage	Total number of shares held	Number of shares held subject to trading moratorium	Number of shares pledged or frozen
Bohai Securities — China Construction Bank — Binhai No. 1 People's Livelihood Value Asset Pool Management Plan (渤海證券—建行—濱海1號民生價值集合資產管理計劃)	Unknown	0.13%	2,318,189	0	Unknown
Bai Jiping (白計平)	Domestic natural person shareholder	0.13%	2,310,000	0	Unknown
Zhou Yong (周勇)	Domestic natural person shareholder	0.09%	1,600,000	0	Unknown
Wang Mingxue (王明學)	Domestic natural person shareholder	0.09%	1,502,100	0	Unknown
Jiang Xiantang (江賢堂)	Domestic natural person shareholder	0.07%	1,227,580	0	Unknown
Du Zhen (杜振)	Domestic natural person shareholder	0.07%	1,138,309	0	Unknown

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

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

(II) SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

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

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

Note 3: Pursuant to the executive ruling Shen Zhong Fa Zhi Zi (2012) No.101-3 given on 4 July 2012 by Shenzhen Intermediate People's Court, Guangdong Province, the freeze on the 47,600,000 shares of the Company (representing 2.75% of the total share capital of the Company) held by Chongqing Iron & Steel (Group) Company Limited ("Parent Company") was lifted.

Note 4: The 526,332,870 H shares held by HKSCC NOMINEES LIMITED are shares held on behalf of its customers.

Note 5: All shareholders were holders of shares not subject to trading moratorium at the end of the reporting period

3. Save as disclosed above, as at 30 June 2012, the Board was not aware of any person or its associates whose interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong (the "SFO").

(III) OTHER ISSUES IN RELATION TO LISTED SECURITIES

1. Repurchase, Sale and Redemption of Securities

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

2. Rating of Listed Bonds

In June 2012, based on its comprehensive analysis and evaluation of the Company's operation status since 2011 and relevant industries, China Cheng Xin International Credit Rating Co. Ltd. carried out a follow-up rating of the RMB2 billion corporate bonds issued by the Company in 2010. As reviewed and finalized by the China Cheng Xin International Credit Rating Committee, the Company's bonds were maintained its AA+ credit rating after this follow-up rating.

(I) SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

Save as disclosed above, as at 30 June 2012, none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its associated corporations.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 16 February 2012, Mr. Wu Zi Sheng was appointed as Deputy General Manager of the Company through the 102nd written resolution of the fifth session of the Board of the Company. On 4 May, being unsuitable for his work due to personal health reasons, Mr. Wu Zi Sheng resigned from the position of Deputy General Manager of the Company as approved through the 111th written resolution of the fifth session of the Board of the Company.

2. On 28 February 2012, at the 2012 first extraordinary general meeting of the Company, Mr. Xia Tong was elected as a director of the Company. At the eighth meeting of the fifth session of the Board held on the same day, Mr. Xia Tong was elected as the vice-chairman of the Board and he was appointed as a member of the third strategic committee of the Board.

3. On 29 May 2012, Ms. Chen Hong and Mr. Dou Hui were elected as staff representative supervisors of the sixth session of the Supervisory Committee at the 71st meeting of the second staff representative meeting for its group leaders of the Company.

4. On 31 May 2012, the fifth session of the Board and the fifth session of the Supervisory Committee were re-elected at the 2011 annual general meeting of the Company. Mr. Deng Qiang, Mr. Yuan Jin Fu, Mr. Xia Tong, Mr. Chen Hong, Mr. Sun Yi Jie, Mr. Li Ren Sheng, Mr. Zhang Guo Lin, Mr. Liu Tian Ni and Mr. Ran Mao Sheng were elected as directors of the sixth session of the Board of the Company, with Mr. Zhang Guo Lin, Mr. Liu Tian Ni and Mr. Ran Mao Sheng being independent directors. Mr. Zhu Jian Pai, Mr. Li Zheng and Mr. Li Mei Jun were elected as shareholder representative supervisors of the sixth session of the Company's Supervisory Committee.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

5. On 31 May 2012, the Company held the first meeting of the sixth session of the Board where Mr. Deng Qiang and Mr. Xia Tong were elected respectively as the Chairman and Deputy Chairman of the sixth session of the Board of the Company, and members of the special committees of the sixth session of the Board and their respective chairmen were elected and appointed:

(1) The Fourth Strategic Committee of the Board:

Chairman: Deng Qiang

Members: Zhang Guo Lin, Xia Tong, Chen Hong, Sun Yi Jie and Li Ren Sheng

(2) The Fifth Audit Committee of the Board:

Chairman: Ran Mao Sheng

Members: Zhang Guo Lin and Liu Tian Ni

(3) The Third Salary and Remuneration Review Committee of the Board:

Chairman: Zhang Guo Lin

Members: Yuan Jin Fu, Ran Mao Sheng and Liu Tian Ni

(4) The First Nomination Committee of the Board:

Chairman: Deng Qiang

Members: Ran Mao Sheng and Liu Tian Ni

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

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

As the European debt crisis has continued to build and the global financial market has been in great turmoil since the beginning of 2012, the world economic recovery proves bumpy. All these, coupled with wave after wave of regional unrest, reflect that there is still much uncertainty. The pronounced slowdown of the domestic economic growth, the sluggish iron & steel industry and the spillover effects of the property market regulation have exerted significant impact on the trend of the iron & steel market; at the same time, the domestic shipbuilding industry and the shipbuilding steel market remained weak and orders were decreasing, which made it difficult for the Group to maintain large-scale production. The sustained deterioration of market condition has brought greater pressure and challenges for the production and operation of the Group.

During the reporting period, according to relevant requirements for eliminating outdated capacity and implementing environmental relocation, the Group basically completed the environmental relocation. The shutdown of the facilities in Dadukou District, Chongqing (the "Old District") enabled the production capacity in the Jiangnan Town, Changshou District, Chongqing (the "New District") to be fully utilized. With the New District releasing capacity and the steel sections, steel bars and wire rods production lines of the Old District being relocated, the Group's production scale declined as a whole from the same period last year despite an increase in capacity for the New District. During the reporting period, the Group produced 1,155,400 tonnes of coke, 2,697,200 tonnes of pig iron, 2,802,100 tonnes of steel and 2,453,600 tonnes of steel products, with the output of the New District increasing by 27.09%, 39.37%, 33.71% and 32.44% year on year respectively and the total output of the New District and the Old District decreasing by 17.02%, 6.95%, 10.90% and 11.12% year on year respectively. The Group recorded operating revenues of RMB10,282,042,000, representing a year-on-year decrease of 21.15%, and cumulative loss of RMB648,059,000 due to factors including the overall situation of the iron & steel industry and raw materials prices.

During the reporting period, the Group had greater cost pressure for reasons as follows: the utilization of the capacity in the New District after the closedown of the Old District led to an increase in consumption of various raw and auxiliary materials; price fluctuations in the raw material market made procurement more difficult; the continued slump in the domestic steel market squeezed the room for cost control. Therefore, the Group carried out activities including perfecting the process, optimizing ore blending, optimizing prices and improving logistics to cut cost. As a result, the cost cutting drive in the first half of the year yielded satisfactory results.

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

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

During the reporting period, the continued slump in the steel market made fulfillment of contracts more difficult. To cope with this problem, the Group did a great deal for production arrangement according to contracts, accidents control, one-time success rates for steelmaking and steel rolling as well as unplanned products control, and achieved certain results. The success rate for steelmaking increased markedly from 87.7% in the first quarter to 91.3% in June. The success rate for medium-gauge plates rolling also improved significantly, with the success rate for 2700mm plates reaching 93.02% in June. Meanwhile, the percentages of unplanned products on 2700mm and 1780mm production lines fell from respectively 8.56% at the beginning of the year to 6.64% in June and from 4.92% to 3.83% respectively. These measures effectively increased the rate of contract fulfillment. In the first half of 2012, the Group sold a total of 2,598,800 tonnes of steel products (billets), down 9.68% from the same period last year due to negative market conditions and the decline in the Group's aggregate output as compared with last year.

During the reporting period, the Group re-sorted out the management system of tapping potential by benchmarking and standardized the establishment of scientific indicators, election of enterprises for benchmarking and indicator analysis. We spent half a year working on tapping potential by benchmarking and saw effects showing up gradually. Out of the 39 indicators (for the same industry and same model) set by the Group, 4 indicators, namely, the rate of coke dry quenching (CDQ), solid fuel consumption, energy consumption in the steelmaking process and the casting machine leak rate, reached advanced industrial level and 18 reached average industrial level. Out of the 43 major technical and economic indicators included in the Group's statistics, 31 improved significantly as compared with 2011, representing an improvement rate of 72.09%. In respect of quality management, the Group vigorously pressed ahead with the internal audit of the quality, safety and environmental management systems of the New District and urged the rectification of identified defects. Meanwhile, the inspection centre management system was improved and the quality assurance plan was strictly implemented. During the reporting period, the Group completed the certification of normalized steel for shipbuilding produced on the 2700mm steel production line in the New District by 8 classification societies including CCS, GL, BV, DNV, LR, NK, RINA and KR, the certification for Al reduction as well as the extension of certification scope for vessel steel produced on the 2700mm production line.

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

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

During the reporting period, to meet market challenges, the Group constantly increased efforts to adjust product mix in light of the future market demand and invested more in technology, and achieved certain results. From January to June, the Group completed development and trial production of 62,300 tonnes of new products and special-purpose products with an output value of RMB313 million. As included in these products, 70mm E40 and E47 high-strength steel for shipbuilding successfully developed for the 4100mm production line reached the advanced level in the domestic industry; certification of the 2700mm production line for furnace steel plate and component adjustment for 36-grade high-strength steel for shipbuilding was completed; progress was made in development of high value-added products such as oriented silicon steel and steel for vehicles for the 1780mm production line, with capabilities for mass production of oriented silicon steel gradually developed. In the first half of the year, a total of 6,143 tonnes of steel was rolled, with the yield of finished products at 85.82% and the success rate of rolling at 90.63%. Presently, high grade steel accounts for 40% of the Company's products.

2. Analysis of principal operations during the reporting period

As at 30 June 2012, the Group's operating revenue amounted to RMB10,282,042,000 representing a year-on-year decrease of 21.15%; revenue from principal operations amounted to RMB10,234,808,000, representing a year-on-year decrease of 21.25%; and total profit amounted to RMB-648,030,000, a loss as compared with profit for the same period last year.

In the first half of 2012, the Group's revenue from principal operations in south-western region amounted to RMB5,414,538,000, representing a year-on-year decrease of 31.36% while revenue from principal operations in other regions amounted to RMB4,820,270,000, representing a year-on-year decrease of 5.62%.

Region	Revenue from principal operations *(RMB'000)*	Year-on-year increase/ decrease in revenue from principal Operations *(%)*
South-western region	5,414,538	–31.37
Other regions	4,820,270	–5.62
Total	10,234,808	–21.25

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

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

In the first half of 2012, the Group's revenue from sales of steel products (billets) amounted to RMB9,769,965,000, representing 95.46% of the total revenue, down 20.82% year on year; and revenue from sales of non-steel products, such as water granulated slag, coking by products, cutting steel leftover and water, electricity and steam as well as provision of electronic engineering design and installation services amounted to RMB464,843,000, which accounted for 4.54% of the total revenue, down 29.45% year on year.

	For the first half of 2012		For the first half of 2011		
Product	**Amount**	**Percentage**	Amount	Percentage	**Year-on-year increase/ decrease**
	(RMB'000)	***(%)***	*(RMB'000)*	*(%)*	*(%)*
Steel plates	**5,223,261**	**51.05**	4,216,921	32.45	23.86
Steel billets	**325,682**	**3.18**	592,818	4.56	–45.06
Steel sections	**39,250**	**0.38**	2,213,130	17.03	–98.23
Wire rods	**22,951**	**0.22**	1,080,446	8.31	–97.88
Hot rolled coil	**4,010,407**	**39.18**	4,011,165	30.86	–0.02
Cool rolled plates	**148,414**	**1.45**	223,721	1.72	–33.66
Subtotal	**9,769,965**	**95.46**	12,338,201	94.93	–20.82
Others	**464,843**	**4.54**	658,927	5.07	–29.45
Total	**10,234,808**	**100.00**	12,997,128	100.00	–21.25

In the first half of 2012, the sales revenue of the Group's steel products (billets) decreased by RMB2,568,236,000 as compared with the same period of last year. The decrease was mainly attributable to (1) the continued slump in the steel market since the fourth quarter of 2011: the average selling price of steel products (billets) was RMB3,755 per tonne, representing a year-on-year drop of 12.43%, which reduced sales revenue by RMB1,429,262,000; (2) the closedown and relocation of the Old District and the slightly smaller production and sales as a result of moderate scale control in response to market changes: the Group sold 2,601,900 tonnes of steel products (billets), representing a year-on-year decrease of 9.57%, which reduced sales revenue by RMB1,138,974,000.

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

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

Sales price

Item	**First half of 2012 *(RMB/tonne)***	First half of 2011 *(RMB/tonne)*	Year-on-year increase/ decrease *(%)*	**Increase/ decrease in contribution to revenue** *(RMB'000)*
Steel plates	**3,869**	4,488	–13.79	–835,650
Steel billets	**3,290**	4,144	–20.61	–84,546
Steel sections	**3,320**	4,337	–23.45	–12,004
Wire rods	**3,739**	4,265	–12.33	–3,209
Hot rolled coil	**3,639**	4,083	–10.87	–489,332
Cool rolled plates	**4,497**	4,634	–2.96	–4,521
Total	**3,755**	4,288	–12.43	–1,429,262

Sales volume

Item	**First half of 2012 *(0'000 tonnes)***	First half of 2011 *(0'000 tonnes)*	Year-on-year increase/ decrease *(%)*	**Increase/ decrease in contribution to revenue** *(RMB'000)*
Steel plates	**135.00**	93.97	43.66	1,841,990
Steel billets	**9.90**	14.31	–30.82	–182,590
Steel sections	**1.18**	51.03	–97.69	–2,161,876
Wire rods	**0.61**	25.33	–97.59	–1,054,286
Hot rolled coil	**110.21**	98.25	12.17	488,574
Cool rolled plates	**3.30**	4.83	–31.68	–70,786
Total	**260.20**	287.72	–9.56	–1,138,974

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

3. Operating results during the reporting period

In the first half of 2012, the Group's total profit amounted to RMB-648,030,000, representing a year-on-year decrease of RMB663,133,000, of which:

By industry	Revenue from principal Operations *(RMB'000)*	Cost of principal Operations *(RMB'000)*	Gross profit Margin *(%)*	Increase/ decrease in revenue from principal operations from last year *(%)*	Increase/ decrease in cost of principal operations from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Steel plates	5,223,261	5,145,363	1.49	23.86	30.45	–4.98
Steel billets	325,682	336,271	–3.25	–45.06	–40.74	–7.54
Steel sections	39,250	43,347	–10.44	–98.23	–97.93	–15.78
Wire rods	22,951	24,325	–5.99	–97.88	–97.58	–12.94
Hot rolled coil	4,010,407	3,874,860	3.38	–0.02	–1.65	1.61
Cool rolled plates	148,414	160,481	–8.13	–33.66	–32.46	–1.92
Others	464,843	421,239	9.38	–29.45	–18.41	–12.27
Total	10,234,808	10,005,886	2.24	–21.25	–18.69	–3.08

(1) In the first half of 2012, the Group's gross profit from principal operations amounted to RMB228,922,000, representing a decrease of RMB462,409,000 over the same period last year, mainly due to the drop in selling prices of steel products.

In the first half of 2012, the average selling price of the Group's steel products (billets) was RMB3,755 per tonne, representing a year-on-year decrease of 12.43%, which reduced profit by approximately RMB1,387,593,000. The sales volume of steel products (billets) amounted to 2,602,000 tonnes, representing a year-on-year decrease of 9.56%, which reduced profit by approximately RMB18,242,000. On the other hand, as prices of fuel and raw materials including iron ore, coal, pig iron and scrap steel declined accordingly and a series of measures taken by the Group for tapping potential by benchmarking and cost cutting and efficiency improvement delivered results, leading to a drop in cost of principal operations over the same period of last year. However, as the fall in cost was not sufficient to offset the decline in selling prices, the gross profit margin decreased by 3.08% year on year.

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

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

(2) In the first half of 2012, expenses increased by RMB194,695,000 as compared with the same period of last year, which was mainly due to an increase in interest expenses and discount rate for bank acceptance as a result of increased total liabilities after environmental relocation.

4. Analysis on financial position during the reporting period

(1) As at 30 June 2012, the Group's total assets amounted to RMB28,488,463,000 and total liabilities amounted to RMB24,895,644,000, with a gearing ratio was 87.39%. Current assets amounted to RMB14,125,169,000; current liabilities amounted to RMB18,666,598,000; current ratio was 0.76.

(2) In the first half of 2012, In 2011, although the Group recorded 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 RMB1,859,238,000. Net cash outflow due to repayment of liabilities under finance leases and bank loans amounted to RMB1,703,725,000; the cost paid for the environmental relocation was RMB393,632,000; The net cash and cash equivalents of the Group for the current period decreased by RMB238,119,000.

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

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

(3) Items of cash flow statement

Unit: RMB'000

Item	Jan-Jun 2012	Jan-Jun 2011	Main Reasons for the changes
Net cash flow from operating activities	**1,859,238**	–924,096	Net increase in cash flow from operating activities due to the Group's effort to tighten capital planning and management, well control timing of cash payment and reasonably postpone payment.
Net cash flow from investing activities	**–393,632**	–1,378,877	As the environmental relocation has been completed gradually and the expenses were controlled, expenditures for investment projects was reduced.
Net cash flow from financing activities	**–1,703,725**	1,279,770	The net decrease from financing activities for the period is due to repayment of bank loans and payment of liabilities under finance leases.
Net increase in cash and cash equivalents	**–238,119**	–1,023,203	The slight decrease in cash and cash equivalents is due to repayment of bank loans and payment of liabilities under finance leases as well as expenditures for the environmental relocation.

(II) PROSPECTS

Looking into the second half of 2012, with the deep impact of the international financial crisis lingering, the downside risk of the world economy rising and China's economy continuing to slow, it is expected to be difficult to change within the short term the downward trend in the domestic shipbuilding industry and the shipbuilding steel market. On the other hand, as the government steps up efforts to maintain stable growth, construction on approved infrastructure projects begins successively and the traditional bumper sales season approaches, the overall downstream industry is likely to improve gradually in the third and fourth quarters, putting steel prices on track to rise again. In the second half of the year, the Company will further implement the policy of "seeking economic benefits by exploring the market, enhancing management, adjusting the structure, upgrading the technology, raising quality, saving resources and tapping potentials". Meanwhile, it will: keep launching campaigns for tapping potential by benchmarking and cost reduction and efficiency enhancement such as saving more and spending less; keep pace with market dynamics, adapt itself to market changes and proactively adjust product mix to secure contracts; focus on systematic balance and tackle the bottleneck in the system to maintain stable and smooth production at a proper scale; strive to increase the one-time success rates for steelmaking and steel rolling, and further enhance fulfillment rate of contracts and shorten the delivery cycle. Meanwhile, the Group will proceed with the unfinished and follow-up matters of the environmental relocation and properly organize the production system of the New District.

(III) INVESTMENT 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 loans. As at 30 June 2012, 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 loans 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

Unit: RMB'000

Project name	Budget	Progress	Earnings
Coking project	1,098,546	82%	Under construction, N/A
Residual heat power generation	375,000	45%	Under construction, N/A
Limestone transportation	61,180	79%	Under construction, N/A
Long steel products production line	3,435,000	32%	Under construction, N/A
Jingjiang Logistics Base	1,300,000	49%	Under construction, N/A
Jiangjin pig iron production base	1,046,000	4%	Under construction, N/A

(IV) FORMULATION AND IMPLEMENTATION OF CASH DIVIDEND DISTRIBUTION POLICIES

In order to further enhance the transparency of the Group's profit distribution policies, improve and perfect its profit distribution decision-making and supervision mechanism, maintain the continuity and stability of profit distribution policies, and protect the legitimate rights and interests of investors to bring them stable and expected returns, according to the requirement of the "Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies" (Zheng Jian Fa [2012] No.37) (《關於進一步落實上市公司現金分紅有關事項的通知》) promulgated by the China Securities Regulatory Commission ("CSRC") and the "Notice On Forwarding Relevant Requirements for Further Implementation of Cash Dividends Distribution of Listed Companies" (Zheng Jian Fa [2012] No.140) (《關於轉發進一步落實上市公司現金分紅有關要求的通知》) issue by the CSRC Chongqing Office, the Medium-and Long-Term Dividend Distribution Plan of the Chongqing Iron & Steel Company Limited was considered and approved and amendments to the corresponding articles of the "Articles of Association of Chongqing Iron & Steel Company Limited" (the "Articles of Association") were made based on the actual conditions of the Company at the second meeting of the sixth session of the Board of the Company. The amendments laid out specific requirements on the basic principles, forms and conditions for profit distribution, the consideration and deliberation procedures and decision-making mechanism in respect of the profit distribution plan and adjustment to profit distribution policies. The Group suffered substantial losses in 2011(net profit attributable to shareholders of the Company of RMB-1,471,082,000 in 2011). In order to relieve the Company's pressure of liquidity requirements and ensure the Company's stable development of production and operation, the Board proposed neither to distribute profit for 2011 nor to transfer the capital reserve to share capital. As material losses were still recorded by the Company in the first half of 2012, the Board proposed no profit distribution for the first half of 2012.

(IV) FORMULATION AND IMPLEMENTATION OF CASH DIVIDEND DISTRIBUTION POLICIES *(Continued)*

At the second meeting of the sixth session of the Board of the Company, the Medium-and Long-Term Dividend Distribution Plan of Chongqing Iron & Steel Company Limited was considered and approved, which set out the specific medium-and long-term dividend distribution plan of the Company:

(1) The Company shall implement a proactive profit distribution mechanism to ensure investors receive reasonable returns.

(2) The Company shall distribute dividends in cash or a combination of cash and shares and may pay interim dividends based on the Company's capital needs. If there is no significant investment plan or large cash outlay, the Company shall distribute no less than 10% of the distributable profit realized for the year in cash and the total profit distributed in cash in any given consecutive three years shall be no less than 30% of the average annual distributable profit realized in the recent three years provided that the capital needs of the Company for normal production and operation are satisfied.

(3) The Board of the Company shall put forth an annual profit distribution plan at the end of each financial year and submit the same to the general meeting for approval. If the Board of the Company does not propose a cash dividends distribution plan although profit is recorded, it shall explain in details in the annual report the specific reasons therefor and the purpose for the retained profit. Independent directors shall express and publicly disclose their independent opinions thereon.

(4) Upon occurrence of any illegal appropriation of the Company's funds by shareholders, the Company shall deduct the cash dividend to be paid to such shareholders to make up for the appropriated funds.

(V) IMPLEMENTATION OF INTERNAL CONTROL

1. In combination with the actual conditions of the Company, we further clarified the organizational structure and job responsibilities of the leading group on internal control. At present, the Company has formed a three-layered work structure, namely, top internal control decision-makers (headed by the Chairman of the Board), internal control managers (headed by the Deputy Chairman of the Board and composed of heads of all business segments), and internal control enforcers (led by the internal control management office with a routine working group composed of internal control specialists appointed by all business segments). The working groups at all the layers carry out work in all-round manner based on the requirements of the internal control work.

(V) IMPLEMENTATION OF INTERNAL CONTROL *(Continued)*

2. According to the requirements of the Notice on 2011 Annual Report Work of Listed Companies in Chongqing, Document [2012]No.4 issued by CSRC Chongqing Securities Regulatory Bureau, we led in the preparation, submission for review, disclosure and filing of the annual internal control report.

3. We made proper arrangements for internal control and audit work in 2012. On 28 March, the Board of the Company considered and approved reappointment of KPMG Huazhen Certified Public Accountants as the Company's auditor and internal control auditor for 2012, which was passed at the annual general meeting of the Company on 31 May.

4. The internal control management office took a lead in compiling the Basic Theories of Corporate Internal Control and other related materials, the content of which included the basic theories on internal control (definition, contents, elements, effect and the principles to abide by) and development history of such theories, and circulated such materials to all internal control specialists for study via the Company's office system.

5. On the basis of our practice in internal control management in 2011, the Company went through the internal control workflow of our wholly-owned subsidiaries (Chongqing Transportation and Chongqing Electronics) and of our controlled subsidiaries (San Feng Jingjiang Port Logistics Company Limited and Jingjiang San Feng Steel Processing & Distribution Company Limited), and ordered the said subsidiaries to optimize the management systems in respect of internal control workflow to ensure control of key points.

6. We proactively implemented correction and improvement of internal control deficiencies identified in 2011. The internal control management office tracked and monitored the design and implementation defects identified in the internal control self-evaluation process and the weaknesses set out in the external auditor's letter to the management, and is assessing the operating condition after the rectification of decifiencies found in the first half year to ensure the system design of all business processes is effective and control over system implementation is in place.

7. We actively participated in all the training programs and relevant work arrangements by CSRC Chongqing Securities Regulatory Bureau and made preparations for their special inspection on our internal controls in accordance with the document [2012] No.159 of the bureau.

(I) CORPORATE GOVERNANCE

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

On 17 April 2012, the Company received from the Shanghai Stock Exchange the Letter On Subsequent Review Opinions Concerning the 2011 Annual Report of Chongqing Iron & Steel Company Limited (Shang Zheng Gong Han [2012]No. 0270) (the "Letter"). The Letter dealt with the free use of the Parent Company's relevant assets as equity transaction credited to equity, non-operating appropriation, after-sales leaseback finance lease transaction, the acquisition of residue heat power stations financed and constructed by Beijing Centenary Benefits Company Limited, and the acquisition of Chongqing Steel. The Company replied on April 24 to the issues raised by the Shanghai Stock Exchange.

On 28 April 2012, the Company received from the CSRC Chongqing Office the Decision on Taking Ordered Correction Measures to Chongqing Iron & Steel Company Limited (《關於對重慶鋼鐵股份有限公司採取責令改正措施的決定》) ([2012]No. 5). The Decision required the Company to form a rectification report on a receivable of RMB136 million of the Company due from the Parent Company as disclosed in the 2011 annual report. Accordingly, the Company coordinated with the Parent Company to work on the rectification measures, produced the Rectification Report in respect of the Decision of the CSRC Chongqing Office on Taking Ordered Correction Measures to the Company, and disclosed this report on May 31. In accordance with the relevant requirements of the CSRC Chongqing Office's Notice Regarding the Implementation of Internal Control Standards by Listed Companies in Chongqing (《關於做好重慶轄區上市公司內部控制規範實施工作的通知》) (Yu Zheng Jian Fa [2012]No.3), and based on our actual conditions, the Company formulated the Work Plan of Chongqing Iron & Steel Company Limited for the Implementation of Internal Control Standards in 2012. On 28 February 2012, this plan was approved at the eighth meeting of the fifth session of the Board of the Company. In the first half of 2012, the Company proceeded with relevant work pursuant to this plan.

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

The Company is committed to maintaining a high standard of corporate governance with an aim to safeguard the interests of shareholders of the Company. The Company has complied with most provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Main Board Listing Rules during the six months ended 30 June 2012, except for a deviation from the Code provision A.1.8.

According to the provision A.1.8 of the Code , the Company should arrange appropriate insurance cover in respect of legal action against its directors and officers. As at the date of this report, the Company did not take out directors & officers liability insurance to cover liabilities arising from legal action against its directors. Although the Company undertakes to maintain a high standard of corporate governance and comply with the Code provisions, the Company decides to postpone its compliance with this Code provision as the Board is currently considering quotes from different insurers and will choose the most cost-effective directors & officers liability insurance.

(II) INTERIM DIVIDEND FOR 2012

The Board does not propose the distribution of 2012 interim dividend.

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

On 31 May 2012, a resolution was considered and passed at the 2011 annual general meeting of the Company, pursuant to which the Company would not distribute profit for 2011 nor transfer the capital reserve into share capital. Therefore, there was no profit distribution during the reporting period.

(IV) MATERIAL LITIGATION OR ARBITRATION

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

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

The Company had started the assets reorganization in Changshou New District during the reporting period.

At the end of February 2012, the Company and the Parent Company commenced the material assets reorganization in relation to the injection of the steelmaking production facilities and auxiliary public facilities invested and constructed by the Parent Company ("Target Assets") in the Changshou New District into the Company, and signed the Agreement on Acquisition of Assets and Environmental Relocation Loss Compensation between Chongqing Iron & Steel Company Limited and Chongqing Iron & Steel (Group) Company Limited (the "Agreement on Material Assets Reorganization") on 3 May 2012 . The announcement in respect of the Preliminary Proposal of Chongqing Iron & Steel Company Limited for Connected Transactions in relation to Issue of Shares to Target Parties for Acquisition of Assets and Raising Supporting Proceeds (the "Preliminary Proposal") was published by the Company on 30 May 2012.

(V) MATERIAL ASSETS ACQUISITION, SALE OR DISPOSAL AND MERGER AND ACQUISITION *(Continued)*

According to the Preliminary Proposal, in respect of the aforesaid material assets reorganization, the "Parent Company will, based on its undertaking to the Company made before, would compensate the Company for the fixed assets impairment (hereafter as "Fixed Assets Impairment of the Old District") resulting from the environmental relocation with part of the value of the Target Assets". The value of Target Assets, after deducting the Fixed Assets Impairment of the Old District, will be satisfied by the Company by way of issue of shares, assumption of liabilities and payment of cash as consideration. Meanwhile, in order to facilitate the smooth production and operation of the Company upon completion of the material assets reorganization and alleviate ensuing pressure on the working capital, the Company intends to issue shares to not more than 10 target subscribers. The size of the fundraising is estimated to be not more than 25% of the aggregate transaction amount." The reference date of the reorganization is 31 March 2012.

As at the date of this report, the detailed plan for the reorganization is being prepared and is subject to approval by the Company's general meeting and CSRC upon being considered and approved by the Board.

The reorganization will inject new blood into the principal operations of the Company. After the Parent Company injects the relevant steel production assets and ancillary supporting facilities it invested and constructed in Changshou New District into the Company, the Company will have complete steel production facilities in Changshou New District, with an entire production process from coking, ironmaking, steelmaking, to steel rolling, and the annual steel output is expected to reach around 6 million tonnes. In addition, as the iron and steel production line in Changshou New District adopts the most advanced technology, our production technology level will be enhanced and product structure optimized.

Moreover, upon completion of the reorganization, our financial position and profitability will also be improved and boosted, with substantial increase in total assets and further decrease in the gearing ratio, which is conducive to improvement of the Company's financial structure and financing capabilities.

(VI) MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

(a) production materials such as water, electricity, natural gas, steel billets, steel products and ancillary products (including cement, hardware, timber etc);

(b) railway transportation, technical services (software development services) and other services (including measurement, testing, quality control and technical consultancy services etc).

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

(a) raw materials such as pig iron, iron ore, coal, scrap steel, refractory materials and ancillary products (including dolomite and limestone etc);

(b) road transportation, environmental sanitation and technical services (including construction, design and supervision, and labour services etc);

(c) electricity, water, oxygen, equipment and spare parts;

(d) social welfare services (including mainly medical insurance and pensions funds management services etc), the fees in respect of which were paid by the Company through Parent Company but no fees was charged by Parent Company for managing such social welfare services of the Company's employees.

(3) 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.

(VI) MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

(4) Basis of price determination for the Service and Supply Agreement: (a) steel, steel billets, pig iron, iron ore, coal, scrap steel, and refractory materials were determined by reference to the market price; (b) oxygen, ancillary products, lease of factory premises, labour services, road transportation, railway transportation, environmental sanitation services were determined by reference to profit mark-up above the cost of providing such products as agreed between the Company and the Parent Group; (c) equipment and spare parts, and technical services (software development services) were determined with reference to prices through tender; (d) public utilities (water, electricity and natural gas) and social welfare services were determined by reference to the prices as prescribed by the relevant Chongqing governmental departments; (e) design supervision, engineering construction and other services (including measurement, testing, quality control and technical consultancy services) were determined with reference to the prices as prescribed by state or governmental documents; (f) entrusted supply of water and electricity is determined with reference to a mark-up above the cost of water and electricity.

2. Related party transactions constituted by authorized use of assets

(1) On 31 March 2011, the Company and the Parent Company entered into Agreement for Authorized Use of Assets ("Agreement for Authorized Use of Assets"), pursuant to which the Company can use for free the steel smelting production line and relevant auxiliary public facilities of the Parent Company with investment amounts of RMB10.84 billion commencing from 1 April 2011 to 31 March 2012.

(2) In October 2011, the Parent Company also authorized free use of the production line of approximately 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.

(3) The arrangement for use of assets of the Company during the material assets reorganization period and financial impacts

(VI) MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

2. Related party transactions constituted by authorized use of assets *(Continued)*

As the agreement on use of Target Assets between the Company and the Parent Company expired on 31 March 2012 ,according to the Agreement on Material Assets Reorganization entered into by the Company and the Parent Company on 3 May 2012 and the Preliminary Proposal published on 30 May 2012, in order to ensure the normal production and operation of the Company during the material assets reorganization, the Parent Company continued to entrust the Company to operate all the Target Assets from the reference date (31 March 2012). Meanwhile, in the transition period (from the reference date and up to the completion date of the transaction), the Parent Company shall not charge the Company any usage fee for its use of the Target Assets and all the costs and expenses on the Company's use of the Target Assets shall be borne by the Company. During the aforesaid arrangement, parties will not adjust the consideration of the transaction in respect of the change in value of Target Assets arising from depreciation and amortization. Based on the preliminary reorganization arrangement between the Company and the Parent Company in respect of the Target Assets, and the fact that the Company is still using the Target Assets, the Company shall make provision in respect of asset usage fee payable to the Parent Company at the depreciation (amortization) amount of the Target Assets during the transition period and offset accordingly the value of the Target Assets accounted for upon the completion of the reorganization, so as to reflect reasonably the cost of the Company for use of the Target Assets as well as adjustment to the value of Target Assets upon delivery of the Target Assets in future.

(VI) MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

3. Related party transactions during the reporting period

From 1 January 2012 to 30 June 2012, all the continuing connected transactions carried out in the ordinary course of business between the Company and the Parent Group were settled by cash and had no adverse impacts on the Company's profit. The connected transaction on sales and services provided to the Parent Group by the Company and procurement made and services received from the Parent Group during the reporting period amounted to RMB312,287,000 and RMB1,120,190,000. The details are as follows:

	Products sold to related party		Products purchased from related party	
Related party	Amount *(RMB'000)*	Percentage in the total amount of similar transactions *(%)*	Amount *(RMB'000)*	Percentage in the total amount of similar transactions *(%)*
Chongqing Iron & Steel Group Mining Company Limited	46,430	20.48	707,662	16.34
Chongqing Iron & Steel Research Institute			4,127	0.92
Chongqing Iron & Steel Group Construction and Engineering Company Limited	5,773	0.06	29,828	1.81
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	160,484	70.79	231,795	93.10
Chongqing Wuxia Mining Industry Incorporated Company			88,343	3.21
Chongqing Iron & Steel Group Refractory Materials Company Limited			2,945	2.49
Chongqing Iron & Steel Group San Feng Industrial Company Limited			14,548	2.78

(VI) MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

Related party	Products sold to related party		Products purchased from related party	
	Amount	Percentage in the total amount of similar transactions	Amount	Percentage in the total amount of similar transactions
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*
Chongqing Iron & Steel Group Industrial Company Limited	17,774	0.18	2,821	1.13
Chongqing Iron & Steel Group Donghua Special Steel Company Limited			10,917	1.46
Chongqing Si Gang Steel Company Limited	43,401	0.44	5,142	0.69
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited			17,064	1.30
Chongqing Iron & Steel Group Pipe Company Limited	16,310	0.17		
Chongqing San Gang Steel Company Limited	17,226	0.18		
Chongqing Iron & Steel (Group) Company Limited	1,955	0.02		
Others	2,934		4,998	
Total	312,287		1,120,190	

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

(VI) MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

4. Material contracts entered into with the Parent Company

As at 30 June 2012, except the Service and Supply Agreement and Agreement for Authorized Use of Assets as described above, the Company and the Parent Company entered into the Agreement on Material Assets Reorganization on 3 May 2012, pursuant to the terms and conditions of the agreement and other transaction documents then signed by the parties, the Parent Company proposed to compensate the Company for the Fixed Assets Impairment of the Old District resulting from the relocation with part of value of the Target Assets. The value of Target Assets, after deducting the Fixed Assets Impairment of the Old District, will be purchased by the Company under the agreement from the Parent Company by way of issue of shares, assumption of liabilities and payment of cash as the consideration.

The Agreement on Material Assets Reorganization shall not come into effect before the Material Assets Reorganization is approved by the Company's general meeting and relevant regulatory authorities such as CSRC.

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

As the Parent Group promised to "make up Fixed Assets Impairment incurred as a result of environmental relocation of the Company with the net book value loss arrived at by the book value upon shutdown less the net gain on disposal", as at 30 June 2012, the Fixed Assets Impairment incurred from environmental relocation receivable by the Group from the Parent Company amounted to RMB1,353,105,000. Meanwhile, the Company shall make provision in respect of asset usage fee payable to the Parent Company at the depreciation (amortization) amount of the Target Assets during the transition period and offset accordingly the value of the Target Assets accounted for upon the completion of the reorganization. During the period from 1 April to 30 June 2012, the provision of asset usage fee payable to the Parent Company amounted to RMB174,735,000. Such creditor's rights and debts shall be settled in the material assets reorganization which is being carried out by the Company and the Parent Company.

As at 30 June 2012, except the above matters and the transactions carried out in the ordinary course of business between the Company and related parties, there are no other creditor's rights or debt between the Company and related parties. Also, no controlling shareholders and its subsidiaries appropriated the Company's funds for non-operating purpose.

(VIII) MATERIAL CUSTODY, CONTRACTING OR LEASING

On 31 March 2011, the Company and the Parent Company entered into Agreement for Authorized Use of Assets ("Agreement for Authorized Use of Assets"), pursuant to which the Company can use for free the steel smelting production line and relevant auxiliary public facilities of the Parent Company with investment amounts of RMB10.84 billion commencing from 1 April 2011 to 31 March 2012. In October 2011, the Parent Company also authorized free use of the production line of approximately 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.

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

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

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

(IX) EXTERNAL GUARANTEES

All the guarantees of the Company occurred during the reporting period or in previous periods but extending to the reporting period are as follows:

Guaranteed Company	Guarantee Method	Guarantee Amount *(RMB0'000)*	Guarantee Period
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	1500	2012.1.10–2012.6.30
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	700	2011.12.31–2012.6.30
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	800	2012.1.6–2012.6.30
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	2000	2011.12.9–2012.12.6
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	2000	2012.3.3–2013.1.25
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	10000	2012.4.1–2013.3.26
San Feng Jingjiang Port Business and Logistics Company Limited	Joint liability	20000	2012.4.17–2019.4.17
Chongqing Iron & Steel (Group) Transportation Company Limited	Joint liability	500	2012.6.28–2013.6.28

San Feng Jingjiang Port Business and Logistics Company Limited is a controlled subsidiary of the Company and Chongqing Iron & Steel (Group) Transportation Company Limited is a wholly-owned subsidiary of the Company.

As at the end of the reporting period, the Company had cumulative guarantee amount of RMB1,085 million and the actual guarantee amount was RMB180 million (details are shown in the table above). The Company did not have any overdue guarantee and the total cumulative guarantee amount accounted for 26.69% of net assets in the consolidated financial statements for the latest financial year; the controlled subsidiaries of the Company also did not have any external guarantee.

(X) 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.

During the reporting period, the Parent Company had started the material assets reorganization related to the Company. For details of the material assets reorganization, please refer to the Preliminary Proposal of Chongqing Iron & Steel Company Limited in relation to Issue of Shares to Target Parties for Acquisition of Assets and Raising Supporting Proceeds and Connected Transactions disclosed by the Company on 30 May 2012.

(XI) SECURITIES INVESTMENT

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

(XII) HOLDING OF EQUITY INTERESTS IN NON-LISTED FINANCIAL ENTERPRISES

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

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

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

(XIV)STAFF

As at 30 June 2012, the Company had 11,555 staffs, including 8,897 production staffs, 148 sales staffs, 899 technical and engineering staffs, 80 finance staffs, and 1,301 administrative staffs.

The Company has placed emphasis on staff skill training and knowledge upgrade. During the reporting period, a total of 6,560 staffs received training, covering 56.80% of the staffs.

(XV) EXTRAORDINARY ANNOUNCEMENTS INDEXES

Name of announcement	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Notice of 2012 First Extraordinary General Meeting	Lin 2012-001	6 January 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for December 2011	Lin 2012-002	6 January 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	19 January 2012	Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	2 February 2012	Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for January 2012	Lin 2012-003	7 February 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Unismart finance lease	Lin 2012-004	11 February 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Circular	H Share Circular	14 February 2012	Shanghai Stock Exchange: www.sse.com.cn
Announcement on significant event and suspension of trading	Lin 2012-005	28 February 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on Voting Results of 2012 First Extraordinary General Meeting	Lin 2012-006	29 February 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(Continued)*

Name of announcement	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement of resolutions passed at 8th meeting of the fifth Board	Lin 2012-007	29 February 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	5 March 2012	Shanghai Stock Exchange: www.sse.com.cn
Announcement on suspension of trading for material assets reorganization	Lin 2012-008	5 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for February 2012	Lin 2012-009	7 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Clarification announcement	Lin 2012-010	8 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization	Lin 2012-011	12 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization	Lin 2012-012	19 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization	Lin 2012-013	26 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 11th meeting of the fifth Supervisory Committee	Lin 2012-014	29 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(Continued)*

Name of announcement	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement of resolutions passed at 9th meeting of the fifth Board	Lin 2012-015	29 March 2012	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 2012-016	29 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on structural adjustment project in respect of investment products	Lin 2012-017	29 March 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization and delay in resumption of trading	Lin 2012-018	31 March 2012	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 2012-019	6 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Notice of 2011 Annual General Meeting	Lin 2012-020	11 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization	Lin 2012-021	11 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for March 2012	Lin 2012-022	11 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Circular	H Share Circular	16 April 2012	Shanghai Stock Exchange: www.sse.com.cn

(XV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(Continued)*

Name of announcement	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement on the progress of material assets reorganization	Lin 2012-023	18 April 2012	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 2012-024	18 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization	Lin 2012-025	25 April 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization and delay in resumption of trading	Lin 2012-026	7 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for April 2012	Lin 2012-027	7 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization and delay in resumption of trading	Lin 2012-028	14 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization and delay in resumption of trading	Lin 2012-029	21 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on the progress of material assets reorganization and resumption of trading	Lin 2012-030	30 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

(XV) EXTRAORDINARY ANNOUNCEMENTS INDEXES *(Continued)*

Name of announcement	No. of the announcement	Date of disclosure	Media and internet website for disclosure
Announcement of resolutions passed at 10th meeting of the fifth Board and summary of the preliminary proposal	Lin 2012-031	30 May 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of Resolutions Passed at 2011 Annual General Meeting	Lin 2012-032	1 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 1st meeting of the sixth Board	Lin 2012-033	1 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement of resolutions passed at 1st meeting of the sixth Supervisory Committee	Lin 2012-034	1 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on appointment of staff supervisors	Lin 2012-035	1 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Steel output bulletin for May 2012	Lin 2012-036	7 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
H Share Announcement	H Share Announcement	14 June 2012	Shanghai Stock Exchange: www.sse.com.cn
Announcement on the provision of guarantee for a wholly-owned subsidiary	Lin 2012-037	14 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Announcement on finance lease of the Company	Lin 2012-038	29 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn
Supplementary announcement on finance lease of the Company	Lin 2012-039	29 June 2012	China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange: www.sse.com.cn

Consolidated balance sheet

as at 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Notes	**Closing balance**	Opening balance
Current assets			
Cash at bank and on hand	V.1	**1,658,292**	2,325,290
Bills receivable	V.2	**1,247,093**	1,417,422
Accounts receivable	V.3	**957,479**	697,365
Prepayments	V.4	**323,597**	651,251
Other receivables	V.5	**1,232,972**	264,008
Inventories	V.6	**8,197,212**	6,603,218
Other current assets	V.7	**508,524**	415,137
Total current assets		**14,125,169**	12,373,691
Non-current assets			
Long-term equity investments	V.8	**5,000**	5,000
Fixed assets	V.9	**7,890,230**	7,344,844
Construction in progress	V.10	**2,898,499**	3,252,903
Construction materials	V.11	**1,594,997**	1,537,078
Fixed assets to be disposed of	V.12	**1,282,923**	2,026,600
Intangible assets	V.13	**397,957**	402,297
Deferred tax assets	V.14	**23,528**	23,528
Other non-current assets	V.15	**270,160**	84,500
Total non-current assets		**14,363,294**	14,676,750
Total assets		**28,488,463**	27,050,441

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

as at 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Notes	Closing balance	Opening balance
Current liabilities			
Short-term loans	V.18	**4,413,345**	4,048,189
Financial liabilities held for trading	V.19	**7,408**	23,713
Bills payable	V.20	**952,000**	555,000
Accounts payable	V.21	**7,616,515**	4,808,932
Advance from customers	V.22	**1,287,886**	1,420,140
Employee benefits payable	V.23	**175,511**	182,429
Taxes payable	V.24	**6,431**	8,978
Interest payable	V.25	**85,183**	36,733
Other payables	V.26	**537,684**	420,746
Non-current liabilities due within one year	V.27	**3,576,441**	4,762,143
Other current liabilities		**8,194**	7,683
Total current liabilities		**18,666,598**	16,274,686
Non-current liabilities			
Long-term loans	V.28	**839,000**	1,056,600
Debentures payable	V.29	**1,969,219**	1,966,848
Long term payables	V.30	**3,101,119**	3,254,896
Other non-current liabilities	V.31	**319,708**	256,296
Total non-current liabilities		**6,229,046**	6,534,640
Total liabilities		**24,895,644**	22,809,326
Shareholders' equity			
Share capital	V.32	**1,733,127**	1,733,127
Capital reserve	V.33	**1,109,163**	1,109,163
Specific reserve	V.34	**1,300**	1,560
Surplus reserve	V.35	**605,633**	605,633
Retained earnings	V.36	**–22,421**	625,625
Total equity attributable to shareholders of the Company		**3,426,802**	4,075,108
Minority interests		**166,017**	166,007
Total shareholders' equity		**3,592,819**	4,241,115
Total liabilities and shareholders' equity		**28,488,463**	27,050,441

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Balance sheet

as at 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	*Notes*	Closing balance	Opening balance
Current assets			
Cash at bank and on hand		**1,526,148**	2,205,461
Bills receivable		**1,222,668**	1,408,423
Dividends receivable		**–**	11,546
Accounts receivable	IX.1	**936,093**	764,131
Prepayments		**223,269**	463,970
Other receivables	IX.2	**1,225,567**	259,427
Inventories		**8,183,926**	6,568,691
Other current assets		**501,825**	404,801
Total current assets		**13,819,496**	12,086,450
Non-current assets			
Long-term equity Investments	IX.3	**286,044**	286,044
Fixed assets		**7,836,200**	7,283,818
Construction in progress		**2,254,110**	2,750,191
Construction materials		**1,594,997**	1,537,078
Fixed assets to be disposed of		**1,278,682**	2,026,600
Intangible assets		**318,319**	321,823
Deferred tax assets		**22,520**	22,520
Other non-current assets		**270,157**	84,500
Total non-current assets		**13,861,029**	14,312,574
Total assets		**27,680,525**	26,399,024

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

as at 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Notes	Closing balance	Opening balance
Current liabilities			
Short-term loans		**4,238,345**	3,942,189
Financial assets held for trading		**7,408**	23,713
Bills payable		**952,000**	560,000
Accounts payable		**7,401,387**	4,465,026
Advance from customers		**1,281,058**	1,417,302
Employee benefits payable		**171,516**	178,508
Taxes payable		**5,225**	7,167
Interest payable		**85,183**	36,733
Other payables		**538,004**	422,437
Non-current liabilities due within one year		**3,550,666**	4,762,143
Other current liabilities		**7,714**	7,684
Total current liabilities		**18,238,506**	15,822,902
Non-current liabilities			
Long-term loans		**839,000**	1,056,600
Debentures payable		**1,969,219**	1,966,848
Long term payables		**2,926,894**	3,254,896
Other non-current liabilities		**297,038**	232,902
Total non-current liabilities		**6,032,151**	6,511,246
Total liabilities		**24,270,657**	22,334,148
Shareholders' equity			
Share capital		**1,733,127**	1,733,127
Capital reserve		**1,140,611**	1,140,611
Surplus reserve		**575,654**	575,654
Retained earnings		**–39,524**	615,484
Total shareholders' equity		**3,409,868**	4,064,876
Total liabilities and shareholders' equity		**27,680,525**	26,399,024

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Consolidated income statement

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Notes	Jan-Jun 2012	Jan-Jun 2011
I.	**Operating income**	V.37	**10,282,042**	13,039,290
II.	**Less: Operating costs**	V.37	**10,022,619**	12,332,957
	Business taxes and surcharges		**5,675**	14,835
	Selling and distribution expenses		**191,924**	197,373
	General and administrative expenses		**347,334**	344,381
	Financial expenses		**542,663**	345,472
	Add: Investment income ("–" for losses)		**16,305**	1,996
III.	**Operating profit ("–" for losses)**		**–811,868**	–193,732
	Add: Non-operating income	V.38	**165,855**	210,985
	Less: Non-operating expenses	V.39	**2,017**	2150
	Including: Losses from disposal of non-current assets		**1,769**	99
IV.	**Profit before income tax ("–" for losses)**		**–648,030**	15,103
	Less: Income tax expense	V.40	**6**	983
V.	**Net profit for the period ("–" for net losses)**		**–648,036**	14,120
	Attributable to:			
	Shareholders of the Company ("–" for net losses)		**–648,046**	14,120
	Minority interests		**10**	—
VI.	**Earnings per share**			
	Basic earnings per share *(RMB)* ("–" for net losses)	V.41	**–0.374**	0.008
	Diluted earnings per share *(RMB)* ("–" for net losses)	V.41	**–0.374**	0.008
VII.	**Other comprehensive income for the period**		**—**	—
VIII.	**Total comprehensive income for the period ("–" for net losses)**		**–648,036**	14,120
	Attributable to:			
	Shareholders of the Company ("–" for net losses)		**–648,046**	14,120
	Minority interests		**10**	—

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Notes	Jan-Jun 2012	Jan-Jun 2011
I.	**Operating income**	IX.4	**10,252,429**	12,962,474
	Less: Operating costs	IX.4	**10,021,102**	12,294,628
	Business taxes and surcharges		**1,118**	8,885
	Selling and distribution expenses		**191,924**	197,373
	General and administrative expenses		**333,259**	321,247
	Financial expenses		**541,241**	345,279
	Add: Investment income ("–" for losses)		**16,305**	1,996
II.	**Operating profit ("–" for losses)**		**–819,910**	–202,942
	Add: Non-operating income		**165,454**	210,947
	Less: Non-operating expenses		**552**	2,150
	Including: Losses from disposal of non-current assets		**312**	99
III.	**Profit before income tax ("–" for losses)**		**–655,008**	5,855
	Less: Income tax expense		**—**	878
IV.	**Net profit for the period ("–" for losses)**		**–655,008**	4,977
V.	**Other comprehensive income for the period**		**—**	—
VI.	**Total comprehensive income for the period ("–" for losses)**		**–655,008**	4,977

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Consolidated cash flow statement

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Notes	Jan-Jun 2012	Jan-Jun 2011
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**11,758,282**	14,657,016
Refund of taxes		**—**	5,047
Cash received relating to other operating activities		**2,671**	114,340
Sub-total of cash inflows		**11,760,953**	14,776,403
Cash paid for goods and services		**9,377,171**	14,843,595
Cash paid to and for employees		**495,589**	566,292
Cash paid for all types of taxes		**26,952**	197,479
Cash paid relating to other operating activities		**2,003**	93,133
Sub-total of cash outflows		**9,901,715**	15,700,499
Net cash inflow/outflow from operating activities	V.42(1)	**1,859,238**	–924,096
II. Cash flows from investing activities:			
Cash received from disposal of investments		**—**	15,000
Cash received from return on investments		**—**	1,996
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**79,099**	1,208
Cash received relating to other investing activities		**21,810**	12,116
Sub-total of cash inflows		**100,909**	30,320
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**494,541**	1,326,243
Cash paid for acquisition of investments		**—**	82,954
Sub-total of cash outflows		**494,541**	1,409,197
Net cash outflow from investing activities		**–393,632**	–1,378,877

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Notes	Jan-Jun 2012	Jan-Jun 2011
III. Cash flows from financing activities:			
Cash received from borrowings		**3,207,882**	3,023,491
Cash received from finance leases		**200,000**	1,285,901
Sub-total of cash inflows		**3,407,882**	4,309,392
Cash repayments of borrowings		**4,233,829**	2,756,569
Cash paid for dividends, profit distributions or interest		**230,840**	273,050
Other cash paid relating to financing activities		**646,938**	3
Sub-total of cash outflows		**5,111,607**	3,029,622
Net cash inflow/outflow from financing activities		**–1,703,725**	1,279,770
IV. Net increase in cash and cash equivalents ("–" for decreases)	V.42(1)	**–238,119**	–1,023,203
Add: Cash and cash equivalents at the beginning of the period		**1,301,423**	1,537,352
V. Cash and cash equivalents at the end of the period	V.42(2)	**1,063,304**	514,149

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Cash Flow statement

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Notes	**Jan-Jun 2012**	Jan-Jun 2011
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**11,673,223**	14,493,226
Refund of taxes		**—**	5,047
Cash received relating to other operating activities		**2,270**	8,621
Sub-total of cash inflows		**11,675,493**	14,506,894
Cash paid for goods and services		**9,336,723**	14,746,269
Cash paid to and for employees		**444,898**	516,500
Cash paid for all types of taxes		**20,124**	190,457
Cash paid relating to other operating activities		**1,985**	76,102
Sub-total of cash outflows		**9,803,730**	15,529,328
Net cash inflow/outflow from operating activities	IX.5	**1,871,763**	–1,022,434
II. Cash flows from investing activities:			
Cash received from disposal of investments		**—**	15,000
Cash received from return on investments		**11,546**	1,996
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**78,738**	1,208
Cash received relating to other investing activities		**21,788**	9,205
Sub-total of cash inflows		**112,072**	27,409
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**262,977**	1,279,506
Net cash paid for acquisition of subsidiaries and other operating units		**—**	82,954
Sub-total of cash outflows		**262,977**	1,362,460
Net cash outflow from investing activities		**–150,905**	–1,335,051

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Notes	Jan-Jun 2012	Jan-Jun 2011
III. Cash flows from financing activities			
Cash received from borrowings		**3,062,147**	3,018,491
Cash received from finance leases		**—**	1,285,000
Sub-total of cash inflows		**3,062,147**	4,303,491
Cash repayments of borrowings		**4,155,829**	2,651,570
Cash paid for dividends, profit distribution or interest		**230,671**	272,896
Cash paid relating to other financing activities		**646,938**	—
Sub-total of cash outflows		**5,033,438**	2,924,466
Net cash inflow/outflow from financing activities		**–1,971,291**	1,379,025
IV. Net increase in cash and cash equivalents ("–" for decreases)	IX.5	**250,433**	–978,460
Add: cash and cash equivalents at the beginning of the period		**1,181,593**	1,290,146
V. Cash and cash equivalents at the end of the period		**931,160**	311,686

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Consolidated statement of changes in shareholder's equity

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Jan-Jun 2012							Jan-Jun 2011						
	Attributable to shareholders of the Company							Attributable to shareholders of the Company						
Item	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Minority interests	Total
Balance at the end of the previous year	**1,733,127**	**1,109,163**	**1,560**	**605,633**	**625,625**	**166,007**	**4,241,115**	1,733,127	1,141,708	808	583,452	2,095,409	147,000	5,701,504
Add: adjustment for business combination under common control	–	–	–	–	–	–	–	–	21,914	–	22,181	1,298	–	45,393
Balance at the beginning of the period	**1,733,127**	**1,109,163**	**1,560**	**605,633**	**625,625**	**166,007**	**4,241,115**	1,733,127	1,163,622	808	605,633	2,096,707	147,000	5,746,897
Changes in equity for the period														
1. Net profit for the period ("–" for losses)	–	–	–	–	**–648,046**	**10**	**–648,036**	–	–	–	–	14,120	–	14,120
2. Other comprehensive income for the period	–	–	–	–		–	–	–	–	–	–	–	–	–
Sub-total of 1 & 2	–	–	–	–	**–648,046**	**10**	**–648,036**	–	–	–	–	14,120		14,120
3. Appropriate of profits														
— Appropriation for surplus reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–
— Distributions to shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Specific reserve														
— Accrued	–	–	**71**	–	–	–	**71**	–	–	733	–	–	–	733
— Utilized	–	–	**-331**	–	–	–	**–331**	–	–	—352	–	–	–	—352
5. Adjustment of capital reserve for business combination under common control	–	–	–	–	–	–	–	–	–62,954	–	–	–	–	-62,954
6. Purchase of minority interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–
7. Investment in subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–
8. Others *(Note V. 32)*	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at the end of the period	**1,733,127**	**1,109,163**	**1,300**	**605,633**	**-22,421**	**166,017**	**3,592,819**	1,733,127	1,100,668	1,189	605,633	2,110,827	147,000	5,698,444

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

Statement of Changes in shareholder's equity

for the six months ended 30 June 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Jan-Jun 2012					Jan-Jun 2011				
Item	Note	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
Balance at the end of the previous year/ the beginning 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
Changes in equity for the year											
1. Net profit for the year ("–" for losses)		—	—	—	–655,008	–655,008	—	—	—	4,977	4,977
2. Other comprehensive income for the year		—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	–655,008	–655,008	—	—	—	4,977	4,977
3. Appropriate of profits											
— Appropriation for surplus reserve		—	—	—	—	—	—	—	—	—	—
— Distributions to shareholders		—	—	—	—	—	—	—	—	—	—
4. Adjustment of capital reserve for business combination under common control		—	—	—	—	—	—	-14,661	—	—	-14,661
Balance at the end of the year		1,733,127	1,140,611	575,654	–39,524	3,409,868	1,733,127	1,141,606	575,654	2,093,194	5,543,581

These financial statements were approved by the Board of Directors of the Company on 30 August 2012.

Legal Representative:	Dengqiang	Chief Financial Officer:	Gongjun
Chief Accountant:	Gongjun	(Company stamp)	

The notes on pages 52 to 169 form an integral part of this condensed interim financial report.

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 periods is from 1 October 2011 to 31 March 2012.

The agreement about free using of target assets authorized by the Parent Group has been expired at 31 March 2012. In late February of 2012, the Company and the Parent Group launched Material Assets Reorganisation which involves the injection of certain steel production lines and related auxiliary public facilities to the Company. On 3 May 2012, the Company and the Parent Group entered into an Agreement on the Material Assets Reorganisation. On 29 May 2012, the Company published the Preliminary Proposal of the Company in relation to Issue of Shares to Target Parties for Acquisition of Assets and Raising Supporting Proceeds and Connected Transactions. ("Preliminary Proposal")

According to the Preliminary Proposal, as promised by the Parent Group, "the compensation for the additional expenses occurred in the environmental relocation of the Group will be satisfied by part of the value of the target assets. The consideration of the Target Assets, net of fixed assets impairment of Da Du Kou District, will be satisfied by allotting and issuing consideration shares, payment of cash consideration and assumption of the Parent Group's liabilities. Besides, in order to facilitate the smooth production and operation of the Company upon completion of the Material Assets Reorganization and alleviate ensuring pressure on the working capital, the Company intends to issue A shares to not more than 10 investors. The size of the Fundraising is estimated to be not more than 25% of the Aggregate Transaction Amount." The transaction reference date is on 31 March 2012.

I. COMPANY STATUS *(CONTINUED)*

According to the Preliminary Proposal, in order to maintain the normal production and operation of the Company during the period of material assets reorganization, the Parent Group has authorized the Company to continue free using of the target assets since the transaction reference date. The costs and expenses of using the target assets are paid by the Company. Therefore, the Parent Group and the Company will not adjust the consideration of the transaction which are caused by the depreciation and amortization of the target assets during the transaction period.

Based on the arrangement of the target assets and the fact that the Company is using the target assets, in order to reasonably reflect the costs of using the target assets by the Company and the adjustment in the value of the target assets on the transaction date, the Company will accrue the costs of using the Group's assets based on the depreciation or amortization of the target assets during the transaction period, and reduce the book value of the target assets on the completion of the transaction.

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.

On 31 March 2012, the operation activities have been transferred to Changshou New Zone and the overall environmental relocation is completed.

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.

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 30 June 2012, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the period 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).

Except for the liabilities arising from financial guarantee contracts described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

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

9 Financial instruments *(continued)*

(2) 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.

(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.

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

9 Financial instruments *(continued)*

(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

(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.

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

9 Financial instruments *(continued)*

(5) Impairment of financial assets

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

— Held-to-maturity investment

Held-to-maturity investments are assessed for impairment on an individual basis. An impairment loss in respect of held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

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

— Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is 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.

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

9 Financial instruments *(continued)*

(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.

10 Impairment of receivables

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

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

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

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

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

10 Impairment of receivables *(continued)*

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

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.

(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.

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:

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

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.

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

11 Inventories *(continued)*

(2) Cost of inventories transferred out

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

(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).

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.

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

15 Borrowing costs *(continued)*

During the capitalisation period, the amount of interest (including 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.

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.

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

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.

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.

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

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.

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.

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

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

If 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.

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.

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

19 Revenue recognition *(continued)*

(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.

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.

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

25 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and Company include, but are not limited to:

(a) the Company's parent

(b) the Company's subsidiaries

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

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

(e) enterprises or individuals if a party has control 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)*

Except for 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 period is 15% (2011: 15%).

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

	2012	2011
San Feng Logistics	**25%**	25%
Chongqing Electronics	**15%**	15%
Chongqing Transportation	**15%**	15%
San Feng Steel	**25%**	N/A

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 approval notice *(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 within the current period compared with the previous year.

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

Unit: RMB'000

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Closing amount of 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 period 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	147,017	–	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

(2) Subsidiaries acquired under common control

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Closing amount of actual investment	Closing amount of other items that in substance from net investment in the subsidiary	Shareholding percentage	Voting rights percentage	Included in consolidated financial statements (Y/N)	Closing amount of minority interests at the period 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 District	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)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

Item	Closing balance Original currency	Closing balance Exchange rate	Closing balance RMB	Opening balance Original currency	Opening balance Exchange rate	Opening balance RMB
Cash on hand						
RMB	**—**	**—**	**366**	—	—	696
Deposits with banks						
RMB	**—**	**—**	**908,749**	—	—	1,295,629
US Dollars	**24,322**	**6.3249**	**153,834**	15	6.3009	94
HK Dollars	**67**	**0.8152**	**55**	67	0.8107	54
Sub-total			**1,062,638**			1,295,777
Other monetary funds						
RMB	**—**	**—**	**595,048**	—	—	1,028,578
US Dollars	**38**	**6.3249**	**240**	38	6.3009	239
Sub-total			**595,288**			1,028,817
Total			**1,658,292**			2,325,290

(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:

Item	Closing balance Original currency	Closing balance Exchange rate	Closing balance RMB	Opening balance Original currency	Opening balance Exchange rate	Opening balance RMB
Restricted						
— Guarantees for letter of credit:						
RMB	—	—	594,748	—	—	1,023,628
US Dollars	38	6.3249	240	38	6.3009	239
Sub-total			594,988			1,023,867
Unrestricted						
— Cash in transit						
RMB	—	—	300	—	—	4,950
Total			595,288			1,028,817

2 Bills receivable

(1) At period 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 period:

Issuer	Issuing date	Due date	Amount	Note
1. Chongqing Duofeng Trade Co., Ltd	2012.03.16	2012.09.16	33,500	Bank acceptances bills
2. Sichuan Tianhao Metallurgical Industry Co., Ltd	2012.03.23	2012.09.23	27,150	Bank acceptances bills
3. Hunan Zhifang Steel and Iron Trade Co., Ltd	2012.02.28	2012.08.28	21,727	Bank acceptances bills
4. Ningbo Baoyi Trade Co., Ltd	2012.03.15	2012.09.15	20,000	Bank acceptances bills
5. Chongqing Jiangnan Metal materials Co., Ltd	2012.03.26	2012.09.26	10,000	Bank acceptances bills
Total			112,377	

(4) As at 30 June 2012, commercial bills receivable pledged as security by the Group amounted to RMB155,427,000 (2011: RMB123,563,000). These bills receivable will be due before 1 October 2012.

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

3 Accounts receivable

(1) Accounts receivable by category:

Category	Closing balance	Opening balance
Third party	**773,349**	488,853
Related party	**340,939**	372,978
Sub-total	**1,114,288**	861,831
Less: Provision for bad and doubtful debts	**156,809**	164,466
Total	**957,479**	697,365

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

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

Debtor	Closing balance Carrying amount	Closing balance Provision for bad and doubtful debt	Opening balance Carrying amount	Opening balance Provision for bad and doubtful debt
Parent Group	**9,811**	**—**	18,793	—

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

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

Aging	Closing balance	Opening balance
Within 1 year (inclusive)	**869,769**	697,726
1 and 2 years (inclusive)	**87,497**	5,000
2 and 3 years (inclusive)	**3,537**	1,758
Over 3 years	**153,485**	157,347
Sub-total	**1,114,288**	861,831
Less: Provisions for bad and doubtful debt	**156,809**	164,466
Total	**957,479**	697,365

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

(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:

		Closing balance				Opening balance			
		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)	2,710	0%	2,710	2%	10,358	1%	10,358	6%
Collectively assessed for impairment (*)									
Group 1	(6)	773,349	70%	154,099	98%	488,853	57%	154,108	94%
Group 2		338,229	30%	—	—	362,620	42%	—	—
Sub-total		1,111,578	100%	154,099	98%	851,473	99%	154,108	94%
Total		1,114,288	100%	156,809	100%	861,831	100%	164,466	100%

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

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	2,710	2,710	100%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

(5) Provision for bad and doubtful debts for accounts receivable which are individually insignificant but assessed for impairment individually: (Continued)

As at 30 June 2012, the Group's amounts due from related parties with ageing over 3 years mainly include the amount of RMB2,710,000 due from Chongqing Iron & Steel Group Yingsite Mould 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 RMB2,710,000 was therefore made for the debts in 2005. Moreover, 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 RMB7,648,000 was therefore made for the debts. Chongqing Iron & Steel Group Thermal Ceramics Company Limited entered into the liquidation procedure in the late of 2009 and completed in the February of 2012. The Group wrote off the provision in April 2012.

(6) Accounts receivable which are collectively assessed for impairment using the aging analysis method:

	Closing balance			Opening balance		
	Carrying amount		Provision for bad and doubtful	Carrying amount		Provision for bad and doubtful
Aging	Amount	Percentage (%)	debts	Amount	Percentage (%)	debts
Within 3 months (inclusive)	**511,369**	**66%**	**—**	231,421	48%	—
4 to 12 months (inclusive)	**43,374**	**6%**	**5,251**	105,028	21%	5,251
Sub-total	**554,743**	**72%**	**5,251**	336,449	69%	5,251
1 and 2 years(inclusive)	**68,542**	**9%**	**970**	3,880	1%	970
2 and 3 years(inclusive)	**2,803**	**0%**	**638**	1,275	0%	638
Over 3 years	**147,261**	**19%**	**147,240**	147,249	30%	147,249
Total	**773,349**	**100%**	**154,099**	488,853	100%	154,108

(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	156,285	within 2 year (inclusive)	14%
2. Shanghai Chonggang Trade Co., Ltd	Third party	133,346	within 1 year (inclusive)	12%
3. Chongqing San Gang Steel Co., Ltd	Related party	96,015	within 1 year (inclusive)	9%
4. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,108	within 1 year (inclusive)	6%
5. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third party	52,644	within 1 year (inclusive)	5%
Total		508,398		46%

4 Prepayment

(1) The prepayments by category:

Item	**Closing balance**	Opening balance
Material prepayments	**199,385**	527,053
Prepaid land premiums	**124,212**	124,198
Total	**323,597**	651,251

(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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment *(Continued)*

(3) Prepayments by ageing:

Aging	Closing balance Amount	Closing balance Percentage (%)	Opening balance Amount	Opening balance Percentage (%)
Within 1 year (inclusive)	**254,876**	**79%**	589,948	90%
1 and 2 years (inclusive)	**25,051**	**8%**	17,621	3%
2 and 3 years (inclusive)	**9,887**	**3%**	30,498	5%
Over 3 years	**33,783**	**10%**	13,184	2%
Total	**323,597**	**100%**	651,251	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).

5 Other receivables

(1) Other receivables by customer type:

Customer type	Closing balance	Opening balance
The third parties	**71,560**	145,362
Related parties	**1,178,370**	135,604
Sub-total	**1,249,930**	280,966
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,232,972**	264,008

(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:

Debtor	Closing balance Carrying amount	Closing balance Provision for bad and doubtful debt	Opening balance Carrying amount	Opening balance Provision for bad and doubtful debt
Patent Group	**1,178,370**	**—**	135,604	—

(3) The ageing analysis of other receivables is as follows:

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	**1,220,621**	252,291
1 and 2 years (inclusive)	**14,576**	4,085
2 and 3 years (inclusive)	**1,197**	2,998
Over 3 years	**13,536**	21,592
Sub-total	**1,249,930**	280,966
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,232,972**	264,008

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:

	Closing balance				Opening balance			
	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	1,205,950	96%	15,827	93%	220,486	78%	16,958	100%
Individually insignificant and assessed individually for impairment	43,980	4%	1,131	7%	60,480	22%	—	—
Total	1,249,930	100%	16,958	100%	280,966	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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories

(1) *An analysis of the movements of inventories for the period is as follows:*

Item	Opening balance	Additions during the period	Reductions during the period	Closing balance
Raw materials	4,717,368	9,836,549	9,140,356	**5,413,561**
Work in progress	1,308,843	24,723,771	24,546,989	**1,485,625**
Finished goods	770,833	10,126,470	10,399,766	**497,537**
Reusable materials	781,348	585,225	453,678	**912,895**
Sub-total	7,578,392	45,272,015	44,540,789	**8,309,618**
Less: Provision for diminution in value	975,174	—	862,768	**112,406**
Total	6,603,218	45,272,015	43,678,021	**8,197,212**

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

Item	Opening balance	Provision made for the period	Written back during the period		Closing balance
			Reversal	Written-off	
Raw materials	587,586	—	—	534,859	**52,727**
Work in progress	167,771	—	—	162,731	**5,040**
Finished goods	144,780	—	—	140,505	**4,275**
Reusable materials	75,037	—	—	24,673	**50,364**
Total	975,174	—	—	862,768	**112,406**

The written down provisions are mainly arising from the realization of sale of the provisional inventories.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Other current assets

Item	Closing balance	Opening balance
Deductible input VAT	**505,431**	412,582
Prepaid corporate income tax	**3,093**	2,555
Total	**508,524**	415,137

8 Long-term equity investments

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Other long-term equity investments	**5,500**	5,500
Less: Provision for impairment	**500**	500
Total	**5,000**	5,000

(2) Movements of long-term equity investments for the period are as follows:

Investee	Initial investment cost	Opening balance	Movement of addition and reduction	Closing balance	Share-holding percentage	Voting Rights (%)	Provision for impairment	Provision made during the period	Cash dividend for the period
Cost method									
Xiamen Shipbuilding Industry Co., Ltd. (Xiamen Shipbuilding)	5,000	5,000	—	5,000	2%	2%	—	—	—
Chongqing Ying Kang Company	500	500	—	500	5%	5%	500	—	—
Total	5,500	5,500	—	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 period	2,310,994	5,387,891	117,157	7,816,042
Additions during the period	207,612	520,299	1,791	729,702
Disposal during the period	6,620	6,462	6,078	19,160
Balance at the end of the period	2,511,986	5,901,728	112,870	8,526,584
Less: Accumulated depreciation				
Balance at the beginning of the period	87,032	312,387	68,384	467,803
Charge for the period	32,742	140,993	4,340	178,075
Written off on disposal	2,688	4,143	5,521	12,352
Balance at the end of the period	117,086	449,237	67,203	633,526
Less: Provision for impairment				
Balance at the beginning of the period	—	286	3,109	3,395
Charge for the period	—	—	—	—
Written off on disposal	—	5	562	567
Balance at the end of the period	—	281	2,547	2,828
Carrying amounts				
At the end of the period	2,394,900	5,452,210	43,120	7,890,230
At the beginning of the period	2,223,962	5,075,218	45,664	7,344,844

(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 RMB729,195,000 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 as at 30 June 2012 (2011: nil).

(2) Fixed assets acquired under finance leases

Item		Closing balance Cost	Accumulated depreciation	Provision for impairment	Carrying amount	Opening balance Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment									
Jian Xin	(a)	**1,230,672**	**118,625**	**—**	**1,112,047**	1,230,672	88,782	—	1,141,890
Min Sheng I	(b)	**795,092**	**330,422**	**—**	**464,670**	795,092	311,140	—	483,952
Min Sheng II	(c)	**440,000**	**10,670**	**—**	**429,330**	440,000	—	—	440,000
Kun Lun	(d)	**1,075,063**	**78,574**	**—**	**996,489**	1,075,063	51,697	—	1,023,366
Unismartl	(e)	**222,000**	**4,486**	**—**	**217,514**	—	—	—	—
Total		**3,762,827**	**542,777**	**—**	**3,220,050**	3,540,827	451,619	—	3,089,208

(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 awaiting for commission, with a carrying amount of RMB1,230,672,000 to Jian Xin at a consideration of RMB1,400,000,000. On the same date, the Company signed a leasing contract with Jian Xin for the relevant equipment; 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 RMB1,400,000,000, the lease rate is one basis point (0.01%) lower than the interest rate for a 3-5 year loan designated in RMB quoted by the PBOC. According to the asset transfer contract and leasing agreement, if no default occurs during the lease term, the ownership of the Equipment shall be automatically transferred to the lessee.

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

9 Fixed assets *(Continued)*

(2) Fixed assets acquired under finance leases (Continued)

(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 RMB795,092,000 and a carrying amount of RMB510,221,000, at a consideration of RMB510,000,000. On the same date, the Company signed a leasing contract with Min Sheng for the 2700mm Equipment; the lease period is from 15 May 2010 to 15 May 2013, or 36 months. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB510,000,000, the lease rate is 5% lower than the interest rate for a 3-year loan designated in RMB quoted by the PBOC. According to the asset transfer contract and leasing agreement, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the lessor at a price of RMB10,000.

(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 RMB440,000,000, 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 RMB440,000,000, 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 RMB10,000. The equipment under the financial lease agreements have reached usable condition and transferred to fixed assets by the end of 2011.

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

9 Fixed assets *(Continued)*

(2) Fixed assets acquired under finance leases (Continued)

(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 RMB1,075,063,000 and a carrying amount of RMB1,031,982,000, to Kun Lun at a consideration of RMB1,000,000,000. 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 RMB1.

(e) 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 RMB491,000,000, 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 30 June 2012, the equipment under the financial lease agreements have reached usable condition and transferred to fixed assets were amounted to book value and net value of RMB222,000,000 and 217,514,000,the equipment under construction in process and construction materials were amounted to RMB99,204,000 RMB61,496,000 (2011: RMB178,394,000 and RMB63,906,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets *(Continued)*

(3) Fixed assets leased out under operating leases

Item	Closing balance	Opening balance
Plant and buildings	**5,850**	—
Machinery and equipment	**—**	—
Total	**5,850**	—

(4) Fixed assets with pending certificates of ownership

As at 30 June 2012, the Company was in the process of obtaining ownership certificates of certain plants and buildings with cost of RMB812,161,000 and carrying amount of RMB786,445,000 (2011: cost of RMB741,245,000 and carrying amount of RMB727,587,000).

10 Construction in progress

(1) Construction in progress

Item	Closing balance Cost	Closing balance Provision for impairment	Closing balance Carrying amount	Opening balance Cost	Opening balance Provision for impairment	Opening balance Carrying amount
Sintering project	**—**	**—**	**—**	533,668	—	533,668
Coke oven project	**904,373**	**—**	**904,373**	797,860	—	797,860
Wire rod production line project	**952,235**	**—**	**952,235**	827,828	—	827,828
Recycle heat power station	**167,833**	**—**	**167,833**	85,677	—	85,677
Limestone transportation system	**52,271**	**—**	**52,271**	48,660	—	48,660
Jingjiang Base	**642,358**	**—**	**642,358**	499,921	—	499,921
Jiangjin Base	**39,223**	**—**	**39,223**	389,357	—	389,357
Others	**140,206**	**—**	**140,206**	69,932	—	69,932
Total	**2,898,499**	**—**	**2,898,499**	3,252,903	—	3,252,903

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(Continued)*

(1) Construction in progress (Continued)

The book value of construction in progress capitalized at the end of period included capitalized borrowing costs of RMB9,528,000 (2011: RMB88,079,000). The capitalization rate used by the Group for determining the annual capitalization interest is 7.76% (2011: 6.27%).

(2) The movement of the Group's major constructions in progress as at 30 June 2012

Projects	Budget	Opening Balance	Addition	Transfer to fixed asset	Transfer to disposed fixed asset	Closing balance	Percentage of input to budget	Projects progress	Accumulated capitalized interest	Including: capitalized interest for this period	Rate for capitalize interest of the period	Sources of funds
Sintering project	461,870	533,668	193,019	726,687	—	—	157%	100%	18,831	1,298		Bank loans/self-financing
Coke oven project	1,098,546	797,860	106,513	—	—	904,373	82%	82%	47,760	18,431		Bank loans/self-financing
Wire rod production line project	3,435,000	827,828	124,407	—	—	952,235	28%	32%	46,645	5,428		Bank loans/self-financing
Recycle heat power station	375,000	85,677	82,156	—	—	167,833	45%	45%	4,079	4,079	7.76%	Bank loans/self-financing
Limestone transportation system	61,180	48,660	3,611	—	—	52,271	85%	79%	2,151	2,151	7.76%	Bank loans/self-financing
Jingjiang Base	1,300,000	499,921	142,437	—	—	642,358	49%	49%	6,609	6,609		Bank loans/self-financing
Jiangjin Base	1,046,000	389,357	7,525	—	357,659	39,223	4%	4%	—	—		Bank loans/self-financing
Others	—	69,932	72,782	2,508	—	140,206	—	—	3,343	3,557	7.76%	Bank loans/self-financing
Total	7,777,596	3,252,903	732,450	729,195	357,659	2,898,499	—	—	129,418	41,553		

Part of construction in progress and construction materials which have been transferred from fixed assets due to relocation in 2011 find out cannot be used, the management transferred these assets to disposed fixed assets, As stated in Note V.12, the Parent Group has agreed to compensate the Company for the impairment loss of fixed assets arising from the environmental relocation

(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*	Closing balance	Opening balance
Machinery and equipment:			
Unismart I	V.9(2)(e)	**99,204**	178,394
Unismart II	(a)	**65,000**	35,000
China Railway	(b)	**15,513**	—
Hua Rong	(c)	**306,300**	96,417
Total		**486,017**	309,811

(a) 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 April 2016. Rent is calculated on the leasing cost and rate; the initial leasing cost is RMB574,000,000, 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 30 June 2012, 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 RMB65,000,000, and the part of construction materials to be installed corresponds to a book value of RMB440,000,000 (2011: RMB35,000,000 and RMB440,000,000.)

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

10 Construction in progress *(Continued)*

(3) Construction in progress under finance lease

(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 RMB80,609,000, 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 RMB7,000.

As at 30 June 2012, 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 RMB15,513,000, and the part of construction materials to be installed corresponds to a book value of RMB17,490,000 (2011: nil and RMB17,490,000.)

(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 RMB630,000,000 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 RMB630,000,000, 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 RMB1.

As at 30 June 2012, 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 RMB306,300,000, and the part of construction materials to be installed corresponds to a book value of RMB189,792,000 (2011: RMB96,417,000 and RMB52,893,000)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

11 Construction materials

(1) Construction materials

Item	Closing balance	Opening balance
Construction materials for large equipment	**1,295,046**	1,024,109
Construction materials for special equipment	**299,951**	512,969
Total	**1,594,997**	1,537,078

Part of construction in progress and construction materials which have been transferred from fixed assets due to relocation in 2011 find out cannot be used, the management transferred these assets to disposed fixed assets, As stated in Note V.12, the Parent Group has agreed to compensate the Company for the impairment loss of fixed assets arising from the environmental relocation

(2) Construction materials under financial leases

Item	*Note*	Closing balance	Opening balance
Machinery and equipment			
Unismart I	V.9(2)(e)	**61,496**	63,906
	V.10(3)		
Unismart II	(a)	**440,000**	440,000
Unismart III	(a)	**440,000**	440,000
	V.10(3)		
China Railway	(b)	**17,490**	17,490
	V.10(3)		
Hua Rong	(c)	**189,792**	52,893
Min Sheng III	(b)	**140,000**	—
Total		**1,288,778**	1,014,289

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 RMB550,000,000, 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 30 June 2012, the Company had purchased part of the leased equipment, which is pending installation, and the corresponding book value of the construction materials is RMB440,000,000 (2011: RMB440,000,000).

(b) Min Sheng III

On 28 June 2012, 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 RMB140,000,000, for a term of 36 months starting from 15 July 2012 to 15 July 2015. Rent is calculated based on the leasing cost and rate; the initial leasing cost is RMB140,000,000, the lease rate is 10% higher than the interest rate for a three-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 RMB10,000.

As on 30 June 2012, the Company had purchased part of the leased equipment, which is pending installation, and the corresponding book value of the construction materials is RMB140,000,000 (2011: 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	Closing balance	Opening balance	Reason for disposal
Plant and buildings	**572,686**	1,021,148	Environmental relocation
Machinery and equipment	**710,237**	1,005,246	Environmental relocation
Motor vehicles	**—**	206	Environmental relocation
Total	**1,282,923**	2,026,600	

Part of construction in progress and construction materials which have been transferred from fixed assets due to relocation in 2011 find out cannot be used, the management transferred these assets to disposed fixed assets in 2012. (Note V.10, Note V.11)

Fixed assets suspended and disposed due to relocation is as follows:

Item	Closing balance	Opening balance
Year ended 31 December 2011	**–135,604**	—
Disposal income	**187,712**	225,726
Less: disposal cost	**87,301**	43,468
Net gain on disposal	**100,411**	182,258
Less: book value of the disposed assets	**1,317,912**	317,862
Net loss	**–1,353,105**	–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 30 June 2012, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB1,353,105,000 (Note VI.6(3)).

(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 period	430,690	6,478	437,168
Additions during the period	—	—	—
Reductions during the period	—	—	—
Balance at the end of the period	430,690	6,478	437,168
Accumulated depreciation			
Balance at the beginning of the period	28,393	6,478	34,871
Additions during the period	4,340	—	4,340
Reductions during the period	—	—	—
Balance at the end of the period	32,733	6,478	39,211
Net book value			
Balance at the end of the period	397,957	—	397,957
Balance at the beginning of the period	402,297	—	402,297

As at 30 June 2012, the book value of the land use rights used by the Group as the mortgage for bank loans is RMB232,819,000 (2011: 76,247,000), refer to Note V.17.

(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

Item	**Closing balance** Deductible temporary differences	**Closing balance** Deferred tax assets	Opening balance Deductible temporary differences	Opening balance Deferred tax assets
Provision for impairment against assets	**6,722**	**1,008**	6,722	1,008
Deductible tax losses	**150,133**	**22,520**	150,133	22,520
Total	**156,855**	**23,528**	156,855	23,528

In considering the expected recovery or settlement of the deferred tax assets, the Group 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.

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 2012, 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.

(2) Net value of deferred tax assets:

	Closing balance	Opening balance
Net value of deferred tax assets	**23,528**	23,528

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

15 Other non-current assets

Item	Closing balance	Opening balance
Prepayments for purchase of raw materials	**21,150**	21,150
Guarantee monies for finance lease	**249,010**	63,350
Total	**270,160**	84,500

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

Item	*Note*	Balance of the beginning of the period	Charge for the period	Decrease during the period		Balance at the end of the period
				Reversal	Written-off	
Accounts receivable	V.3	164,466	—	—	7,657	156,809
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	975,174	—	—	862,768	112,406
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.9	3,395	—	—	567	2,828
Total		1,160,493	—	—	870,992	289,501

The reasons for 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 30 June 2012, the assets with restrictions placed on their ownership were as follows:

Item	*Note*	Balance of the beginning of the period	Charge for the period	Decrease during the period	Balance at the end of the period
Cash at bank — Restricted cash deposits for letters of credit	V.1	**1,023,867**	**472,570**	901,449	594,988
Bills receivable — pledged bank acceptance	V.2	**123,563**	**155,427**	123,563	155,427
Finance leases — Fixed assets, construction in progress and construction materials	V.9(2) 10(3) 11(2)	**4,413,308**	**897,105**	315,568	4,994,845
Intangible assets — land use rights	V.13	**76,247**	**232,819**	76,247	232,819
Fixed assets — mortgaged properties	V.9	**—**	**49,598**	—	49,598
Total		**5,636,985**	**1,807,519**	1,416,827	6,027,677

18 Short-term loans

Item	Annual interest rate	Currency	Closing balance Principal	Exchange rate	RMB
Loan on credit	**6.89%**	**RMB**	**—**	**—**	**350,000**
Loan with mortgage	**6.31%**	**RMB**	**—**	**—**	**286,000**
Loan with guarantee	**6.56%–7.216%**	**RMB**	**—**	**—**	**3,482,250**
Loan with guarantee	**3 months Libor+2.5%**	**EURO**	**16,388**	**7.8708**	**128,987**
Loan with pledge	**3 months Libor+3.9%**	**USD**	**26,285**	**6.3195**	**166,108**
Total					**4,413,345**

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

18 Short-term loans *(Continued)*

			Opening balance		
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 months Libor+4.00%	USD	163,273	6.3009	1,028,767
Loan with pledge	4.00%–4.8%	RMB	—	—	331,976
Loan on pledge	3 months Libor– 3 months Libor+3.90%	USD	71,191	6.3009	448,567
Total					4,048,189

The loans with guarantee are guaranteed by the Parent Group (Note VI.5 (3)).

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 properties and land use rights of the Group (Notes V.9 and 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	Closing balance	Opening balance
Foreign currency derivatives	**2,039**	18,344
Interest rate derivatives	**5,369**	5,369
Total	**7,408**	23,713

20 Bills payable

All the bills are bank acceptance bills due within one year.

21 Accounts payable

No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable. Accounts payable due to related party see Note VI.6 (4).

22 Advances from customers

No amount due to the shareholders who hold 5% or more of the voting rights of the Company in accounts payable

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

23 Employee benefits payable

Item	Balance at the beginning of the period	Accrued during the period	Paid during the period	Balance at the end of the period
I. Salaries, bonus, allowances	21,240	292,523	305,885	7,878
II. Staff welfare fees	10,093	27,691	29,667	8,117
III. Social insurances				
Including:				
1. Medical insurance premium	—	43,626	43,626	—
2. Pension insurance premium	130,156	98,646	89,147	139,655
3. Unemployment insurance premium	472	5,813	5,338	947
4. Work injury insurance premium	—	1,895	1,895	—
5. Maternity insurance premium	—	1,720	1,720	—
IV. Housing fund	—	28,404	28,404	—
V. Termination benefits (including early retirement cose)*	16,402	7,169	7,169	16,402
VI. Others	4,066	10,032	11,586	2,512
Including: union fund and employee education fund	4,066	6,519	8,073	2,512
Total	182,429	517,519	524,437	175,511

* The termination benefits in 2012 stated above include the compensation payment of RMB7,169,000 for the termination of certain labour contract relationships.

24 Taxes payable

Item	Closing balance	Opening balance
VAT	**46**	702
Business tax	**1,069**	778
Corporate income tax	**—**	909
City maintenance and construction tax	**143**	111
Others	**5,173**	6,478
Total	**6,431**	8,978

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

25 Interests payable

Item	Closing balance	Opening balance
Interests payable for long-term loans installment interests and due principal	**12,850**	26,400
Interests payable for debentures	**72,333**	10,333
Total	**85,183**	36,733

26 Other payables

Except for the information stated in Note VI.6 (5), no amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of other payables.

27 Non-current liabilities due within one year

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

Item	Closing balance	Opening balance
Long-term loans due within one year	**1,571,070**	3,343,175
Long-term payables due within one year	**2,005,371**	1,418,968
Total	**3,576,441**	4,762,143

(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)*

(2) Long-term loans due within one year

	Closing balance				
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Credit loans	**6.98%**	**RMB**	**—**	**—**	**70,000**
Guaranteed loans	**Libor+3%–6 months Libor+3.2%**	**USD**	**125,350**	**6.3249**	**792,826**
Guaranteed loans	**5.4%–7.32%**	**RMB**	**—**	**—**	**708,244**
Total					**1,571,070**

	Opening balance				
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

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)*

(2) 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, RMB449,944,000 and USD 55,350,000 had been extended to the Group, totalling RMB800,027,000.

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 30 June 2012, 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 RMB800,027,000 as "Long-term loans due within one year" as at 30 June 2012. The Group is communicating with the HSBC consortium in relation to the breach of covenants as of 31 December 2011 and 30 June 2012 but still hasn't received any formal reply from the HSBC consortium before the publication of the financial statement.

(b) China Development Bank

On 18 August 2011, the Group entered into a foreign exchange loan agreement with the China Development Bank Co., Ltd of USD 70,000,000. As of 30 June 2012, all the loans mentioned above had been extended to the Group, totalling RMB442,743,000.

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 30 June 2012. 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 RMB442,743,000 as as "Long-term loans due within one year" as at 30 June 2012. The Group is communicating with the China Development Bank consortium in relation to the breach of covenants as of 31 December 2011 and 30 June 2012 but still hasn't received any formal reply from the China Development Bank consortium before the publication of the financial statement.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

28 Long-term loans

(1) Long-term loans by category

			Closing balance		
Item	Annual interest rate	Currency	Principal	Exchange rate	RMB
Loan on credit	**6.98%**	**RMB**	**—**	**—**	**30,000**
Loan with guarantee	**5.6%–7.32%**	**RMB**	**—**	**—**	**809,000**
Total					**839,000**

			Opening balance		
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

Loan with guarantee were guaranteed by the Parent Group (Note VI.5 (3)).

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of Long-term loans.

29 Debentures payable

Item	Balance at the beginning of the period	Additions during the period	Decreases during the period	Balance at the end of the period
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,966,848	2,371	—	1,969,219

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

29 Debentures payable *(Continued)*

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 period	Interest accrued during the period	Inter-est paid during the period	Interests payable at the end of the period	Balance at the end of the period
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 Dec. 2010	7 years	2,000,000	10,333	62,000	—	72,333	1,969,219

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% on 30 June 2012 (2011: 6.55%).

30 Long-term payables

Item	**Closing balance**	Opening balance
Obligations under finance leases	**3,101,119**	3,254,896

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 Long-term payables *(Continued)*

(1) Obligations under finance leases

			Closing balance			
Lending enterprises	Amount	Unrecognised finance charge	Less: amounts within a year	Ending balance	Interest rate	*Note*
Jian Xin	**1,312,839**	**189,291**	**569,131**	**554,417**	**13.30%**	**(a)**
Min Sheng I	**186,422**	**4,531**	**181,215**	**676**	**5.87%**	
Min Sheng II	**323,950**	**19,568**	**156,736**	**147,646**	**7.28%**	
Min Sheng III	**156,528**	**16,528**	**37,794**	**102,206**	**7.23%**	
Unismart I	**567,811**	**62,695**	**134,691**	**370,425**	**7.45%**	
Unismart II	**663,859**	**79,957**	**146,273**	**437,629**	**7.59%**	
Unismart III	**464,966**	**24,966**	**295,005**	**144,995**	**8.29%**	**(a)**
China Railway	**95,887**	**15,393**	**20,009**	**60,485**	**8.72%**	**(a)**
Kun Lun	**1,001,018**	**83,861**	**295,696**	**621,461**	**8.30%**	**(b)**
Hua Rong	**735,552**	**105,552**	**143,046**	**486,954**	**8.84%**	**(a)**
Gong Yin	**262,804**	**62,804**	**25,775**	**174,225**	**7.80%**	
Total	**5,771,636**	**665,146**	**2,005,371**	**3,101,119**		

			Opening balance			
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		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 Long-term payables *(Continued)*

(1) Obligations under finance leases (Continued)

The long-term payables are amortised using effective interest rate and the Company used amortized cost to calculate subsequent measurement.

(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.

(2) Cash flow under finance leases

The total future minimum lease payments under finance leases after 30 June 2012, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates on 30 June 2012), are payable as follows:

Minimum lease payments	Closing balance	Opening balance
Within 1 year (inclusive)	**2,085,902**	1,495,580
1 to 2 years (inclusive)	**1,812,250**	1,868,281
2 to 3 years (inclusive)	**1,005,850**	1,157,858
Over 3 years	**867,634**	813,040
Sub-total	**5,771,636**	5,334,759
Less: Unrecognised finance charges	**665,146**	660,895
Total	**5,106,490**	4,673,864

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 from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of Long-term payable.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Other non-current liabilities

Item	Closing balance	Opening balance
Other financial liabilities	**407,045**	410,242
Less: part expected to be realized in one year	**239,599**	310,242
Sub-total	**167,446**	100,000
Deferred income - government grants	**40,447**	40,575
Deferred income — unrealized income of sale and leaseback transactions	**120,009**	123,404
Less: expected to realised in one year	**8,194**	7,683
Sub-total	**152,262**	156,296
Total	**319,708**	256,296

32 Share capital

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
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)*

33 Capital reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Share premiums	825,980	—	—	825,980
Transfer from items under previous standards	270,127	—	—	270,127
Other capital reserves	13,056	—	—	13,056
Total	1,109,163	—	—	1,109,163

34 Specific reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Specific reserve	1,560	71	331	1,300

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 period-end balance of this account represents unutilized safety production expenses and other similar expenses.

35 Surplus reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Statutory surplus reserve	605,633	—	—	605,633

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

36 Retained earnings

Item	Amounts
Retained earnings at the beginning of the period	625,625
Add: net profits for the period attributable to shareholders of the Company ("-" for losses)	-648,046
Less: statutory surplus reserve	—
Retained earnings at the end of the period	-22,421

37 Operating income, operating costs

(1) Operating income, operating costs

Item	Jan–Jun 2012	Jan–Jun 2011
Operating income from principal activities	**10,234,808**	12,997,128
Other operating income	**47,234**	42,162
Operating income	**10,282,042**	13,039,290
Operating costs from principal activities	**10,005,886**	12,305,797
Other operating costs	**16,733**	27,160
Operating costs	**10,022,619**	12,332,957

(2) Principal activities (by industry)

Industry	Jan–Jun 2012		Jan–Jun 2011	
	Operating income	Operating costs	Operating income	Operating costs
Iron and steel	**10,204,934**	**9,978,680**	12,919,608	12,267,413
Electronic engineering design, construction and installation	**7,350**	**5,826**	53,970	30,159
Transportation	**22,524**	**21,380**	23,550	8,225
Total	**10,234,808**	**10,005,886**	12,997,128	12,305,797

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

37 Operating income, operating costs *(Continued)*

(3) Principal activities (by product)

Product	Jan–Jun 2012		Jan–Jun 2011	
	Operating income from principal activities	Operating cost from principal activities	Operating income from principal activities	Operating cost from principal activities
Steel plates	**5,223,261**	**5,145,363**	4,216,921	3,944,286
Hot-rolled coil	**4,010,407**	**3,874,860**	4,011,165	3,939,985
Steel billets	**325,682**	**336,271**	592,818	567,410
Steel sections	**39,250**	**43,347**	2,213,130	2,094,870
Wire rods	**22,951**	**24,325**	1,080,446	1,005,341
Cool-rolled sheets	**148,414**	**160,481**	223,721	237,619
By-product	**434,969**	**394,033**	581,407	477,902
Others	**29,874**	**27,206**	77,520	38,384
Total	**10,234,808**	**10,005,886**	12,997,128	12,305,797

(4) The Company's operating income from the top five customers in 2012

Name of customer	Operating income	Percentage of total operating income
Chongqing Wanda Steel Strip Co., Ltd	956,602	9%
Jiangsu Shipping Materials Corporation	679,598	7%
Shanghai Chonggang Trade Co., Ltd	619,509	6%
Chongqing Jiangnan Metal Material Co., Ltd.	533,644	5%
Sichuan Tianhao Metallurgy Industry Co., Ltd	497,427	5%
Total	3,286,780	32%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Non-operating income

Item	Note	Jan–Jun 2012	Jan–Jun 2011
Gains on disposal of fixed assets		—	1,344
Government grants		—	2,702
Received tax return		—	5,047
Income from gas emission reduction		—	10,894
Relocation compensation	(1)	**162,739**	189,125
Others		**3,116**	1,873
Total		**165,855**	210,985

(1) 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 for the period from 1 January 2012 to 31 March 2012. 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.

39 Non-operating expenses

Item	Jan–Jun 2012	Jan–Jun 2011
Losses on disposal of fixed assets	**1,769**	99
Donation expenses	—	1,950
Others	**248**	101
Total	**2,017**	2,150

40 Income tax expenses

Item	Jan–Jun 2012	Jan–Jun 2011
Current tax expenses for the period based on tax law and corresponding regulations	**6**	684
Changes in deferred tax assets	—	299
Total	**6**	983

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

40 Income tax expenses *(Continued)*

Changes in deferred tax assets are as followed:

Item	Jan–Jun 2012	Jan–Jun 2011
Reversal of temporary differences	—	-299

41 Basic earnings per share and diluted earnings per share

(1) Basic earnings per share

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

	Jan–Jun 2012	Jan–Jun 2011
Consolidated net profit of the Company attributable to ordinary shareholders ("–" for losses)	**–648,046**	14,120
Weighted average number of ordinary shares outstanding *('000 shares)*	**1,733,127**	1,733,127
Basic earnings per share ("–" for losses)	**–0.374**	0.008

(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 30 June 2012, there were no issuance of dilutive potential ordinary shares (2011: 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)*

42 Supplement to cash flow statement

(1) Supplemental information to cash flow statement

Supplemental Information	Jan–Jun 2012	Jan–Jun 2011
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("–" for losses)	**–648,036**	14,120
Add: Depreciation of fixed assets	**178,075**	216,296
Amortization of intangible assets	**4,340**	3,554
Losses on disposal of fixed assets (gains denoted with "–")	**1,769**	–1,245
Financial expenses (income denoted with "–")	**438,256**	298,820
Investment losses (gain denoted with "–")	**–16,305**	–1,996
Decrease in deferred tax assets (increase denoted with "–")	**—**	878
Decrease in gross inventories (increase denoted with "–")	**–1,487,994**	–2,450,297
Decrease in operating receivables (increase denoted with "–")	**366,075**	–13,631
Increase in operating payables (decrease denoted with "–")	**3,247,609**	1,384,006
Decrease in restricted cash (increase denoted with "–")	**–224,551**	–374,601
Net cash flow from operating activities	**1,859,238**	–924,096
(b) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance leases	**581,000**	440,000
(c) Change in cash and cash equivalents:		
Cash at the end of the period	**1,063,304**	514,149
Less: Cash at the beginning of the period	**1,301,423**	1,537,352
Add: Cash equivalents at the end of the period	**—**	—
Less: Cash equivalents at the beginning of the period	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "–")	**–238,119**	–1,023,203

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

42 Supplement to cash flow statement *(Continued)*

(2) Cash and cash equivalents

Item	Jan-Jun 2012	Jan-Jun 2011
Cash and cash equivalents	**1,063,304**	514,149
Including: Cash on hand	**366**	442
Bank deposits available on demand	**1,062,638**	510,238
Other monetary fund available on demand	**300**	3,469
Cash equivalents	**—**	—
Closing balance of cash and cash equivalents	**1,063,304**	514,149

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%

(1) Registered capital and changes therein

	Balance at the beginning of the period	Increase in the period	Decrease in the period	Balance at the end of the period
Parent Group	1,650,706	—	—	1,650,706

(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)*

(2) Shares of the Company held by the Parent Group and changes therein

	30 June 2012		31 December 2011	
	Amount	**Percentage**	Amount	Percentage
Parent Group	**800,800**	**46%**	800,800	46%

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.

3 Transactions with its key management personnel

Remuneration of key management personnel	**Jan–Jun 2012**	Jan–Jun 2011
Key management personnel	**1,287**	1,470

(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

(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 Iron & Steel Group Design and Research Institute	20288616-1	Under the same parent company
Chongqing Sanhuan Construct Supervision Consultant Company Limited	20328978-0	Under the same parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited	75623445-6	Under the same parent company
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	20298610-3	Under the same parent company
Chongqing Iron & Steel Group Industrial Company Limited	20298762-4	Under the same parent company
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	66359560-7	Under the same parent company
Chongqing Luneng Environment Industry Company Limited	20332595-6	Under the same parent company
Chongqing Donghua Special Steel Company Limited	75622782-X	Under the same parent company
Chongqing Iron &Steel Research Institute	45038430-4	Under the same parent company
Chongqing Iron &Steel Group TV	20298426-3	Under the same parent company
Chongqing Wuxia Mining Industry Incorporated Company	67612426-5	Under the same parent company
Chongqing Huanya Construction Materials Company Limited	70936427-4	Under the same parent company
Chongqing Hongfa Real Estate Development Company	20288082-7	Under the same parent company
Chongqing 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

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 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:

		Jan-Jun 2012		Jan-Jun 2011	
	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	**707,662**	**16.34%**	968,455	9.78%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**231,795**	**93.10%**	194,543	88.82%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**88,343**	**3.21%**	202,230	6.22%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**29,828**	**1.81%**	12,887	0.81%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**17,064**	**1.30%**	29,000	1.58%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**14,548**	**2.78%**	27,170	1.32%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**10,917**	**1.46%**	—	—
Chongqing Si Gang Steel Company Limited	Scrap steel	**5,142**	**0.69%**	2,111	0.24%
Chongqing Iron & Steel Research Institute	Alloy	**4,127**	**0.92%**	—	—
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**2,945**	**2.49%**	9,365	6.03%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and accessories	**2,821**	**1.13%**	10,166	0.10%
Others		**4,998**		37,092	
Total		**1,120,190**		1,493,019	

(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:

		Jan-Jun 2012		Jan-Jun 2011	
	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	**160,484**	**70.79%**	221,523	35.56%
Chongqing Iron & Steel Group Mining Company Limited	Energy	**46,430**	**20.48%**	17,147	2.75%
Chongqing Si Gang Steel Company Limited	Steel products	**43,401**	**0.44%**	125,944	1.02%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**17,774**	**0.18%**	109,134	0.84%
Chongqing San Gang Steel Company Limited	Steel products	**17,226**	**0.18%**	182,927	1.48%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**16,310**	**0.17%**	172,990	1.40%
Parent Group	Steel products	**1,955**	**0.02%**	36,936	0.28%
Others		**2,934**		14,812	
Total		**312,287**		966,250	

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.

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

5 Related-party transactions *(Continued)*

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

As at 30 June 2012, 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 3,611,237,000 and RMB 1,867,327,000 (2011: RMB 2,136,548,000 and RMB 3,433,494,000) respectively and were guaranteed by the Parent Group (Note V.18, 27 and 28).

All liabilities under the lease agreement between the Company and Jian Xin, Kun Lun, Hua Rong, Unismart, China Railway (Note V.30(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 30 June 2012, the short-term loan bank borrowing of Chongqing Transportation and San Feng Logistics amounted to RMB 5,000,000 and RMB 170,000 (2011: RMB5,000,000 and RMB80,000 respectively) 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:

	Note	**Jan–Jun 2012** Transaction amount	**Jan–Jun 2012** Percentage in the total amount of similar transactions (%)	Jan–Jun 2011 Transaction amount	Jan–Jun 2011 Percentage in the total amount of similar transactions (%)
Social welfare expenses paid by the Parent Group	(i)	**52,288**	**38%**	54,678	36%
Fees paid for supporting services	(ii)	**285,630**	**38%**	218,767	46%
Rental expenses for land use right	(iii)	**18**	**100%**	9,900	100%
Fees received for supporting	(iv)	**10,270**	**50%**	32,662	3%
Fees paid for purchasing ore	(v)	**3,724**	**100%**	1,680	100%
Authorized use of assets	(vi)	**162,739**	**100%**	189,125	100%
Compensation for relocation loss	(vi)	**163,739**	**100%**	209,623	100%

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.

(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.

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)

(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.

(v) 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 the first half year of 2012, Chonggang HK procured RMB 1,620,318,000 worth of iron ore for the Company for an agency fee of RMB 3,724,000 (2011: RMB 1,680,000).As at 31 December 2011, the agency fee payable to Chonggang HK by the Company amounted to RMB 1,770,972,000 (2011: RMB 288,195,000).

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)

(vi) 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)*

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

(vi) *(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 March 2012, 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 for the period from 1 January 2012 to 31 March 2012 is RMB 163,739,000 (1 January to 30 June 2011: RMB 209,623,000), and the fees for the use these assets is RMB 162,739,000 for the period from 1 January 2012 to 31 March 2012 (1 January to 30 June 2011: RMB 189,125,000).

(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

Related Party	Closing balance	Opening balance
Chongqing Iron & Steel Group Steel Pipe Company Limited	**25,846**	1,000
Chongqing San Gang Steel Company Limited	**12,224**	17,870
Chongqing Si Gang Steel Company Limited	**—**	22,770
Total	**38,070**	41,640

(2) Account receivable

Related Party	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	**156,285**	130,756
Chongqing San Gang Steel Company Limited	**96,015**	110,880
Chongqing Iron & Steel Group Steel Pipe Company Limited	**70,108**	94,673
Parent Group	**9,811**	18,793
Others	**8,720**	17,876
Sub-total	**340,939**	372,978
Less: Provision for bad and doubtful debts	**-2,710**	-10,358
Total	**338,229**	362,620

(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)*

(3) Other receivables

Related party	Closing balance	Opening balance
Parent Group	**1,178,370**	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 30 June 2012, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 1,353,105,000 (Note V.12).Meanwhile, as stated in Note I, based on the arrangement of the target assets and the fact that the Company is using the target assets, in order to reasonably reflect the costs of using the target assets by the Company and the adjustment in the value of the target assets on the transaction date, the Company will accrue the costs of using the Group's assets based on the depreciation or amortization of the target assets during the transaction period, and reduce the book value of the target assets on the completion of the transaction. The company accrued the costs of RMB 174,735,000 for using the Group's assets for the period from 1 April 2012 to 30 June 2012.

(4) Accounts payables

Related party	Closing balance	Opening balance
Chonggang HK *(Note VI.5(5)(v))*	**1,770,972**	288,195

(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)*

(5) Other payables

Related party	Closing balance	Opening balance
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**119,550**	49,971
Parent Group	**103,968**	51,900
Chongqing Iron & Steel Group Mining Company Limited	**49,760**	2,407
Chongqing Iron & Steel Group Industrial Company Limited	**32,358**	81,503
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**27,430**	29,767
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**11,480**	12,856
Chongqing Iron & Steel Group Design and Research Institute	**6,854**	13,074
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**3,145**	2,173
Others	**2,858**	1,248
Total	**357,403**	244,899

(6) 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. COMMITMENTS

1. Capital commitments

Item	*Note*	Closing balance	Opening balance
Significant construction contracts contracted for and being performed or to be performed		**4,227,683**	4,142,977
Significant construction contracts authorized but not yet contracted for		**1,048,324**	1,048,324
Finance leases contracted for and being performed or to be performed.		**5,771,636**	5,334,759
Total		**11,047,643**	10,526,060

2. Operating lease commitments

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

Item	Closing balance	Opening balance
Within 1 year (inclusive)	**53**	53
After 1 year but within 2 years (inclusive)	**53**	53
After 2 years but within 3 years (inclusive)	**53**	53
After 3 years	**1,898**	1,924
Total	**2,057**	2,083

VIII. OTHER MATERIAL EVENTS

3 Leases

Details of finance lease, refer to Note V. 9(4), 10(3), 11(2) and 30(1).

4 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)

VIII. OTHER MATERIAL EVENTS *(CONTINUED)*

4 Segment reporting *(Continued)*

Reportable information on the Group's reporting segments from 1 January to 30 June 2012 is set out as follows:

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination		Total	
	Jan. to Jun.2012	Jan. to Jun.2011	**Jan. to Jun.2012**	Jan. to Jun.2011	**Jan. to Jun.2012**	Jan. to Jun.2011	**Jan. to Jun.2012**	Jan. to Jun.2011	**Jan. to Jun.2012**	Jan. to Jun.2011
Operating income from external transactions	**10,251,642**	12,962,474	**7,350**	54,262	**23,050**	22,554	**—**	—	**10,282,042**	13,039,290
Operating income from inter-segment transactions	**787**	—	**61,312**	55,877	**316,687**	86,468	**-378,786**	-142,345	**—**	—
Operating income	**10,252,429**	12,962,474	**68,662**	110,139	**339,737**	109,022	**-378,786**	-142,345	**10,282,042**	13,039,290
Operating expenses, non-operating income or loss and income tax expenses	**10,907,437**	12,956,619	**63,533**	103,921	**337,894**	106,097	**-378,786**	-142,345	**10,930,078**	13,024,292
Operating profit	**-655,008**	5,855	**5,129**	6,218	**1,843**	2,925	**—**	—	**-648,036**	14,998
Supplementary information:										
—interest income from bank deposits	**21,788**	9,205	**12**	2	**10**	4	**—**	—	**21,810**	9,211
— interest expense from bank loans	**441,502**	212,461	**—**	37	**169**	150	**—**	—	**441,671**	212,648
— depreciation and amortization expenses	**177,858**	215,732	**414**	540	**4,143**	3,621	**—**	—	**182,415**	219,893
— impairment loss for the current period	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
Total assets	**27,680,525**	25,337,910	**82,216**	84,559	**1,088,309**	378,628	**-362,587**	-273,711	**28,488,463**	25,527,386
Total liabilities	**24,270,657**	19,793,451	**35,905**	47,497	**670,626**	29,790	**-81,544**	-42,674	**24,895,644**	19,828,064

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable

(1) Accounts receivable by customer type:

Type	Closing balance	Opening balance
Third party	**764,218**	480,215
Related party	**326,090**	445,500
Sub-total	**1,090,308**	925,715
Less: Provision for bad and doubtful debts	**154,215**	161,584
Total	**936,093**	764,131

(2) The ageing analysis of accounts receivables is as follows:

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	**856,602**	776,435
1 and 2 years (inclusive)	**86,754**	3,480
2 and 3 years (inclusive)	**1,640**	800
Over 3 years	**145,312**	145,000
Sub-total	**1,090,308**	925,715
Less: Provisions for bad and doubtful debt	**154,215**	161,584
Total	**936,093**	764,131

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(3) Accounts receivable by category:

		Closing balance				Opening balance			
		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)	**2,710**	**0%**	**2,710**	**2%**	10,079	1%	10,079	6%
Collectively assessed for impairment *(*)*									
Group 1	(5)	**764,218**	**70%**	**151,505**	**98%**	480,215	52%	151,505	94%
Group 2		**323,380**	**30%**	**—**	**—**	435,421	47%	—	—
Sub- total		**1,087,598**	**100%**	**151,505**	**98%**	915,636	99%	151,505	94%
Total		**1,090,308**	**100%**	**154,215**	**100%**	925,715	100%	161,584	100%

* This category includes accounts receivable having been individually assessed but not impaired.

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)

IX. 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	2,710	2,710	100%

As at 30 June 2012, the Company's amounts due from related parties with ageing over 3 years mainly include the amount of RMB 2,710,000 due from Chongqing Iron & Steel Group Yingsite Mould 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. Moreover, 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 the debts. Chongqing Iron & Steel Group Thermal Ceramics Company Limited entered into the liquidation procedure in the late of 2009 and completed in the February of 2012. The Group wrote off the provision in April 2012.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

IX. 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:***

Aging	Closing balance			Opening balance		
	Balance		Bad debt	Balance		Bad debt
	Amount	Percentage	provision	Amount	Percentage	provision
Within 3 months (inclusive)	**507,578**	**66%**	**—**	226,240	47%	—
Within 4 to 12 months (inclusive)	**42,486**	**6%**	**5,235**	104,695	22%	5,235
Sub- total of within 1 year	**550,064**	**72%**	**5,235**	330,935	69%	5,235
1 to 2 years (inclusive)	**67,854**	**9%**	**870**	3,480	1%	870
2 to 3 years (inclusive)	**1,640**	**0%**	**400**	800	0%	400
Above 3 years	**144,660**	**19%**	**145,000**	145,000	30%	145,000
Total	**764,218**	**100%**	**151,505**	480,215	100%	151,505

(6) ***Accounts receivable written-off during this period:***

In April 2012, the Company wrote off an amount of RMB 7,369,000 (2011: nil) accounts receivable and related provision that were confirmed unable to recover.

IX. 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	155,643	within 2 year (inclusive))	14%
2. Shanghai Chonggang Trade Co., Ltd	Third parry	133,346	within 1 year (inclusive)	12%
3. Chongqing San Gang Steel Co., Ltd	Related party	96,015	within 1 year (inclusive)	9%
4. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,108	within 1 year (inclusive)	7%
5. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third parry	52,644	within 1 year (inclusive)	5%
Total		507,756		47%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables

(1) Other receivables by customer type:

Type	Closing balance	Opening balance
Related parties	**1,178,370**	135,604
The third parties	**64,155**	140,781
Sub-total	**1,242,525**	276,385
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,225,567**	259,427

(2) The ageing analysis of other receivables is as follows:

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	**1,213,367**	247,973
1 to 2 years (inclusive)	**14,471**	3,922
2 to 3 years (inclusive)	**1,177**	2,927
Above 3 years	**13,510**	21,563
Sub-total	**1,242,525**	276,385
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,225,567**	259,427

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(Continued)*

(3) *Other receivables by category:*

Category	Closing balance			
	Carrying amount		Provision for bad and doubtful debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and assessed individually for impairment	**1,205,950**	**93%**	**15,827**	**93%**
Individually insignificant and assessed individually for impairment	**90,877**	**7%**	**1,131**	**7%**
Total	**1,296,827**	**100%**	**16,958**	**100%**

Category	Opening balance			
	Carrying amount		Provision for bad and doubtful debts	
	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%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

IX. 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	Closing balance Carrying amount	Closing balance Provision for bad and doubtful debt (%)	Opening balance Carrying amount	Opening balance Provision for bad and doubtful debt (%)
Parent Group	**1,178,370**	**—**	135,604	—

3 Long-term equity investment

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Investments in subsidiaries	**281,044**	281,044
Other long-term equity investments	**5,000**	5,000
Sub-total	**286,544**	286,044
Less: Provision for impairment	**—**	—
Total	**286,044**	286,044

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment *(Continued)*

(2) *Principal activities (by product)*

Long-term equity investment movement was as follows:

Investee	Accounting for method	Initial investment cost	Balance at the beginning of the period	Movement of addition and reduction	Balance at the end of the period	Shareholding percentage (%)	Voti-ng Rights (%) (%)	Provision for impairment	Provision made during the period	Cash dividend for the period
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%	–	–	–
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		286,044	286,044	–	286,044	–	–	–	–	–

Refer to Note IV for relevant information of the Company's subsidiaries.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income, operating costs

(1) Operating income, operating costs

Item	Jan-Jun 2012	Jan-Jun 2011
Operating income from principal activities	**10,205,267**	12,920,505
Other operating income	**47,162**	41,969
Operating income	**10,252,429**	12,962,474
Operating costs from principal activities	**10,004,006**	12,267,413
Other operating costs	**17,096**	27,215
Operating costs	**10,021,102**	12,294,628

(2) Principal activities (by product)

	Jan-Jun 2012		Jan-Jun 2011	
Product	Operating income from principal activities	Operating cost from principal activities	Operating income from principal activities	Operating cost from principal activities
Steel plates	**5,223,261**	**5,145,363**	4,216,921	3,944,286
Hot-rolled coil	**4,010,407**	**3,874,860**	4,011,165	3,939,985
Steel billets	**325,682**	**336,271**	592,818	567,410
Steel sections	**39,250**	**43,347**	2,213,130	2,094,870
Wire rods	**22,951**	**24,325**	1,080,446	1,005,341
Cool-rolled sheets	**148,414**	**160,481**	223,721	237,619
By-product	**435,302**	**419,359**	582,304	477,902
Total	**10,205,267**	**10,004,006**	12,920,505	12,267,413

(3) Information on the Company's operating income from top five customers, see Note V.37(4).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Supplement to cash flow statement

Supplemental Information	Jan–Jun 2012	Jan–Jun 2011
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("–" for losses)	**–655,008**	4,977
Add: Depreciation of fixed assets	**174,354**	212,227
Amortisation of intangible assets	**3,504**	3,505
Losses on disposal of fixed assets (gains denoted with "–")	**312**	–1,208
Financial expenses (income denoted with "–")	**436,843**	298,665
Investment losses (gain denoted with "–")	**–16,305**	–1,996
Decrease in deferred tax assets (increase denoted with "–")	**—**	878
Decrease in gross inventories (increase denoted with "–")	**–1,509,235**	–2,450,227
Decrease in operating receivables (increase denoted with "–")	**381,645**	–114,413
Increase in operating payables (decrease denoted with "–")	**3,280,204**	1,399,759
Decrease in restricted cash (increase denoted with "–")	**–224,551**	–374,601
Net cash flow from operating activities	**1,871,763**	–1,022,434
Investing and financing activities not requiring the use of cash or cash equivalents:		
(b) Acquisition of construction materials under finance lease	**581,000**	440,000
Change in cash and cash equivalents:		
(c) Cash at the end of the period	**931,160**	311,686
Less: Cash at the beginning of the period	**1,181,593**	1,290,146
Add: Cash equivalents at the end of the period	**—**	—
Less: Cash equivalents at the beginning of the period	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "–")	**–250,433**	–978,460

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

1 EXTRAORDINARY GAIN AND LOSS

Item	Note	Jan-Jun 2012	Jan-Jun 2011
Disposal of non-current asset		**-1,769**	1,245
Tax refunds, exemptions and reductions on an occasional basis		**—**	5,047
Government grants recognized through profit or loss		**—**	2,702
Profit or loss of subsidiaries generated before combination date of a business combination involving entities under common control		**—**	2,418
Actual additional expenditure incurred in relation to the environmental relocation	(1)	**-163,739**	-209,623
Amount for free use of the Parent Group's assets		**162,739**	189,125
Income from gas emission reduction		**—**	10,894
Other non-operating income and expenses other than the above items		**2,868**	-178
Less: Amount of effect on taxation		**76**	-245
Total		**23**	1,385

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 from January to June 2012 by the Company amounted to RMB 163,739,000, and the costs that should be measured in relation to the authorized use of the above assets from January to June 2012 amounted to RMB 162,739,000 (as stated in Note. VI.5(5)(vi)).

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 ("–" for losses)	–17.28%	–0.374	–0.374
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders ("–" for losses)	–17.28%	–0.374	–0.374

Documents Available For Inspection

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

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

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

4. The copies of summary of interim report published in China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily and preliminary results announcement published on the website of Hong Kong Stock Exchange.

Chongqing Iron & Steel Company Limited
Chairman: **Deng Qiang**
30 August 2012