重慶鋼鐵股份有限公司

Chongqing Iron & Steel Company Limited

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

2012 ANNUAL REPORT

Contents

IMPORTANT NOTICE

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

2. The Company's directors Mr. Yuan Jin Fu and Mr. Xia Tong did not attend the 8th meeting of the fifth session of the Board due to other business affairs; the independent director Mr. Liu Xing (his term of office ended on 31 May 2012) did not attend the 9th meeting of the fifth session of the Board due to other business affairs; the independent director Mr. Liu Tian Ni did not attend the 9th meeting of the fifth session of the Board and the 1st meeting of the sixth session of the Board due to other business affairs; the independent director Mr. Liu Tian Ni attended the 8th meeting of the fifth session of the Board and the 10th meeting of the fifth session of the Board by proxy. Mr. Zhang Guo Lin attended the 8th meeting of the fifth session of the Board by proxy. Prior to the Board meetings, directors unable to attend reviewed carefully the proposed resolutions, made sufficient communication with their proxies and offered their opinions and asked proxies to vote on their behalf.

   Other than those disclosed above, all directors of the Company attended Board meetings.

3. KPMG Huazhen Certified Public Accountants (Special General Partnership) issued a standard unqualified audit report for the Company.

4. Mr. Deng Qiang, head of the Company, and Ms. Gong Jun, the Chief Financial Officer and Chief Accountant, have declared that they guarantee the truthfulness, accuracy and completeness of the financial statements in the annual report.

5. The forward-looking statements set out in this annual report such as future plans involve uncertainties and do not constitute the Company's substantial commitment to investors. Investors are advised to be aware of investment risks.

6. The Company did not provide external guarantee in violation of the stipulated decision making procedure.

7. The financial data in this annual report are prepared under the PRC GAAP.

8. This annual 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.

Definition and Major Risk Warning

I. DEFINITION

In this report unless the context otherwise requires, the following expressions have the following meanings:

Definitions of frequently-used terms

Chongqing Iron & Steel Group, Parent Company, Controlling Shareholder	Chongqing Iron & Steel (Group) Co., Ltd.
Company, Group, Chongqing Iron & Steel, Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Company Limited
Board	the board of directors of Chongqing Iron & Steel Company Limited
Supervisory Committee	the supervisory committee of Chongqing Iron & Steel Company Limited
General Meeting	the shareholders' general meeting of Chongqing Iron & Steel Company Limited
CSRC	China Securities Regulatory Commission
Chongqing Securities Regulatory Bureau	Chongqing Securities Regulatory Bureau of China Securities Regulatory Commission
Articles of Association	Articles of Association of Chongqing Iron & Steel Company Limited
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Reporting Period	2012
RMB, RMB'000	RMB yuan, RMB'000 yuan

II. MAJOR RISK WARNING:

The Company describes the industry, competition and resources related risks in this report. Please refer to the section headed the "Board's Discussion and Analysis about the Company's Future Development" set out in the Report of the Board of Directors for potential risks.

1. COMPANY INFORMATION

Chinese name	重慶鋼鐵股份有限公司
Abbreviation of Chinese name	重鋼股份公司
English name	Chongqing Iron & Steel Company Limited
Abbreviation of English name	CISL
Legal representative	Deng Qiang

2. CONTACT INFORMATION

	Secretary to the Board	Securities representative
Name	You Xiao An	Peng Guo Ju
Correspondence address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Telephone	86-23-6887 3311	86-23-6898 3482
Fax	86-23-6887 3189	86-23-6887 3189
E-mail	yxa@email.cqgt.cn	clarapeng@email.cqgt.cn

3. BASIC INFORMATION

Registered address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Postal code of registered address	401258
Office address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Postal code of office address	401258
Website	http://www.cqgt.cn
E-mail	dms@email.cqgt.cn

4. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Name of newspapers designated by the Company for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by CSRC for publishing annual reports	www.sse.com.cn
Place for inspection of annual reports	Secretariat of the Board of Directors

5. BASIC INFORMATION ABOUT THE SHARES OF THE COMPANY

Basic Information about the Shares of the Company

Class of shares	Place of listing	Abbreviated name	Stock code	Abbreviated name before change
A shares	Shanghai Stock Exchange	重慶鋼鐵	601005	/
H shares	The Stock Exchange of Hong Kong Limited	Chongqing Iron	1053	/

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD

(1) Basic information

There was no change in registration information of the Company during the Reporting Period.

(2) Information about the Company at the initial registration

According to The Approval for the Establishment of Chongqing Iron & Steel Company Limited (Ti Gai Sheng Zi [1997] No. 127) issued by the former State Commission for Restructuring Economic Systems and the Approval for the Management of State-owned Equity of Chongqing Iron & Steel Company Limited (in preparation) (Guo Zi Qi Fa [1997] No. 156) issued by the former State-owned Assets Administration Bureau, the Company was established as a limited liability company by the Parent Company as the sole promoter. The Company was incorporated and registered with Chongqing Municipal Administration of Industry and Commerce on 11 August 1997 with a registered capital of 650 million.

(3) Change in principal operations since listing

There has been no change to the Company's principal operations since its listing. The Company is a large scale iron and steel producer in the People's Republic of China (the "PRC") and is one of the largest producers of medium-gauge plates in the PRC. The principal business activities consist of the manufacture and sale of medium-gauge steel plates, hot rolled coils, steel sections, wire rods, cool-rolled sheets, steel billets and coking and smelting by-products. The Company adopted advanced technology and skills in production of high quality products through integrated production process. Steel products such as steel plates for ship building, pressure vessel plates and steel plates for boilers have received a number of quality awards including "China Top Brand" and quality certificates issued by a number of domestic and international professional organizations. The products with the brand "Sanfeng (三峰)" are very famous among products of the same category in the PRC.

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD *(CONTINUED)*

(3) Change in principal operations since listing *(Continued)*

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

Plates for shipbuilding: Mainly used in the construction of the skeleton and superstructure of 10,000 ton ocean-going ships and hull structure of inland ships.

Pressure vessel plates: Mainly used in the manufacturing of pressure vessels I, II, III and other kinds of pressure vessels such as reaction vessels, heat exchanging vessels, separating vessels, storage vessels, corrosion-resisting vessels and cylinder of multilayered high pressure vessels.

Plates for boilers: Mainly used in the manufacturing of cylinders and shell covers for medium and low pressure boilers.

Steel plates for bridge building: Mainly used in building of large railway bridges and highway bridges.

Low-alloy high strength steel plates: Widely used in the manufacturing of mine machinery, engineering machinery and heavy vehicle as well as construction of high-rise building.

Normal carbon structural plates: Widely used in the machinery manufacturing, construction and transportation industries.

Hot rolled coils: Widely used in shipbuilding, automobile and manufacturing of engineering machinery industries.

Steel Sections: Widely used in machinery manufacturing, construction, shipbuilding, mine exploration and transportation industries.

High speed wire rod: Mainly used in construction and wire rod products industries.

Cold rolled thin plates: Mainly used in automobile, motorcycle, security doors and steel-structured factory premises.

Steel billets: Mainly sold to other steel producers who are not deemed as competitors of the Company.

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD *(CONTINUED)*

(4) Change of the Controlling Shareholder since listing

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

(ii) On 28 February 2007, the Company issued 350,000,000 ordinary shares denominated in Renminbi ("A Shares") on the Shanghai Stock Exchange ("Shanghai Exchange"). Upon completion of the issue, the total share capital of the Company amounted to 1,733,127,200 shares, including 1,195,000,000 A Shares and 538,127,200 H Shares. The Controlling Shareholder was Chongqing Iron & Steel (Group) Co., Ltd.

7. OTHER RELATED INFORMATION

Auditors of the Company (domestic and international)	Name	KPMG Huazhen Certified Public Accountants (Special General Partnership)
	Office address	8/F, Office Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
	Signing accountants	Ling Yun Wan Shu

I. MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS ENDED 31 DECEMBER

(I) Major financial data

Unit: RMB'000

Major financial data	2012	2011	Increase/decrease from last year (%)	2010
Operating revenue	**18,458,776**	23,532,945	–21.56	16,675,889
Net profit attributable to shareholders of the Company	**98,813**	–1,471,082	106.72	11,270
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**-1,868,648**	–1,493,166	–25.15	–24,743
Net cash flow from operating activities	**5,314,613**	451,313	1,077.59	–2,078,626

	At the end of 2012	At the end of 2011	Increase/decrease at the end of the year from the end of last year (%)	At the end of 2010
Net assets attributable to shareholders of the Company	**4,173,976**	4,075,108	2.43	5,599,896
Total assets	**31,106,399**	27,050,441	14.99	22,668,457

I. MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS ENDED 31 DECEMBER *(CONTINUED)*

(II) Major financial indicators

Major financial indicators	**2012**	2011	Increase/ decrease from last year *(%)*	2010
Basic earnings per share *(RMB/share)*	**0.057**	–0.849	106.71	0.007
Diluted earnings per share *(RMB/share)*	**0.057**	–0.849	106.71	0.007
Basic earnings per share after extraordinary gain and loss *(RMB/share)*	**–1.078**	–0.862	–25.06	–0.014
Return on net assets (weighted average) *(%)*	**2.4**	–30.52	32.92	0.20
Return on net assets net of extraordinary gain and loss (weighted average) *(%)*	**–45.31**	–30.98	–14.33	–0.44

II. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNTS

Unit: RMB'000

Extraordinary gain and loss item	**Amount for 2012**	Amount for 2011	Amount for 2010
Gain or loss arising from disposal of non-current assets	**–40,398**	1,781	7,824
Tax refund or relief arising from unauthorized approval, without official approval or on an occasional basis	**150**	5,479	5,407
Government subsidies (except for the grants which are closely related to the Company's business and have the standard amount and quantities in accordance with the national standard) attributable to profits and losses for the period	**2,001,616**	4,521	10,715
Capital occupancy fee from non-financial enterprises recognized through profit or loss			
Profits and losses arising from business combination when the combination cost is less than the recognized fair value of net assets of the combined company			
Profit or loss of non-monetary asset exchange			
Profit or loss from entrusting others to invest or manage the assets			
Provision of impairment of all assets due to force majeure such as suffering from natural disaster			
Profit or loss of debt restructuring			
Enterprise restructuring expenses such as employee resettlement compensation and integration expense, etc	**–17,157**		
Relevant usage fees which should be measured for use of relevant assets of the Parent Company for free	**162,739**	503,204	153,194
Profit or loss from transactions with obvious unfair transaction price			
Actual additional expenses for environmental relocation	**–163,739**	–495,660	–147,125
Subsidiaries' year-to-date net profit/loss arising from business combination of entities controlled by the same company		1,529	3,731
Profits or losses arising from contingencies which are not related to company's main business			

II. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNTS *(CONTINUED)*

Extraordinary gain and loss item	Amount for 2012	Amount for 2011	Amount for 2010
Profits or losses on change in fair value from financial assets and financial liabilities held for trading, as well as investment income from disposal of financial assets and financial liabilities held for trading and financial assets available for sales except for effective hedging related with normal businesses of the Company			
Reserves of impairment provision for account receivables individually tested for impairment			
Profits or losses from outside entrusted loans			
Profits or losses from change in fair value of investment real estate adopting the fair value mode to do the follow-up measurement			
The influence of the one-off adjustment of current period profits or losses on the profits or losses in current period in accordance with the laws and rules of tax and accounting			
Fee and commission incomes arising from trusted customer asset management business			
Other non-operating income and expenses except as listed above	**2,220**	5,441	8,639
Investment income	**369,274**		
Effect of minority interest			
Effect on income tax	**347,244**	4,211	6,372
Total	**1,967,461**	22,084	36,013

III. ITEM MEASURED AT FAIR VALUE

Unit: RMB'000

Item	Opening balance	Closing balance	Change during the period	Impact on profits for the period
Financial liabilities held for trading	23,713	1,556	22,157	22,157
Total	23,713	1,556	22,157	22,157

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD

As the European debt crisis continued to build and the global financial market was in great turmoil throughout 2012, the domestic economic growth slowed down notably and the iron & steel market remained sluggish. The grim industrial situation in the PRC painted a bleak picture of industry-wide losses and some steel enterprises even buried deep in losses, which indicated the iron & steel industry has virtually fared through the "severe winter". In face of such difficult market conditions, the Group was confronted with very challenging tasks as it had to deal with super strong pressure and impact from two external markets, i.e. steel products and raw materials, and also ensure systematic stability of production in the New District. Under such adverse conditions, through concerted efforts, while striving for market opportunities to ensure orders and suppliers, the Group firmly sought costs and expenditure reduction, expanded income streams, continued with tapping potential by benchmarking, optimized technical and economic indicators, actively adjusted the product mix and managed to achieve certain results in respect of stable production and loss control.

During the Reporting Period, the Group made remarkable progress in developing strategic customers and forged strategic partnerships with a number of new strategic customers. For instance, the Group joined hands with Yangzijiang Shipbuilding Group（揚子江船業集團）in development of new products (and successfully developed E40 and E47 ultra-high-strength ship plates).

During the reporting period, the Group faced up to difficulties in the supply of raw materials, took active countermeasures, duly adjusted purchase and supply tactics according to the operational plan and market conditions, and ensured the fulfillment of the target (i.e. ensuring supplies and production, cost cutting and efficiency improvement). By taking diversified, multi-form and multi-channel approaches, the Group looked for and secured the resources of raw materials and prevented relevant market risks; stepped up technical and economic analysis of raw materials, adjusted the supply structure thereof by combining work procedures and technologies, achieved effective and optimal allocation, and reduced the need for high quality raw materials; accurately controlled the whole process of external logistics, and lowered logistics costs through careful arrangements against changing conditions.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

During the Reporting Period, the Group vigorously explored highly efficient production methods, as well as the "primary planning（一級計劃）" management model in respect of the pre-production system（鐵前系統）, steelmaking system and steel rolling system, fully brought into play the capacity of the existing equipment and maximally lifted capacity while reducing consumption by organizing contract-based production; stabilized operational management by reinforcing the "one molten iron tank" in the steelmaking techno-interface method（鐵鋼界面「一罐制」）, which evidently reduced the frequency of furnace damping down（高爐休風）this year due to steelmaking and techno-interface reasons, and effectively supported high-efficiency production; strengthened production organization and management over day-to-day billet transportation by optimizing the logistics structure, and substantially lowered the quantity of billet transported by vehicles.

During the Reporting Period, the Group strengthened quality supervision, control and management of the full process, optimized the inspection method, carried out quality breakthroughs, prevented systematic fluctuations, and ensured the attainment of stable enhancement of quality in the New District.

During the Reporting Period, the sales price of steel products dropped steeply. Even lower procurement costs for raw materials could not offset the loss arising from such sales price, which directly resulted in a decrease in the overall profit of the Company. In face of the huge pressure, while taking such measures as tapping potential by benchmarking, comprehensively reducing costs, increasing income, cutting expenditure and boosting the capital use efficiency, the Company also vigorously pressed ahead with assets reorganization and actively sought fiscal subsidy of the government for environmental relocation, which played a critical role in the cost reduction, efficiency enhancement and final turnaround of the Company.

During the Reporting Period, the Group produced 2,349,800 tonnes of coke, 5,134,300 tonnes of pig iron, 5,221,800 tonnes of steel and 4,705,600 tonnes of steel products (billets), representing a decrease of 11.73%, 8.13%, 13.03% and 14.75% respectively as compared with the same period of last year. The Group recorded operating revenues of RMB18,458,776,000, representing a year-on-year decrease of 21.56%.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations

1 Analysis table on relevant item changes in the income statement and the cash flow statement

Unit: RMB'000

Item	For the period	For the corresponding period of last year	Change (%)
Operating revenue	**18,458,776**	23,532,945	–21.56
Operating costs	**18,402,709**	22,571,662	–18.47
Selling and distribution expenses	**423,351**	372,449	13.67
General and administrative expenses	**650,617**	824,288	–21.07
Financial expenses	**1,006,021**	750,047	34.13
Net cash flow from operating activities	**5,314,613**	451,313	1,077.59
Net cash flow from investing activities	**–1,793,672**	–2,459,838	–27.08
Net cash flow from financing activities	**–1,427,800**	1,772,596	–180.55
Research and development expenses	**13,530**	12,248	10.47

2 Revenue

(1) Analysis of factors causing changes in business revenue

In 2012, as a result of the global economic downturn, and decelerated growth of the Chinese economy, the increase rate in steel consumption by some industries was negative; with such contracted market demands, a "severe winter" came down upon the iron and steel industry, and the price of steel products declined substantially. The sales price and sales volume of the Group both dropped materially, as a result of the recession of the steel product market and the relocation of the production line for steel sections and rods. The price of our hit product, plates for shipbuilding, decreased notably, due to a generally sluggish shipbuilding market.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

2 Revenue *(Continued)*

(2) Analysis of factors affecting the revenue from in-kind sales of the Company's products

In 2012, the Group's revenue from sales of steel products (billets) was RMB17,419,977,000, representing a decrease of RMB4,754,793,000 from last year. One reason was the decline in the sales price, as the average sales price of steel products (billets) was RMB3,514/tonne, representing a decrease of 16.61% from last year, which resulted in a decrease of RMB3,493,969,000 in our revenue. The other reason was the decrease in sales volume, as the full-year sales volume of steel products (billets) was 4,957,400 tonnes, representing a decrease of 5.80% year on year, which reduced our sales revenue by RMB1,260,824,000.

Item	2012 *RMB/tonne*	2011 *RMB/tonne*	Year-on-year increase *(%)*	Increase in revenue *(RMB'000)*
Steel plates	**3,642**	4,419	–17.58	–2,027,127
Steel billets	**3,030**	4,084	–25.81	–173,699
Steel sections	**3,316**	4,360	–23.94	–15,556
Wire rods	**3,991**	4,312	–7.44	–1,894
Hot rolled coil	**3,379**	3,968	–14.84	–1,235,899
Cool-rolled sheets	**3,979**	4,595	–13.41	–39,794
Total	**3,514**	4,214	–16.61	–3,493,969

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

2 Revenue *(Continued)*

(2) Analysis of factors affecting the revenue from in-kind sales of the Company's products *(Continued)*

Item	2012 (0'000 tonnes)	2011 (0'000 tonnes)	Year-on-year increase (%)	Increase in revenue (RMB'000)
Steel plates	**260.89**	175.72	48.47	3,763,662
Steel billets	**16.48**	25.92	-36.42	-385,530
Steel sections	**1.49**	72.13	-97.93	-3,079,904
Wire rods	**0.59**	36.49	-98.38	-1,548,008
Hot rolled coil	**209.83**	205.87	1.92	157,133
Cool-rolled sheets	**6.46**	10.12	-36.17	-168,177
Total	**495.74**	526.25	-5.80	-1,260,824

(3) Major suppliers and customers of the Group

Percentage in total sales for major customers of the Company:

Percentage in total sales for the largest customer of the Company: 10%

Percentage in total sales for the top five customers of the Company: 35%

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

3. Costs

(1) Costs analysis table

Unit: RMB'000

By industry

By industry	Costs component	Amount for the period	Percentage of the amount for the period in total costs *(%)*	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs *(%)*	Year-on-year change *(%)*
Iron and steel	Raw materials	14,797,478	80.67	18,684,895	82.99	-2.32
Iron and steel	Energy	1,325,051	7.22	1,629,018	7.23	-0.01
Iron and steel	Labor and other expenses	2,154,015	11.74	2,077,572	9.23	2.51
Electronic engineering design, construction and installation	Labor and other expenses	27,466	0.15	81,419	0.36	-0.21
Transportation	Labor and other expenses	39,867	0.22	42,965	0.19	0.03

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

3. Costs *(Continued)*

(1) Costs analysis table *(Continued)*

By product

By industry	Costs component	Amount for the period	Percentage of the amount for the period in total costs (%)	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs (%)	Year-on-year change (%)
Steel products (billets)	Expenses incurred for raw materials, energy and others	17,557,593	95.71	21,521,638	95.58	0.13
By-product	Expenses incurred for raw materials, energy and others	718,951	3.92	869,847	3.87	0.05
Electronic engineering design, construction and installation	Labor and other expenses	27,466	0.15	81,419	0.36	-0.21
Transportation	Labor and other expenses	39,867	0.22	42,965	0.19	0.03

(2) Major suppliers of the Group

Percentage in total procurement for major suppliers of the Company:

Percentage in total procurement for the largest supplier of the Company: 8.07%

Percentage in total procurement for the top five suppliers of the Company: 28.60%

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

4. Expenses

Item	Amount for the period	Amount for the previous period	Year-on-year change (%)
Selling and distribution expenses	**423,351**	372,449	13.67
General and administrative expenses	**650,617**	824,288	–21.07
Financial expenses	**1,006,021**	750,047	34.13

1. The increase in selling and distribution expenses was due to the rise in the ship inspection fee as the sales volume of plates for shipbuilding increased after the Group's production line of medium-gauge plates was put into operation.

2. The decrease in general and administrative expenses was attributable to lower maintenance and repair cost for the equipment in Changshou New District than that in Dadukou Old District, as such equipment was put into operation for a short time.

3. The increase in financial expenses was due to the increase in the interest on debts and the expense from discounted bills of the Group.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

5. Research and development expenses

Table of detailed research and development expenses

	RMB'000
Expensed research and development expenses for the period	13,089
Capitalized research and development expenses for the period	441
Total research and development expenses	13,530
Percentage of total research and development expenses in net assets *(%)*	3.28
Percentage of total research and development expenses in operating revenue *(%)*	0.07

6. Cash flow

In face of such grim situations as substantial decrease in steel product prices and operating loss suffered by the Company, internally, the Company strengthened capital plan management, increased income and cut expenditure, controlled the rhythm of capital payment, properly appropriated the capital of suppliers and curbed current payment. Externally, the Company secured the governmental subsidy of RMB2 billion, which relieved the financial pressure to a certain degree. In 2012, the increase in cash flow from operating activities for the period was RMB5,314,613,000. Net cash outflow of financing activities including repayment of finance leases and bank loans amounted to RMB1,427,800,000; net cash outflow of investing activities after offsetting of the subsequent engineering expenses on environmental relocation with the net cash inflow of RMB286,359,000 on the transfer of equity interest in San Feng Jingjiang Port Logistics Company Limited, amounted to RMB1,793,672,000; and net increase in cash and cash equivalents for the period was RMB2,093,141,000.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

6. Cash flow *(Continued)*

Items of cash flow statement

Unit: RMB'000

Item	Jan.-Dec. 2012	Jan.-Dec. 2011	Main Reasons for the changes
Net cash flow from operating activities	**5,314,613**	451,313	The Company strengthened capital management with focus on cost reduction and expenditure control, controlled capital payment pace, properly appropriated the capital of suppliers, and obtained the government subsidy of RMB2 billion, which resulted in the net increase in cash flow from operating activities.
Net cash flow from investing activities	**-1,793,672**	-2,459,838	Mainly attributable to gradual completion of the environmental relocation project, trial operation for production of 3# sintering machine, 5# and 6# coke ovens, a decrease in expenditure on investment project, and net increase of RMB286 million in cash flow as a result of the transfer of equity interest in a subsidiary.
Net cash flow from financing activities	**-1,427,800**	1,772,596	Repayment of loans from Standard Chartered Bank, and finance lease payment for environmental relocation, which resulted in the net decrease.
Net increase in cash and cash equivalents	**2,093,141**	-235,929	Mainly due to the obtaining of RMB2 billion government subsidy, and the Company's measures for cost reduction and expenditure control.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

7. Others

(1) Detailed explanations for significant changes in the composition or sources of profit of the Company

The net profit of the Group for 2012 amounted to RMB98,813,000, representing an increased of 106.72% as compared to RMB-1,471,082,000 for last year, mainly due to the following reasons:

1) Gross profit of principal operations decreased by RMB921,127,000 from 2011 to RMB12,449,000, mainly due to the decline in both the selling prices and volumes as a result of the continued slump in the steel market.

The average selling price of the Group's steel products (billets) was RMB3,514 per tonne, down 16.61% year on year, leading to a decrease of approximately RMB3,493,969,000 in sales revenue. The sales volume of steel products (billets) decreased by 5.80% from 2011 to 4,957,000 tonnes, leading to a decrease of approximately RMB1,260,824,000 in sales revenue. The cost of principal operations (steel billets) dropped by 18.42% year on year as a result of the decrease in the prices of ore and coal and other raw and auxiliary materials. As the decrease in the cost of principal operations was lower than that in the revenue from principal operations, the gross profit for the current period saw a decline.

2) According to relevant enterprise accounting standards, the decrease in the Group's current profit due to provision for assets impairment loss amounted to RMB379,743,000 in 2012, representing a decrease of RMB488,102,000 from last year, mainly due to a decrease in the impairment of inventories such as steel and ore as compared with last year.

3) The period expense incurred by the Group was RMB2,079,989,000, representing an increase of RMB133,205,000 from last year, the main reason of which was set out in "Analysis of principal operations 2.4 Expenses".

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(I) Analysis on principal operations *(Continued)*

7. Others *(Continued)*

(1) Detailed explanations for significant changes in the composition or sources of profit of the Company *(Continued)*

4) The Group recorded net non-operating income of RMB2,126,327,000, representing an increase of RMB1,605,901,000, mainly attributable to the receipt of government subsidy amounting to RMB2 billion which was mainly used to make up the increased expenses in relation to environmental protection and operating expenses including financial expenses incurred by the environmental relocation of the Company.

5) In 2012, the Group recorded an investment income of RMB369,274,000, which included the investment gain of RMB307,000,000 from the transfer of 41% equity held by the Company in San Feng Jingjiang Port Logistics Company Limited, a subsidiary of the Company, at the consideration of approximately RMB430,000,000; and the income of RMB74,731,000 from revaluation of the fair value of the remaining 10% equity held by the Company.

(2) Explanation for implementation progress of financing activities and material assets reorganisations launched in the previous period

The Company will acquire all the iron-making and steelmaking related assets and supporting public and ancillary facilities invested and constructed by Chongqing Iron & Steel Group in the Changshou New District. The relevant plan has been submitted to CSRC.

(3) Others

Nil.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(II) Analysis on operation by industry, product or region

1. Principal operations by industry and product

Unit: RMB'000

Principal operations by industry

By industry	Operating revenue	Operating costs	Gross profit margin *(%)*	Increase/ decrease in operating revenue from last year *(%)*	Increase/ decrease in operating costs from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Iron and steel	18,275,271	18,276,544	-0.01	-21.57	-18.38	-3.92
Electronic services	32,679	27,466	15.95	-65.73	-66.27	1.34
Transportation	48,376	39,867	17.59	-6.80	-7.21	0.37

Unit: RMB'000

Principal operations by product

By industry	Operating revenue	Operating costs	Gross profit margin *(%)*	Increase/ decrease in operating revenue from last year *(%)*	Increase/ decrease in operating costs from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Steel products (billets)	17,419,977	17,557,593	-0.79	-21.44	-18.42	-3.74
By-product	855,294	718,951	15.94	-24.14	-17.35	-6.91
Electronic engineering design, construction and installation	32,679	27,466	15.95	-65.73	-66.27	1.34
Transportation	48,376	39,867	17.59	-6.80	-7.21	0.37

2. Principal operations by region

Unit: RMB'000

Region	Operating revenue	Increase/ decrease in operating revenue from last year *(%)*
Southwestern region	7,588,674	38.15
Other regions	10,767,652	-40.03
Total	18,356,326	-21.72

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(III) Analysis of assets and liabilities

1. Items of balance sheet

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets *(%)*	Amount at the end of the previous period	Percentage of the amount at the end of the previous period in total assets *(%)*	Year-on-year increase/decrease *(%)*
Cash at bank and on hand	3,800,917	12.22	2,325,290	8.60	63.46
Bills receivable	779,131	2.50	1,417,422	5.24	–45.03
Accounts receivable	1,057,179	3.40	697,365	2.58	51.60
Prepayments	880,823	2.83	651,251	2.41	35.25
Other receivables	1,802,681	5.80	264,008	0.98	582.81
Inventories	7,196,682	23.14	6,603,218	24.41	8.99
Other current assets	473,185	1.52	415,137	1.53	13.98
Long-term equity investment	109,739	0.35	5,000	0.02	2,094.78
Fixed assets	8,282,293	26.63	7,344,844	27.15	12.76
Construction in progress	4,236,785	13.62	3,252,903	12.03	30.25
Construction materials	1,190,982	3.83	1,537,078	5.68	–22.52
Liquidation of fixed assets	320,732	1.03	2,026,600	7.49	–84.17
Intangible assets	350,789	1.13	402,297	1.49	–12.80
Deferred tax assets	17,892	0.06	23,528	0.09	–23.95
Other non-current assets	606,589	1.95	84,500	0.31	617.86
Short-term loans	5,620,216	18.07	4,048,189	14.97	38.83
Financial liabilities held for trading	1,556	0.01	23,713	0.09	–93.44
Bills payable	861,000	2.77	555,000	2.05	55.14
Accounts payable	7,486,179	24.07	4,808,932	17.78	55.67
Advance from customers	3,646,951	11.72	1,420,140	5.25	156.80
Employee compensation payable	157,904	0.51	182,429	0.67	–13.44
Taxes payable	5,618	0.02	8,978	0.03	–37.42
Interest payable	22,173	0.07	36,733	0.14	–39.64
Other payables	708,640	2.28	420,746	1.56	68.42
Non-current liabilities due within one year	3,862,674	12.42	4,762,143	17.60	–18.89
Other current liabilities	7,712	0.02	7,683	0.03	0.38
Long-term loans	799,408	2.57	1,056,600	3.91	–24.34
Debentures payable	1,971,617	6.34	1,966,848	7.27	0.24
Long-term payables	1,635,025	5.26	3,254,896	12.03	–49.77
Other non-current liabilities	126,750	0.41	256,296	0.95	–50.55

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(III) Analysis of assets and liabilities *(Continued)*

1. Items of balance sheet *(Continued)*

    1. The increase in the balance of cash at bank and on hand was mainly due to the RMB2 billion government grant in cash received by the Group in December 2012.

    2. The decrease in the balance of bills receivable was mainly due to the Group's increased efforts in bills endorsement and bills discount in 2012.

    3. The increase in the balance of accounts receivable was mainly attributable to a relatively relaxed credit policy extended by the Group to its long-term stable customers in 2012.

    4. The increase in the balance of prepayments was mainly attributable to the increase in prepayment of the Group for goods in 2012.

    5. The rise in the balance of other receivables mainly resulted from an additional receivable in fixed assets depreciation to be compensated by the Parent Company incurred by environmental relocation in 2012.

    6. The increase in the balance of long-term equity investment was mainly due to its reduced shareholding in San Feng Jingjiang Port Logistics Company Limited from 51% to 10% after the Company's transfer of 41% equity interest therein, with its control over this company changed to be materially influential.

    7. The increase in the balance of construction in progress was mainly attributable to extended project construction as a result of the Group's adjustment to the product mix in 2012.

    8. The decrease in the balance of liquidation of fixed assets was mainly attributable to transfer of asset disposal loss arising from environmental relocation into other receivables.

    9. The increase in the balance of other non-current assets was mainly attributable to the premium for production and construction land and other relevant taxes prepaid by the Group to the Land and Resources Bureau of Changshou District, Chongqing

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(III) Analysis of assets and liabilities *(Continued)*

1. Items of balance sheet *(Continued)*

10. The increase in the balance of short-term loans was mainly attributable to the fact that the Group increased some short-term loans from banks to meet the need of its production and operation.

11. The increase in the balance of bills payable was mainly due to the increase in the settlement amount of bills payable by the Group in 2012.

12. The increase in the balance of accounts payable was mainly due to the increase in the payments for construction and equipment as a result of certain delayed payments by the Group by way of the credit period extended by its suppliers and additional engineering projects in 2012.

13. The increase in the balance of advance from customers was mainly due to the rise in advance from such customers which had established long-term and stable strategic partnership with the Group, including China Shipbuilding Industry Complete Logistics Co., Ltd. (中船工業成套物流有限公司).

14. The decrease in the balance of interest payable was mainly attributable to the Group's one-time repayment of the principal and interest on borrowings upon maturity in 2012.

15. The increase in the balance of other payables was mainly attributable to the fact that the Group postponed the payment of some amounts due to related parties in 2012.

16. The decrease in the balance of long-term loans was mainly due to the reclassification of some long-term loans due within one year into non-current liabilities due within one year in 2012.

17. The decrease in the balance of long-term payables was mainly due to the payment of rents under finance leases by the Group in 2012.

18. The decrease in the balance of other non-current liabilities was mainly due to the transfer of the received prepayment for goods under the long-term sales and purchase agreement with Chongqing Urban Construction Investment Co., Ltd. (重慶市城市建設投資公司) into advances from customers.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(III) Analysis of assets and liabilities *(Continued)*

2. Explanation for assets at fair value and change in measurement methods for major assets

   The Group had no assets measured at fair value, nor was there any change in measurement methods for major assets.

(IV) Analysis of core competitiveness

The Company's core competitive edges are set out below in four aspects:

1. Variety

   Medium-gauge plates, as the Company's leading product, holds a dominant position in the industry with a full range of varieties and specifications. Special-purpose plates account for over 90%, mostly for shipbuilding. The Company is China's largest shipbuilding steel manufacturer, with production volume of thick plates ranking the 5th in China and medium plate the 18th.

   In addition, the Company offers a great variety of long steel products with good match properties. The Steel Section Plant of the Company can produce flat-bulb steel with a complete range of specifications reaching the international and EU standards; Q420 angle steel products take a leading position in China; steel bar production lines can produce products with specifications of Ø12mm~150mm and most structural alloy steel which can only be produced by special steel plants, making the Company an important steel bar production base in southwestern China.

2. Brand

   The Company's shipbuilding steel plates were certified by classification societies of nine countries, the first among domestic steel mills. The TMCP-model shipbuilding steel plates recently developed offers ordinary, high and super high strength levels, with E47-model 70mm super high strength shipbuilding steel leading domestically. Flat-bulb steel-series products for shipbuilding developed according to the EU standards filled a gap in China and was certified by classification societies of seven countries

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(IV) Analysis to core competitiveness *(Continued)*

2. Brand *(Continued)*

The 16MnR steel plates, 20g steel plates, 20R steel plates, 16MnDR steel plates and HP345 steel plates, all being old products of the Company, were certified for exemption from safety and quality inspection by the General Administration of Quality Supervision, Inspection and Quarantine, becoming the first steel plate products exempt from inspection in China.

Both steel plates for boilers and pressure vessels and shipbuilding steel plates were named "China Top Brand" in 2006, making the Company the first iron & steel enterprise in China having two products named "China Top Brand" in the same year.

3. Customer resources

The Company has established stable relationships with a number of renowned large-scale domestic enterprises and signed strategic cooperation agreements with over 20 enterprises including Guangzhou Shipyard International, Guangzhou Wenchong Shipyard Co., Ltd., Jiangsu Yangzijiang Shipbuilding Co., Ltd. and Xiamen XGMA Machinery Co., Ltd.

4. Geographical location

The Company is located in Chongqing, the only municipality directly under the central government in the the Midwest of China and an economic hub along the upper and middle reaches of the Yangtze River. China's large-scale development of the western region and the construction of the Three Gorges reservoir area created huge potential for the steel markets in Chongqing and neighboring regions. The Three Gorges project built a water transport channel for 10,000-ton cargo ships to Chonqing, providing more convenient and efficient logistics for the Company.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(V) Analysis of investments

1. Analysis of external equity investment

   During the Reporting Period, the Company did not make external equity investment.

2. Entrusted wealth management with non-financial institutions and derivative investment

   (1) Entrusted wealth management

   The Company did not have entrusted wealth management products during the year.

   (2) Entrusted loan

   The Company did not have entrusted loans during the year.

3. Use of raised proceeds

   During the Reporting Period, the Company did not raise any funds or use previously raised proceeds during the period.

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(V) Analysis of investments *(Continued)*

4. Analysis of major subsidiaries and investees

RMB'000

Name of subsidiaries/ investees	Principal operations	Registered capital	Shareholding percentage (%)	Total assets	Net assets	Net profit
Chongqing Iron & Steel Group Electronic Company Limited	Maintenance and repair of elevators, development, production and sale of computer software, and software for electronic products, technical services, etc.	22,172	100	91,808	61,747	8,633
Chongqing Iron & Steel Group Transportation Company Limited	Ordinary freight, hazardous goods transportation, chartered bus transportation, vehicle maintenance and repair	21,000	100	86,413	45,165	–589
San Feng Jingjiang Port Logistics Company Limited	Cargo handling, lighterage, storage agency, freight agency, loading distribution, ordinary freight, etc.	300,000	10	1,370,054	300,078	63
Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd. (靖江三峰鋼材加工配送有限公司)	Processing and distribution of steel products, manufacture and sales of steelwork	100,000	51	70,407	70,000	0
Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司)	Sales of metal and metallic ore, manufacture and sales of environmental pollution control equipment, etc.	50,000	100	630,151	52,469	2,469

I. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S BUSINESS OPERATION DURING THE REPORTING PERIOD *(CONTINUED)*

(V) Analysis of investments *(Continued)*

5. Projects financed by non-raised proceeds

Unit: RMB'000

Name of project	Amount	Progress	Amount invested this year	Total amount actually invested	Earnings
Sintering project	461,870	100%	202,658	736,326	N/A
Coking project	1,098,546	100%	549,574	1,347,434	N/A
Product mix adjustment project	2,920,000	88%	1,788,434	2,616,262	N/A
Waste heat power generation project	375,000	71%	180,296	265,973	N/A
Limestone transport system	61,180	100%	14,900	63,560	N/A
Dabaopo project	10,200	100%	6,719	32,353	N/A
Jingxing Mine project	76,740	36%	10,179	27,954	N/A
Revamp project	428,705	96%	390,190	403,483	N/A
Total	5,432,241		3,142,950	5,493,345	

II. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT

(I) Competition dynamics and development trend of the industry

On the whole, the domestic and international economic environments and steel markets are still grave in 2013. Given the complicated economic situations, the world economy will continue to grow slowly, going out of the pre-crisis rapid development period and into one of deep change and adjustment. The GDP growth rate for 2013 is expected to stay at the same level as last year, around 8%, which means the domestic consumer demand for iron and steel will remain almost unchanged. Yet considering the domestic steel production capacity has already exceeded 1 billion tonnes, the pattern of an iron and steel industry struggling to break even and filled with fierce competition will not change much, at least in the short term, with competition possibly intensifying.

II. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(II) Development strategy

Guided by the principles set by the 18th Party Congress and NPC & CPPCC, the Company aims to stick to the market-oriented approach in pursuit of benefit and profit to achieve effective and efficient production; increases efforts for quality improvement, cost cut, energy conservation, emission reduction, optimization of resources allocation and utilization; endeavors to advance the optimization and upgrading of products and industrial structure; promote the integration of cost control, product R&D and market development; adheres to the people-oriented philosophy, improves execution, betters fundamental management, pushes forward with sophisticated management, promotes safe and clean production; strengthens cultivation of corporate culture, promotes scientific and harmonious development.

(III) Business plan and major priorities

The production target for 2013: 6,840,000 tonnes of iron, 6,500,000 tonnes of steel and 6,550,000 tonnes of steel products.

Major tasks for 2013:

1. Have a clear understanding of the impact of the current and future macroeconomic situations on the production and operation of the iron and steel industry, clarify our development direction and realize turnaround through unified thinking, firm confidence and focus on four tasks, i.e. "highly efficient production, tapping potential by benchmarking, product mix, and performance management".

2. Stick to the market-oriented approach in pursuit of benefit and profit, strengthen coordination between production and sales to ensure higher production and sales of profitable products, and optimize the structure of product categories to improve efficiency.

3. Continuously optimize the production organization method under the guideline of highly efficient production, strive to achieve preset capacity and efficiency at all work procedures, fulfill systematic balance and balanced production.

4. Optimize production arrangements, boost the steelmaking and steel-rolling success rate and other indicators, reduce the number of unfinished contracts, raise contract fulfillment rate, and shorten the delivery period.

II. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(III) Business plan and major priorities *(Continued)*

5. Encourage the enterprise to innovate, enhance, aim for technological progress and refined management, and vigorously promote the optimization and upgrade of the product mix and industrial structure.

6. Adhere to the principle of low-cost operation by taking a series of measures including tapping potential by benchmarking, consolidating internal management, controlling expenditures, and raising labor productivity, and strive for sensible integration of cost reduction, product research and development, and market development.

7. Enhance raw material procurement, realize scientific blending of ore and coal, and reasonable resource allocation, and create favorable conditions for production.

8. Step up equipment management, enhance the steady operation rate of equipment, and provide assurance for release of capacity through scientific arrangement and optimized overhaul.

9. Continue with solving key technological issues, actively apply new technologies, improve technological and economic indicators, stick to enhancement of product quality, improve the structure of product categories, meet market demands, safeguard the brand profile, and highlight cost effectiveness.

10. Firmly promote the "primary production management" model to seek economic benefits by enhanced management, strengthen management of the "iron-steel" and "steel-rolling" interface, ensure smooth logistics, and realize seamless connection among all production procedures.

11. Raise the awareness of safe and environment-friendly production, push through the accountability system regarding safety and environment protection, and ensure the safety and health of employees.

12. Improve the management standards, optimize the work process, define duties and responsibilities, strictly implement performance assessment, and firmly boost work efficiency and management effectiveness.

II. BOARD'S DISCUSSION AND ANALYSIS ABOUT THE COMPANY'S FUTURE DEVELOPMENT *(CONTINUED)*

(IV) Capital needed for maintaining current business and completing invested projects under construction

In 2013, the Company will try to achieve preset capacity and efficiency. Meanwhile, production volume will grow as the product mix adjustment project starts production; on the other hand, subsequent payment must be made for projects which have commenced construction, leading to increase in capital needs. As at 31 December 2012, the Company had RMB3,768 million in untapped credit line. At the same time, the Company has launched the Material Assets Reorganisation with Chongqing Iron & Steel Group. According to the reorganisation scheme, the Company will issue shares to no more than 10 investors to raise up to RMB 2 billion in supporting funds in order to back the production and business operation of the Company after completion of the Material Assets Reorganisation and to ease working capital pressure. To sum up, the Company will have sufficient liquidity to meet its needs for working capital and capital expenditure.

(V) Potential Risks

1. **Industry-related risk:** In spite of certain recovery in the world economy in 2013, the increase in the demand for iron and steel is still limited, and overcapacity and an overall difficult situation for the industry will remain.

2. **Resource-related risk:** In 2012, the iron ore market remained weak, with ore prices dropping all the way from the beginning of the year till the third quarter. But after a strong rebound in September and certain corrections for some time, the price of imported ore showed a strong ascending trend, as a result of the recovery of the steel products market at the end of 2012, and re-stocking of steel makers. In 2013, large fluctuations in the market price of iron ore will generate certain pressure on the production and operation of the Company.

(VI) Others

There is no other matters required to be explained.

III. EXPLANATION FROM THE BOARD FOR THE "NON-STANDARD AUDIT REPORT" ISSUED BY THE ACCOUNTING FIRM

(I) Explanation from the Board and the Supervisory Committee for the "Non-standard Audit Report" issued by the accounting firm

√ N/A

(II) Board's analysis and explanation about the reasons for and impact of changes in accounting policy, accounting estimates or accounting method

√ N/A

(III) Board's analysis and explanation about the reasons for and impact of correction to material previous errors

√ N/A

IV. SCHEME FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL

(I) FORMULATION, IMPLEMENTATION AND ADJUSTMENT 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" (Yu 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 and the 2012 second extraordinary general meeting ("EGM") 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. Considering the substantial losses Group suffered for business operation in 2012 after non-recurring profit and loss and considerable subsequent capital needs, the Board proposed neither to distribute profit for 2012 nor to transfer the capital reserve to share capital.

IV. SCHEME FOR PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL *(CONTINUED)*

(II) If the Company achieved profits during the Reporting Period and recorded positive retained profit without proposing cash dividends distribution, reasons therefor and the use and usage plan of retained profits should be disclosed in details

√ N/A

(III) Profit distribution scheme or proposal and scheme or proposal for transfer of capital reserve to the share capital for the latest 3 years (including the Reporting Period)

Unit: RMB'000

Year	Number of bonus shares for every 10 shares	Dividends for every 10 shares (RMB) (tax inclusive) *(RMB)*	Number of shares transferred for every 10 shares	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the consolidated statements for the year with dividend distribution	As a percentage of net profit attributable to shareholders of the Company in the consolidated statements *(%)*
2012	0	0	0	0	98,813	0
2011	0	0	0	0	-1,471,082	0
2010	0	0	0	0	11,270	0

V. FULFILLMENT OF SOCIAL RESPONSIBILITY

(I) Social Responsibility efforts

For details, please refer to the 2012 Social Responsibility Report of Chongqing Iron & Steel Company Limited published on the website of the Shanghai Stock Exchange on 29 March 2013.

(II) Statements on environmental protection of listed company and its subsidiaries falling into the category of heavily polluting industries designated by national environmental authorities

In recent years, the Company has always met the standards for major pollutant emission and complied with the requirements for total quantity control. The Company has not been involved in any contamination accident or unlawful activity. The Company is not among the enterprises required to disclose environmental information under the Rules for Environmental Information Disclosure (trial). The Company launched promotion campaigns on 5 June, the World Environment Day, every year, using display panels and leaflets to disseminate environmental protection laws and knowledge to raise employees' environmental awareness and promote the Company's sense of responsibility in respect of environmental protection.

VI. ONGOING WORK OF THE BOARD

(I) Regular meetings of the Board

During the Reporting Period, the Company held 6 meetings and passed relevant resolutions.

1. On 28 February 2012, the Company held the 8th meeting of the fifth session of the Board, at which Mr. Xia Tong was elected as the vice chairman of the fifth session of the Board and appointed as a member of the third session of the Strategy Committee of the Board.

2. On 28 March 2012, the Company held the 9th meeting of the fifth session of the Board, at which the Company's 2011 audited financial report, 2011 annual report, 2011 Annual Results Announcement, the Summary of 2011 Annual Report, profit distribution proposal for 2011, the 2011 annual audit work summary report by KPMG Huazhen Certified Public Accountants submitted by the audit committee, the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company, the Social Responsibility Report for 2011, self-assessment report on the 2011 internal control of the Company by the Board, reappointment of auditors, the Report on Performance of Duties of the Independent Directors of the Company for the year 2011, the Resolution on the Remuneration of the Directors, Supervisors and other senior management of the Company for the year 2011.

VI. ONGOING WORK OF THE BOARD *(CONTINUED)*

(I) Regular meetings of the Board *(Continued)*

3. On 3 May 2012, the Company held the 10th meeting of the fifth session of the Board, at which the Resolution in relation to the Satisfaction by the Company of the Conditions for Issue of Shares for Acquisition of Assets and Raising Supporting Proceeds, the Resolution in relation to the issuance of shares by the Company to target subscribers for acquisition of assets and fundraising and connected transactions, the resolution in respect of the preliminary proposal of Chongqing Iron & Steel Company Limited in relation to the issuance of shares to target subscribers for acquisition of assets and fundraising and connected transactions, the resolution in relation to agreements between the Company and Chongqing Iron & Steel (Group) Co., Ltd. to enter into 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 resolution in relation to the Material Assets Reorganisation constituting a substantial connected transaction, the explanation for Material Assets Reorganisation being in compliance with Rule 4 of the Rules for Certain Issues in relation to Regulating Material Assets Reorganisation of Listed Companies, the resolution in relation to obtaining a waiver in respect of the obligation on Chongqing Iron & Steel Group to acquire further Shares by way of an offer to be approved by non-related shareholders at the general meeting and the resolution in relation to the proposal of authorizing the Board at the general meeting to deal with matters in connection with the Issue of Shares for Acquisition of Assets and the Fundraising were considered and approved.

4. On 31 May 2012, the Company held the 1st meeting of the sixth session of the Board, at which Mr. Deng Qiang and Mr. Xia Tong were elected as the chairman and vice chairman of the sixth session of the Board respectively; the Work Rules for the Nomination Committee was considered and approved; members of the special committees of sixth session of the Board were elected according to rules and chairpersons thereof were appointed.

5. On 30 August 2012, the Company held the 2nd meeting of the sixth session of the Board, at which the Company's interim financial statements for 2012, the 2012 Semi-annual Report and its summary, the Announcement of unaudited Interim Results for the six months ended 30 June 2012 were considered and approved; the Medium-and Long-Term Dividend Distribution Plan of Chongqing Iron & Steel Company Limited and the plan for amendments to the Articles of Association were considered and submitted to the general meeting.

VI. ONGOING WORK OF THE BOARD *(CONTINUED)*

(I) Regular meetings of the Board *(Continued)*

6. On 24 October 2012, the Company held the 3rd meeting of the sixth session of the Board, at which important resolutions and matters were considered and approved, including the Resolution in relation to the Satisfaction by the Company of conditions for the Material Assets Reorganisation and Fundraising, the Resolution in relation to Material Assets Acquisition and Fundraising and connected transaction, the resolution in relation to the Report on Material Assets Acquisition and Fundraising and Connected Transactions of Chongqing Iron & Steel Company Limited (draft) and its summary, the resolution in relation to agreements between the Company and Chongqing Iron & Steel (Group) Co., Ltd. to enter into the Supplemental Agreement on Proposed Acquisition and Environmental Relocation Loss Compensation, the resolution in relation to approving the auditing and valuation reports and the profit forecast in connection with the Material Assets Reorganisation, the resolution in relation to the opinions on the independence of the valuation agency, the reasonableness of the valuation assumptions, the relevance of the valuation methods and purpose and the fairness of the appraised value, the resolution in relation to obtaining a waiver in respect of the obligation on Chongqing Iron & Steel Group to acquire further Shares by way of an offer and the resolution in relation to the proposal of authorizing the Board at the EGM to deal with matters in connection with the Material Assets Reorganisation and the Fundraising.

(II) Written resolutions passed by the Board

1. On 19 January 2012, the fifth session of the Board of the Company passed the 101st written resolution in relation to approving the 2012 production and operation plans of Chongqing Iron & Steel.

2. On 25 May 2012, the fifth session of the Board of the Company passed the 113th written resolution in relation to amendments to the proposal for the issuance of shares to target subscribers for acquisition of assets and fundraising and connected transactions.

3. On 13 June 2012, the sixth session of the Board of the Company passed the 1st written resolution in relation to Provision of Guarantees for Chongqing Iron & Steel (Group) Transportation Company Limited and attachment.

4. On 3 July 2012, the sixth session of the Board of the Company passed the 4th written resolution in relation to increasing the registered capital of Chongqing Electronics.

VI. ONGOING WORK OF THE BOARD *(CONTINUED)*

(II) Written resolutions passed by the Board *(Continued)*

5. On 20 September 2012, the sixth session of the Board of the Company passed the 9th written resolution in relation to the annual remuneration of independent non-executive Directors.

6. On 20 September 2012, the sixth session of the Board of the Company passed the 10th written resolution in relation to adjustment to factory-level organizations.

7. On 3 December 2012, the sixth session of the Board of the Company passed the 17th written resolution in relation to reducing equity interests in San Feng Jingjiang Port Logistics Company Limited.

8. On 3 December 2012, the sixth session of the Board of the Company passed the 18th written resolution in relation to removal of the Jiangsu sales branch of Chongqing Iron & Steel Company Limited.

9. On 10 December 2012, the sixth session of the Board of the Company passed the 19th written resolution in relation to participating in the auction for the 1,176 mu of land within the Target Asset of Chongqing Iron & Steel Group for which no land use right has been obtained.

10. On 10 December 2012, the sixth session of the Board of the Company passed the 20th written resolution in relation to participating in the auction for the approximately 418 mu of reserved space between gate 1 and gate 2 of the New District of Chongqing Iron & Steel .

(III) Implementation of resolutions of the general meetings by the Board

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

In 2012, the Board strictly executed the Service and Supply Agreement and Ore Procurement Agreement (refer to the 2011 annual report for details) and the transaction amount did not exceed the transaction caps approved at general meetings.

The proposal in relation to the bidding by the Company of the 100% equity interest in Chongqing Steel at the Chongqing United Assets and Equity Exchange (重慶聯合產權交易所) approved at the first extraordinary general meeting held on 28 February 2012 was not implemented, due to adjustment to equity policies by the government.

Resolutions related to the Material Assets Reorganisation approved at the 2012 second extraordinary general meeting, 2012 first A shareholders class meeting and 2012 first H shareholders class meeting were implemented in an orderly manner.

VII. OTHER DISCLOSURES

(1) Fixed assets

For the year ended 31 December 2012, movements in the fixed assets of the Group are set out in Note V.9 to the financial statements.

(2) Reserves

For the year ended 31 December 2012, movements in the reserves of the Group are set out in 35, 36 and 37 under Note V to the financial statements.

(3) Entrusted deposits and overdue time deposits

For the year ended 31 December 2012, the Group did not have entrusted deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(4) Management contract

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

VIII. ACKNOWLEDGEMENTS

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

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

Chongqing, PRC, 28 March 2013

Report of the Supervisory Committee

During the Reporting Period, the Supervisory Committee of the Company fairly and faithfully performed their statutory supervision duties according to the requirements of relevant laws, regulations and rules and in the best interests of the Company so as to safeguard the lawful interests of the shareholders and the Company and improve the standard operation of the Company. The Supervisory Committee's performance of its duties is reported as follows:

I. MEETINGS

During the Reporting Period, the Supervisory Committee convened five meetings to perform their statutory supervision duties and details are set out as follows:

1. On 27 March 2012, the fifth Supervisory Committee held its 11th meeting, at which 2011 Work Report of the Supervisory Committee, 2011 Annual Report, annual results announcement and annual report summary, 2011 audited financial reports, connected transactions in 2011, profit distribution proposal for 2011, the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company, self-assessment report on the 2011 internal control of the Company by the Board, the resolution in relation to the provision of guarantees for San Feng Jingjiang Port Business and Logistics Company Limited and the resolution in relation to candidates for supervisors of the sixth Supervisory Committee.

2. On 20 April 2012, the fifth Supervisory Committee held its 12th meeting, at which the full text of the 2012 first quarterly report of the Company was considered and approved.

3. On 31 May 2012, the sixth Supervisory Committee held its 1st meeting, at which the chairman of the sixth Supervisory Committee was elected.

4. On 29 August 2012, the sixth Supervisory Committee held its 2nd meeting, at which the Company's unaudited interim financial statements for 2012, the 2012 Semi-annual Report and its summary, the Announcement of Interim Results were considered and approved.

5. On 30 October 2012, the sixth Supervisory Committee held its the 3rd meeting, at which the full text of the 2012 third quarterly report of the Company was considered and approved.

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

1. Legality of the Company's operation

During the Reporting Period, by attending Board meetings and general meetings (as observer) as well as other means, the Supervisory Committee monitored the implementation of the "3-1 system" (important issues, appointment and dismissal of important staff members, important project arrangement and use of large amount of capital must be decided after group discussion), the implementation of Information Insider Management System, legal compliance of duty performance by the Directors and senior management and daily operation of the Company and potential risks. The Supervisory Committee was of the view that the Board worked in strict compliance with the laws and regulations and the Articles of Association of the Company by making reasonable and effective decisions through legal procedures; the Company further pushed forward its special campaign on corporate governance and actual governance was basically in line with requirement of Code of Corporate Governance for Listed Companies of CSRC and the Corporate Governance Code of the Hong Kong Stock Exchange; the Company had no abuses of insider information, leakage of inside information or insider transactions. The Directors and other senior executives diligently performed their duties in good faith and no actions in violation of laws, regulations or the Articles of Association of the Company or against the interests of the Company were found.

2. Inspection of the Company's financial status

During the Reporting Period, the Supervisory Committee oversaw and inspected the Company's financial status and was of the view that the Company's financial statements were explicitly prepared under relevant rules and regulations, giving a true and objective picture of the Company's financial status and operating results. The comments included in the auditors' opinion issued by external auditor in respect of the Company's 2012 financial report are objective and fair.

3. Acquisition and disposal of assets by the Company

During the Reporting Period, the Supervisory Committee examined the Company's transfer of 41% equity interest in San Feng Jingjiang Port Logistics Company Limited. The Company conducted no other major acquisition or disposal of assets. The Supervisory Committee is of the view that the disposal of assets in 2012 were conduced in lawful procedures at fair prices; there was no insider transactions; not detrimental to the interests of the Company and its shareholders; and did not cause any loss of assets to the Company.

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

4. Connected transactions of the Company

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

5. Review of Self-Evaluation Report on Internal Control

Having supervised and inspected the improvement and implementation of the Company's internal control system in 2012, the Supervisory Committee is of the opinion that the Company improved and effectively implemented the internal control system without violating the Guidelines for Internal Control of Listed Companies and the Basic Standards for Enterprise Internal Control in 2011. The Self-Evaluation Report on Internal Control of the Company is objective, true and accurately reflected the actual situation of internal control of the Company.

III. ACKNOWLEDGEMENTS

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

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

Chongqing, PRC, 27 March 2013

I. MATERIAL LAWSUIT, ARBITRATION AND MATTERS WIDELY QUESTIONED BY THE MEDIA

(I) Lawsuit, arbitration or matters questioned by the media which were disclosed in extraordinary announcements with no subsequent development

There was no material lawsuit, arbitration or matters questioned by the media which was disclosed in extraordinary announcement with no subsequent development during the Reporting Period.

(II) Lawsuit and arbitration which were not disclosed in extraordinary announcements or had subsequent development

Unit: US$'000

During the Reporting Period:

Plaintiff (claimant)	Defendant (respondent)	Jointly liable Party	Type of lawsuit (arbitration)	Profile of the lawsuit (arbitration)	Amount involved in the lawsuit (arbitration)	Whether or not the lawsuit (arbitration) entails expected liabilities and the amount thereof	Progress of the lawsuit (arbitration)	Judgment of the lawsuit (arbitration) and its implications	Implementation of the judgment of the lawsuit (arbitration)
Hong Kong Changhang Shipping International Company Limited (香港長航海運國際有限公司) ("Hong Kong Changhang")	Chongqing Iron & Steel Company Limited		Arbitration	In 2007, the Company chartered a ship of Hong Kong Changhang to ship ores in Brazil. The ship hit a wharf in Brazil. After negotiation among six parties including the wharf owner, the shipowner and the Company, a settlement agreement was reached for a compensation of US$9.025 million, US$1 million of which was borne by the Company.	1000	No	The Case has been dismissed.	The Company has paid the compensation.	The Company has made the payment.

(III) Matters widely questioned by the media which were not disclosed in extraordinary announcements or had subsequent development

During the Reporting Period, there were no matters widely questioned by the media which were not disclosed in extraordinary announcements or had subsequent development.

(IV) Other Explanations

There are no other matters required to be explained.

II. CAPITAL APPROPRIATION AND PROGRESS IN RECOVERING APPROPRIATED CAPITAL DURING THE REPORTING PERIOD

Unit: RMB

Balance of the Company's capital appropriated by the Controlling Shareholder and other related parties for non-operation purposes						Capital recovered during the Reporting Period			
Opening balance	Amount appropriated during the Reporting Period	Closing balance	Projected payment method	Time of payment	Total amount of capital appropriated during the Reporting Period and paid by at the end of the Reporting Period	Total recovered amount during the Reporting Period	Method of recovering the capital	Recovered amount	Time of recovering (month)
135,604	1,567,781	1,703,385	Offsetting the consideration payable by the Company for the Target Assets under the Material Assets Reorganisation	Upon completion of the Material Assets Reorganisation			In cash		

Decision making procedure for capital appropriation by the Controlling Shareholder and its related parties for non-operation purposes	According to the plan of the Chongqing municipal government
Reasons for new capital appropriation for non-operation purposes during the Reporting Period	Chongqing Iron & Steel Company Limited (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 Company, the environmental relocation of the Company according to the arrangement of Chongqing municipal government may cause some assets of the Company not to work normally. To ensure the stable production and operation of the Company, the Parent Group promised to cover the losses related to fixed assets, construction in progress and spare parts arising from the environmental relocation with part of the assets in Changshou New Zone and the losses are based on the book value less the profit/loss of disposal. According to the Agreement on Proposed Acquisition of Assets and Environmental Relocation Loss Compensation entered into between Chongqing Iron & Steel and Chongqing Iron & Steel Group on 3 May 2012 and its supplementary agreement (collectively the "Reorganization Agreement"), Chongqing Iron & Steel Group would compensate the Company for the fixed assets impairment of the Old District arising from the environmental relocation with part of the Target Assets. As at 31 December 2012, Chongqing Iron & Steel Group should pay the company RMB2,227,588,000 in compensation for net book losses from disposal of fixed assets, construction in progress and spare parts.

II. CAPITAL APPROPRIATION AND PROGRESS IN RECOVERING THE SAME DURING THE REPORTING PERIOD *(CONTINUED)*

According to the Reorganization Agreement, during the period from 31 March 2012 (the "Transaction Reference Date") to the Completion Date ("Transitional Period"), the Company may use the coking, sintering, iron-making and steelmaking related assets and supporting public and ancillary facilities invested and constructed by Chongqing Iron & Steel Group in the Changshou New District ("Target Assets") and all the costs and expenses incurred therefrom shall be borne by the Company. During the Transitional Period, the Company shall not pay any usage fees to Chongqing Iron & Steel Group in respect of the Company's use of the Target Assets. Upon Completion, the Acquisition Consideration will not be adjusted due to depreciation or amortisation of the Target Assets occurred during the Transitional Period. As agreed in the Reorganization Agreement, the Company shall take the profit or loss entitled by the operation of the Target Assets in conjunction with the Company's assets during the Transitional Period.

According to the above terms, the Company is not required temporarily to pay Chongqing Iron & Steel Group for using the assets during the Transitional Period. Assets usage fees calculated based on depreciation or amortisation of the Target Assets at fair value will be treated on the Completion Date as fees payable by the Company to Chongqing Iron & Steel Group for use of Target Assets during the Transitional Period. From 1 April 2012 to 31 December 2012, the Company should pay RMB 524,203,000 in assets usage fees calculated based on depreciation or amortisation of the Target Assets at fair value. After the compensation and usage fees offset each other, as at 31 December 2012, RMB 1,703,385,000 is payable by Chongqing Iron & Steel Group to the Company, which is to be settled upon completion of the Material Assets Reorganisation.

Person responsible for new capital appropriation	Chongqing Iron & Steel Group

II. CAPITAL APPROPRIATION AND PROGRESS IN RECOVERING THE SAME DURING THE REPORTING PERIOD *(CONTINUED)*

Reasons for failure to recover the appropriate capital at the end of the Reporting Period	Material Assets Reorganisation has not been completed
Measures taken for recovering the appropriated capital	Commencing Assets Reorganisation
Expected time to recover the appropriated capital	Upon completion of the Material Assets Reorganisation
Other explanations for capital appropriated by the Controlling Shareholder and other related parties for non-operation purposes and recovering thereof	Nil

The Company implemented the environmental relocation in partnership with Chongqing Iron & Steel Group. As some fixed assets of the Company can not be normally used as a result of the environmental relocation, Chongqing Iron & Steel Group promised to compensate for the losses arising from the environmental relocation, which is calculated based on the book value of fixed assets at the time of shutdown less the gains from disposal. The compensation scheme will be determined subject to approval by the state-owned assets supervision and administration authorities after detailed relocation plan is finalized. The Company closed down the production facilities in Da Du Kou Old District in September 2011. As at 31 December 2012, Chongqing Iron & Steel Group should pay the Company RMB1,703,834,803 in compensation for net losses. In 2012, the Company launched the work related to the Assets Reorganisation. Through the Material Assets Reorganisation, Chongqing Iron & Steel Group will transfer all the iron-making and steelmaking related assets it invested and constructed in the Changshou New District to the Company, and compensate the Company for fixed assets impairment arising from the environmental relocation with assets of the same value in the Changshou New District.

III. BANKRUPTCY REORGANISATION RELATED MATTERS

The Company had no bankruptcy reorganisation related matters.

IV. ASSETS TRADING AND BUSINESS COMBINATION

Assets acquisition and disposal and business combination which were disclosed in extraordinary announcements and underwent no changes in subsequent implementation

Overview and type of the matter	Media for information disclosure
The Company transferred its 41% equity interests in San Feng Jingjiang Port Logistics Company Limited.	Announcement of Assets Disposal by Chongqing Iron & Steel Company Limited (2012-064) dated 19 December 2012 and the Announcement on Completion of the Transaction Mentioned in the Announcement of Assets Disposal by Chongqing Iron & Steel Company Limited (2012-069) dated 29 December 2012 published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal and Shanghai Securities News

V. SHARE OPTION INCENTIVE AND ITS IMPACT

√ N/A

VI. MATERIAL RELATED PARTY TRANSACTIONS

(I) Connected transaction related to day-to-day operation

1. Matters which were disclosed in extraordinary announcements with no developments or changes in subsequent implementation

   The Company had no matters which were disclosed in extraordinary announcements with no developments or changes in subsequent implementation.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

2. Matters which were disclosed in extraordinary announcements but underwent developments or changes in subsequent implementation

(1) 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. (Refer to the announcement of the Company dated 1 February 2011 for details).

(i) Pursuant to the Service and Supply Agreement, the Group 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);

(ii) Pursuant to the Service and Supply Agreement, the Parent Group agreed to provide products and services to the Group 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) oxygen, electricity, water, 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.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

2. Matters which were disclosed in extraordinary announcements but underwent developments or changes in subsequent implementation *(Continued)*

(1) Service and Supply Agreement *(Continued)*

(iii) 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.

(iv) 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) Authorized use of assets

On 31 March 2011, the Company and the Parent Company entered into Agreement for Authorized Use of Assets ("Agreement for Authorized Use of Assets"), pursuant to which the Company can use for free the steel smelting production line and relevant auxiliary public facilities of the Parent Company with investment amounts of RMB10.86 billion commencing from 1 April 2011 to 31 March 2012. (For details please refer to the announcement of the Company published on 1 April 2011). In September 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 in Changshou New Zone which had reached expected conditions for use, the authorized period is from 1 October 2011 to 31 March 2012.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

2. Matters which were disclosed in extraordinary announcements but underwent developments or changes in subsequent implementation *(Continued)*

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

As the agreement on use of assets in the Changshou New Zone between the Company and the Parent Company expired on 31 March 2012, according to the Agreement on Material Assets Reorganization (relevant details were set out in the announcement of the Company dated 30 May 2012) and the Supplemental Agreement to the Agreement on Material Assets Reorganization (relevant details were set out in the announcement of the Company dated 23 October 2012) entered into by the Company and the Parent Company on 3 May 2012 and 24 October 2012, respectively, and the Preliminary Proposal announced 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. Given the aforesaid arrangement, both parties would not adjust the consideration of the transaction in respect of the change in value of target assets arising from depreciation and amortization during the transition period. 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)*

(I) Connected transaction related to day-to-day operation *(Continued)*

2. Matters which have been disclosed in extraordinary announcements but made progress or changes in subsequent implementation *(Continued)*

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

As at 31 December 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 material assets reorganization was approved at the Company's general meeting and reported to relevant regulatory authorities such as CSRC, and shall not come into effect before their approval is obtained.

(4) Procurement Agreement

On 26 July 2011, the Company and Chongqing Iron & Steel Hong Kong, a wholly-owned subsidiary of the Party Company, entered into a Procurement Agreement (Refer to the announcement of the Company dated 27 July 2011 for details) , pursuant to which the Company procured through Chongqing Iron & Steel Hong Kong approximately 3,000,000 tons of iron ore and approximately 500,000 tons of coking coal in 2011 and approximately 3,000,000 tons of iron ore and approximately 500,000 tons of coking coal in each of 2012 and 2013 for the Company's own production use.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

3. Matters undisclosed in extraordinary announcements

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

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for connected transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Ore and accessories	By reference to market price		1,333,059	14.45%			
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy	By reference to market price		458,289	97.72%			
Chongqing Wuxia Mining Industry Incorporated Company	Under common control of Chongqing Iron & Steel Group	Related purchase	Coal	By reference to market price		150,658	3.25%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Fixed assets and scrap steel	By reference to market price		85,005	4.96%			
Chongqing Donghua Special Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Scrap steel	By reference to market price		54,893	5.03%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Instrument parts and energy	By reference to market price		36,157	3.09%			
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Under common control of Chongqing Iron & Steel Group in the past 12 months	Related purchase	Fixed assets and accessories	By reference to market price		23,218	1.36%			

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

3. Matters undisclosed in extraordinary announcements *(Continued)*

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

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for connected transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Research Institute	Under common control of Chongqing Iron & Steel Group	Related purchase	Alloy and accessories	By reference to market price		12,993	0.87%			
Chongqing Iron & Steel Group Design and Research Institute	Under common control of Chongqing Iron & Steel Group	Related purchase	Fixed assets	By reference to market price		8,901	1.43%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy and scrap steel	By reference to market price		6,443	0.41%			
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Refractory materials	By reference to market price		4,289	1.48%			
Chongqing Iron & Steel Group Iron Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Iron	By reference to market price		682	0.06%			
Others						9,369				
Total						2,183,956				

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(I) Connected transaction related to day-to-day operation *(Continued)*

3. Matters undisclosed in extraordinary announcements *(Continued)*

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

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for related-party transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Energy and accessories	By reference to market price		309,145	70.90%			
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Energy and accessories	By reference to market price		85,828	19.69%			
Chongqing Si Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		42,530	0.24%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel and accessories	By reference to market price		32,330	0.19%			
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		23,583	0.14%			
Chongqing Iron & Steel Group	Under common control of Chongqing Iron & Steel Group	Related sale	Accessories	By reference to market price		16,650	7.89%			
Chongqing San Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		16,478	0.09%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel and accessories	By reference to market price		7,690	0.04%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Accessories	By reference to market price		4,578	2.17%			
Others						3,097				
Total						541,909				

VII. MATERIAL CONTRACTS AND EXECUTION THEREOF

1. Custody, contracting and leasing

(1) Custody

During the Reporting Period, the Company had no custodial arrangement.

(2) Contracting

During the Reporting Period, the Company had no contracting arrangement.

(3) Leasing

Unit: RMB'000

Name of lessor	Name of lessee	Status of leased assets	Amount of leased assets	Date of commencement of lease	Expiry date of lease	Gain on lease	Basis of determination of such gain	Effect of gain on lease on the Company	Connected transaction or not	Connected relations
Chongqing Iron & Steel Company Limited (Sichuan Sales Branch)	Chengdu Chuangmeijia Decoration Engineering Co., Ltd. (成都創美家裝飾工程有限公司)	Normal	1,781.87	1 January 2012	31 December 2012	672.7	Pay-in slip of bank	It formed part of other operating income	No	Other

2. Guarantee

Unit: RMB'000

Guarantees provided by the Company for subsidiaries	
Total amount of guarantees for subsidiaries during the Reporting Period	865,000
Total balance of guarantees for subsidiaries at the end of the Reporting Period	765,000

Total amount of guarantees provided by the Company (including those for subsidiaries)	
Total amount of guarantees	765,000

VII. MATERIAL CONTRACTS AND EXECUTION THEREOF *(CONTINUED)*

2. Guarantee *(Continued)*

In 2012, the Company did not offer external guarantees but provided a RMB800 million guarantee for its former controlled subsidiary San Feng Jingjiang Port Logistics Company Limited, a RMB5 million guarantee for its wholly-owned subsidiary Chongqing Iron & Steel (Group) Transportation Company Limited on bank borrowings and a RMB60 million guarantee for its wholly-owned subsidiary Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司) on a working capital loan. The above guarantees were subject to approval by the Board by poll (some of them were subject to approval by the general meeting). The Company discharged its information disclosure obligation. At the end of the Reporting Period, the Company had a balance of external guarantees of RMB765 million.

3. Other material contracts

The Company had no other material contracts for the year.

VIII. FULFILLMENT OF COMMITMENTS

For details of the commitments made by the Company, the Company's shareholders and related parties and fulfillment thereof, please refer to the Announcement on Self-Inspection Results of Commitments Fulfillment by the Company, the Company's Shareholders and Related Parties (2012-052) published on 31 October 2012. As at 31 December 2012, there was no change in the commitments and fulfillment thereof.

IX. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB'000

Whether or nor change the accounting firm:	No	
	Former	**Current**
Name of the domestic accounting firm	KPMG Huazhen Certified Public Accountants (Special General Partnership)	KPMG Huazhen Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	3,500	3,500
Term of service of the domestic accounting firm	6	6

	Name	**Remuneration**
Accounting firm for audit of internal control	KPMG Huazhen Certified Public Accountants (Special General Partnership)	1,500

IX. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS *(CONTINUED)*

As approved at 2010 annual general meeting, the Board reappointed KPMG Huazhen and KPMG as the auditors of the Company respectively. On 18 March 2011, a resolution was passed at the 2011 first extraordinary general meeting of the Company, pursuant to which the Company's international auditor KPMG ("International Auditor"), which was appointed at the 2009 annual general meeting, was dismissed, and KPMG Huazhen was retained to audit the financial statements for the year 2011 prepared under the PRC Accounting Standards for Business Enterprises and issue audit opinion in accordance with PRC auditing standards and to undertake all such activities as required to be performed by overseas auditors under the Listing Rules (including preliminary announcement on annual results, annual review of continuing connected transactions, etc.). The dismissal of the International Auditor helps to improve efficiency and reduce information disclosure costs. There are no disagreements between the Company and the International Auditor. The dismissal has gone through necessary procedures in compliance with relevant laws, listing rules of the listing place and the Articles of Association. On 31 May 2012, the 2011 annual general meeting of the Company passed the proposal for re-appointment of KPMG Huazhen (Special General Partnership) as the auditor and internal control auditor of the Company for the year 2012. KPMG Huazhen has audited the financial statements prepared under PRC GAAP. The Company paid RMB5 million of audit fee for integrated auditing service. As at the end of the Reporting Period, it had provided auditing service for the Company for 6 years.

X. PUNISHMENT ON THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING 5% OR MORE OF ITS SHARE CAPITAL, DE FACTO CONTROLLER AND ACQUIRER AND RECTIFICATION MEASURES

None of the Company, its directors, supervisors, senior management, shareholders holding 5% or more of its share capital, de facto controller and acquirer was subject to inspection, administrative punishment, reprimand by announcement by CSRC, or public censure by stock exchanges.

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

During the Reporting Period, the Company had no other significant events.

I. CHANGES IN SHARE CAPITAL

(I) Movement of shares

1. Table of movement of Shares

Unit: share

	Before change		Increase/decrease (+, -)					After change	
	Amount	Percentage (%)	New shares	Bonus shares	Shares transferred from the capital reserve	Others	Subtotal	Amount	Percentage (%)
I. Shares subject to trading moratorium	0	0	0	0	0	0	0	0	0
1. State-owned shares									
2. State-owned legal person shares									
3. Other domestic shares									
Including: Domestic non-state-owned legal person shares									
Domestic natural person shares									
4. Foreign shares									
Including: Foreign legal person shares									
Foreign natural person shares									
II. Shares not subject to trading moratorium	1,733,127,200	100.00	0	0	0	0	0	1,733,127,200	100.00
1. Renminbi denominated ordinary shares	1,195,000,000	68.95	0	0	0	0	0	1,195,000,000	68.95
2. Foreign shares listed domestically									
3. Overseas listed foreign shares	538,127,200	31.05	0	0	0	0	0	538,127,200	31.05
4. Others									
III. Total shares	1,733,127,200	100.00	0	0	0	0	0	1,733,127,200	100.00

I. CHANGES IN SHARE CAPITAL *(CONTINUED)*

(I) Movement of shares *(Continued)*

2. Explanation for change in shares

During the Reporting Period, there was no change in the Company's shares.

3. Impact of change in shares on financial indicators such as earnings per share and net assets per share for the latest year and the latest period

Nil

4. Other information the disclosure of which is deemed necessary by the Company or is required by securities regulatory authorities

Nil

(II) Change in shares subject to trading moratorium

During the Reporting Period, there was no change in the Company's shares subject to trading moratorium.

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the latest 3 years ended 31 December 2012

Type of shares and its derivative securities	Date of issue	Issue price (or interest rate)	Number issued	Date of listing	Number approved for listing	Expiry date of the transaction
Corporate bond	9 December 2010	6.20%	20,000,000	31 December 2010	20,000,000	8 December 2017

On 9 December 2010, the Company raised a total of RMB2 billion through online and offline issue of 7-year corporate bonds with a coupon rate of 6.20% attaching an option for the Company to raise the coupon rate and a put option for investors at the end of the fifth year. RMB1.5 billion out of the proceeds was used to repay the Company's debts and the balance was used to replenish working capital. On 31 December 2012, with the approval of the Shanghai Stock Exchange, the Company's corporate bonds were listed on the Shanghai Stock Exchange with its abbreviated name and trading code of the corporate bond being "10 CISL Bond (10重鋼債)" and "122059" respectively.

II. ISSUE AND LISTING OF SECURITIES *(CONTINUED)*

(II) Change in the total number of shares, shareholding structure and the structure of assets and liabilities

At the end of the Reporting Period, there was no change in the total number of shares and shareholding structure as the Company did not issue securities in the past 3 years.

(III) Existing internal employee shares

The Company has no internal employee shares.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders and their shareholding

Unit: share

Total number of shareholders at the end of the Reporting Period	97,863, including 97,360 holders of A Shares and 503 holders of H Shares	Total number of shareholders at the end of the 5th trading day before disclosure of the annual report	92, 847, including 92,545 holders of A Shares and 302 holders of H Shares

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

(I) Number of shareholders and their shareholding *(Continued)*

Shareholdings of the top ten shareholders

Name of shareholder	Type of shareholders	Shareholding Percentage *(%)*	Total number of shares held	Increase/ decrease during the Reporting Period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Chongqing Iron & Steel (Group) Co., Ltd.	State-owned legal person	46.21%	800800000	0	0	0
HKSCC NOMINEES LIMITED	Foreign legal person	30.40%	526932270	594,600	0	Unknown
National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) ("NCSSF")	Unknown	2.02%	35000000	0	0	Unknown
Bai Jiping (白計平)	Domestic natural person	0.13%	2310000	0	0	Unknown
Zhang Jianhua (張建華)	Domestic natural person	0.10%	1791500	1791500	0	Unknown
Wang Guangti (王廣體)	Domestic natural person	0.09%	1600000	1600000	0	Unknown
Zhou Yong (周勇)	Domestic natural person	0.09%	1600000	0	0	Unknown
Zang Delan (臧德蘭)	Domestic natural person	0.08%	1330000	1330000	0	Unknown
Zheng Jun (鄭駿)	Domestic natural person	0.08%	1329090	1329090	0	Unknown
Guangdong Financial Trust Co., Ltd. - Zhongdingsan (廣東粵財信託有限公司—中鼎三)	Unknown	0.08%	1326682	1326682	0	Unknown

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

(I) Number of shareholders and their shareholding *(Continued)*

Shareholdings of the top ten shareholders holding shares not subject to trading moratorium

Name of shareholder	Number of shares not subject to trading moratorium	Type and number of shares	
Chongqing Iron & Steel (Group) Co., Ltd.	800800000	RMB-denominated ordinary shares	800800000
HKSCC NOMINEES LIMITED	526932270	Overseas listed foreign shares	526932270
National Council for Social Security Fund (全國社會保障基金理事會轉持二戶) ("NCSSF")	35000000	RMB-denominated ordinary shares	35000000
Bai Jiping (白計平)	2310000	RMB-denominated ordinary shares	2310000
Zhang Jianhua (張建華)	1791500	RMB-denominated ordinary shares	1791500
Wang Guangti (王廣體)	1600000	RMB-denominated ordinary shares	1600000
Zhou Yong (周勇)	1600000	RMB-denominated ordinary shares	1600000
Zang Delan (臧德蘭)	1330000	RMB-denominated ordinary shares	1330000
Zheng Jun (鄭駿)	1329090	RMB-denominated ordinary shares	1329090
Guangdong Financial Trust Co., Ltd. - Zhongdingsan (廣東粵財信託有限公司—中鼎三)	1326682	RMB-denominated ordinary shares	1326682
Explanation about connected relationship and acts in concert of the above shareholders	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.		

IV. CONTROLLING SHAREHOLDER AND DE FACTOR CONTROLLER

(I) Controlling Shareholder

1. Legal person

Unit: RMB

Name	**Chongqing Iron & Steel (Group) Co., Ltd.**
Legal representative	Dong Lin
Date of incorporation	19 January 1982
Organization code	20280337-0
Registered capital	1,650,706,543.56
Principal operations	Assets operation, investment and property right trading within the authorized scope, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computers and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals)
Operating results	Net profit: RMB120 million in 2012 (unaudited)
Financial status	Total assets: RMB28 billion; total liabilities: RMB18.3 billion; net assets: RMB9.7 billion in 2012 (unaudited)
Cash flow and strategy for future development	Chongqing Iron & Steel Group maintained normal status in 2012. It will promote the implementation of the plan and support the development of the principal business of iron & steel and the mineral resources in light of the goals set in the Outline of the Development Plan for the "12th Five-Year Plan" period of Chongqing Iron & Steel Group and the 3-year Development Strategic Plan of Chongqing Iron & Steel Group.
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	21.51 million shares of China Everbright Bank

2. Change of the Controlling Shareholder during the Reporting Period and date of change

   There was no change in the controlling shareholder of the Company during the Reporting Period.

IV. CONTROLLING SHAREHOLDER AND DE FACTOR CONTROLLER *(CONTINUED)*

(II) De factor controller

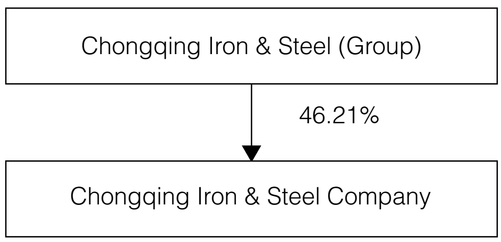
1. Legal person

   The de factor controller the Company is Chongqing Iron & Steel (Group) Co., Ltd.

2. Change of the de factor controller during the Reporting Period and date of change

   There was no change in the de factor controller of the Company during the Reporting Period.

3. The ownership and control relationship between the Company and its de factor controller



V. OTHER LEGAL PERSON SHAREHOLDER HOLDING OVER 10% OF THE SHARE CAPITAL

During the Reporting Period, the Company did not have a legal person shareholder holding over 10% of the share capital.

VI. RELEVANT DISCLOSURE MADE ACCORDING TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE HONG KONG STOCK EXCHANGE

1. Interests or Short Positions

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

2. Pre-emptive Rights

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

3. Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2012 the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

4. Public float of H shares

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

5. Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2012 the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$1.44)) was HK$775 million and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB3.71)) was RMB4.433 billion.

I. CHANGES IN SHAREHOLDING AND REMUNERATION

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period

Unit: share

Name	Title	Gender	Age	Starting date of the tenure	Ending date of the tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Increase/ decrease in shareholding during the year	Reason for change in shareholding	Total remuneration received from the Company during the Reporting Period (before tax) *(RMB0'000)*	Total remuneration receivable from Shareholder *(RMB0'000)*
Deng Qiang	Chairman *(Non-executive director)*	M	50	18 March 2011	2014 annual general meeting	0	0	0	N/A	/	
Xia Tong	Vice chairman *(Executive director)* and Party secretary	M	47	28 February 2012	2014 annual general meeting	0	0	0	N/A	15.10	/
Yuan Jin Fu	Non-executive director	M	50	1 June 2009	2014 annual general meeting 2014 annual general meeting	0	0	0	N/A	/	
Chen Hong (陳洪)	Executive director. general manager	M	56	1 June 2009	2014 annual general meeting	0	0	0	N/A	27.36	/
Sun Yi Jie	Executive director and Deputy General Manager	M	57	1 June 2009	2014 annual general meeting	0	0	0	N/A	24.94	/
Li Ren Sheng	Executive director and Deputy General Manager	M	48	1 June 2009	2014 annual general meeting	0	0	0	N/A	24.60	/
Zhu Jian Pai	Chairman of the Supervisory Committee	M	55	1 June 2009	2014 annual general meeting	0	0	0	N/A	/	
Li Zheng	Supervisor	M	50	18 August 2010	2014 annual general meeting	0	0	0	N/A	/	
Li Mei Jun	Supervisor	M	46	18 August 2009	2014 annual general meeting	0	0	0	N/A	/	
Chen Hong (陳紅)	Supervisor representing staff	F	48	1 June 2009	2014 annual general meeting	0	0	0	N/A	19.68	/
Dou Hui	Supervisor representing staff	M	49	25 July 2011	2014 annual general meeting	0	0	0	N/A	20.59	/
Liu Tian Ni	Independent director	M	48	1 June 2009	2014 annual general meeting	0	0	0	N/A	7.14	/
Zhang Guo Lin	Independent director	M	57	1 June 2009	2014 annual general meeting	0	0	0	N/A	7.14	/
Ran Mao Sheng	Independent director	M	49	29 May 2012	2014 annual general meeting	0	0	0	N/A	4.17	/
Guan Zhaohui	Deputy General Manager	M	44	21 January 2011	/	0	0	0	N/A	24.04	/
Gong Jun	Financial Controller	F	40	26 September 2010	/	0	0	0	N/A	20.78	/
You Xiao An	Secretary to the Board	M	48	23 January 2001	/	0	0	0	N/A	19.74	/
Wu Zi Sheng	Deputy General Manager (resigned)	M	48	8 January 2004	4 May 2012	0	0	0	N/A	10.43	/
Liu Xing	Independent director (resigned)	M	56	1 June 2009	29 May 2012	0	0	0	N/A	2.98	/
Total	/	/	/	/	/	0	0	0	N/A	228.69	

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Directors:

Mr. Deng Qiang, aged 50, is the Chairman of the Board, chairman of the strategic committee and the deputy general manager of the Parent Company. He graduated from Metallurgy Department of Chongqing University, majoring in iron refinery. He holds Master's Degree for Engineering and is a senior engineer. Mr. Deng joined the Parent Company in 1982, and served, from time to time, as Deputy Head (in charge of general operation) of No.6 Plant and deputy director (in charge of general operation) of Steel Business Unit of the Parent Company, deputy general manager of the Company, deputy chief engineer of the Parent Company and head of the Technical Centre of Chongqing Iron & Steel (during this period, he also held various positions in the wholly-owned subsidiaries of the Parent Company as below: chairman of the Transportation Company (運輸公司), chairman and general manager of No.3 Steel Company (三鋼公司), General Manager of Zhongxing Company (中興公司) and chairman of No.4 Steel Company (四鋼公司)), assistant to the general manager of the Parent Company and deputy general manager of the Parent Company. Mr. Deng was re-elected as a director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Xia Tong, aged 47, is the the vice chairman, a member of the Strategy Committee, party secretary, secretary of the disciplinary committee, and chairman of the Labour Union of the Company. Mr. Xia graduated from Chongqing University and holds Master's Degree for Engineering. Mr. Xia is a senior engineer. Mr. Xia joined the Parent Company in July 1987, and served as director of the Party and Administration Office of the Parent Company's Medium Plate Plant, party secretary, secretary of the disciplinary committee, and chairman of the labour union of the Parent Company's Medium Plate Plant, secretary to the Board of Directors and head of the Managerial Office (Office of the Board of Directors) of the Parent Company, party secretary of the Environmental Relocation Headquarters of the Parent Company. Mr. Xia was re-elected as a director of the Company at the 2011 annual general meeting held on 31 May 2012.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Directors: *(Continued)*

Mr. Yuan Jin Fu, aged 50, is a Director and member of the Salary and Remuneration Review Committee of the Company. He is also the director, deputy general manager and the chief accountant of the Parent Company. Mr. Yuan obtained a bachelor degree in Economics and Management and holds the title of senior accountant. Mr. Yuan joined the Parent Company in 1981 and has been the chief accountant of the Parent Company since August 2002 and deputy general manager of the Parent Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Parent Company, and the chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. Mr. Yuan was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Chen Hong（陳洪）, aged 56, is a Director, a member of the Strategic Committee and the general manager of the Company. Mr. Chen graduated from Wuhan Iron & Steel University with a bachelor's degree in coking engineering and attended the postgraduate course in management engineering of Tsinghua University with a postgraduate diploma, and he is a senior engineer. Mr. Chen joined the Parent Company in 1982, and had been the deputy head of Chemical Workshop, deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant of the Parent Company, head of Raw Material Department of the Company, deputy chief engineer of the Parent Company, the chairman of the board of directors of the Chongqing Iron & Steel Group Industries Co., Ltd., the chairman of the board of directors of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd., deputy general manager and head of Sales Department of the Company. Mr. Chen was reelected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Sun Yi Jie, aged 57, is a Director, a member of the Strategic Committee, the deputy general manager and chief engineer of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He holds a bachelor degree in engineering and holds the title of senior engineer, and is a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". Mr. Sun joined the Parent Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company. Mr. Sun was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Directors: *(Continued)*

Mr. Li Ren Sheng, aged 48, is a Director and the deputy general manager of the Company. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses a bachelor's degree and is a senior engineer. He joined the Parent Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Parent Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of the Raw Materials Department of the Company. Mr. Li was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Independent Directors:

Mr. Zhang Guo Lin, aged 57, is an Independent Non-executive Director, Chairman of Salary and Remuneration Review Committee, a member of the Strategic Committee and the Audit Committee of the Company, the professor and master tutor of Southwest University of Political Science & Law, an academic leader and secretary to the Party Committee of Chongqing, a member of Technology Advisory Committee of Chongqing government, a member of Discipline Committee of Chongqing and a member to the Third People's Congress of Chongqing. He is also the vice president of Administration Association of Chongqing and an independent director of Chongqing Brewery Co. Ltd. Mr. Zhang graduated from the Faculty of Metallurgy of Chongqing University in January 1982 with a doctor's degree in technology economy and management. He had studied as a visiting scholar in University of Illinois at Chicago, USA. Mr. Zhang had released a number of academic theses in academic periodicals and obtained numerous awards for research achievements and projects. Mr. Zhang has extensive teaching and working experience in steel smelting, metallurgy and economy management. Mr. Zhang had been director of the Organization Department of Party Committee, the deputy secretary to party committee, the vice director to school administration committee, the standing member of party committee and the vice president of Chongqing University. He also served as the deputy secretary to working committee and the vice director of Administrative Committee of northern new district of Chongqing, a member of the second CCP Discipline Committee of Chongqing and a member of the second Political Consultative Conference of Chongqing. Mr. Zhang was re-elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Independent Directors: *(Continued)*

Mr. Liu Tian Ni, aged 48, is an Independent Non-executive Director and a member of the Salary and Remuneration Review Committee and the Audit Committee of the Company, the founder and chairman of Wonderful Sky Financial Group Limited, an executive director of Silver Grant International Industries Limited, a listed company in Hong Kong, the Managing Director of Sure Spread Company Limited, and an independent director of Qingling Motors Company Limit. Mr. Liu graduated from Beijing Normal University, with a master's degree in Science. Mr. Liu has extensive experience in fields including international capital market, post listing corporate financing, mergers & acquisitions and direct investment. Mr. Liu Tian Ni was awarded the World Outstanding Young Chinese Entrepreneur by Asia Weekly in October 2008 for his excellent corporate management and remarkable business strategy. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Ran Mao Sheng, aged 49, is the head of Planning and Finance Division and the director of State-owned Assets Office of Chongqing University, and concurrently serves as vice president of Research Society of China University & College Capital Settlement Centre (全國高等學校資金結算中心研究會), a standing director of Chongqing Auditing Society, a standing director of Chongqing Internal Audit Society, a director of Chongqing University Science and Technology Group Company Limited (重慶大學科技企業集團股份有限公司), a financial consultant of China Development Bank Chongqing Branch and an independent director of Chongqing Zongshen Power Machinery Co., Ltd. Mr. Ran graduated from Chongqing University with a Doctor's Degree in Technology Economics and Management. He is a professor and PhD supervisor. Mr. Ran has extensive experience in finance, financial management and audit. Mr. Ran was elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Supervisors:

Mr. Zhu Jian Pai, aged 55, is the Chairman of the Supervisory Committee of the Company, and the Chairman of the Supervisory Committee, the deputy secretary to the Communist Party Committee and the secretary of the Discipline Inspection Committee of the Parent Company. Mr. Zhu has a bachelor degree in engineering from the Faculty of Metallurgy of Chongqing University with major in pressure processing and a master degree in EMBA from Chongqing University. He is a senior engineer and a certified metallurgy and metal materials engineer. Mr. Zhu joined the Parent Company in 1982 and served as the deputy secretary to the Communist Party Committee and secretary of the disciplinary committee of the Parent Company in January 2000, the Chairman of the Supervisory Committee of the Parent Company in September 2011, the secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company, the head of the labour affairs office, the head of the personnel department, the deputy secretary to the Communist Party Committee and a director of the Parent Company. Mr. Zhu was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Li Zheng, aged 50, is the Office Director of the Supervisory Committee and the head of audit department of the Parent Company. Mr. Li graduated from Sichuan Second Communist Party School by distance learning with a bachelor's degree in economics and trade (四川省二黨校函授經貿專業). He is a senior accountant. Mr. Li joined the Parent Company in 1980 and acted as the head of audit department of the Parent Company in May 2010 and Office Director of the Supervisory Committee in November 2011. He held positions as the assistant to the head of the Finance Office of the Parent Company, the chief accountant of Chongqing Building Materials and Industry Co., Ltd. (重慶建材實業有限公司), the deputy head of the sales department and the secretary to the Chief Party Committee of the sales department of the Company as well as the deputy general manager of Chongqing Iron & Steel Mining Company (重鋼集團礦業公司). Mr. Li was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Supervisors: *(Continued)*

Mr. Li Mei Jun, aged 46, is the officer of the legal affairs office of the Parent Company. Mr. Li graduated from the law department of Nankai University with a master's degree in law. He is an assistant economist. Mr. Li joined the Parent Company in 1988 and acted as the officer of the legal affairs office of the Parent Company in July 2011. He held positions as the deputy manager of the sales department of Zhangjiang Industry and Trade Dong Hua (湛江工貿東華) of the Parent Company, the manager of Nanning Business Department (南寧經營部) of Zhangjiang Industry and Trade Group (湛江工貿集團) of Parent Company, the chief and deputy director of of the legal affairs office of the legal department of the Parent Company. Mr. Li was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012.

Ms. Chen Hong (陳紅), aged 48, is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen obtained a university diploma from the Logistical Engineering University of the Chinese Peoples's Liberation Army. Ms. Chen joined the Parent Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of the Design Institute, chief officer of Production and Operation Department of the Parent Company and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the Company at the 71st meeting of the sixth staff representative meeting for its group leaders of the Company on 29 may 2012.

Mr. Dou Hui, aged 49, is the secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Steel Smelting Plant of the Company. He is holder of a bachelor's degree, and a senior political worker (高級政工師). Mr. Dou joined the Parent Company in August 1982. He served from time to time as the director of the office of the Labor Union, organization department chief of the Labor Union of the Parent Company, as well as secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Sintering Plant of the Company. On 29 May 2012, Mr. Dou was re-elected as a Staff Representative Supervisor of the Company at the 71st meeting of the sixth staff representative meeting for its group leaders of the Company.

I. CHANGES IN SHAREHOLDING AND REMUNERATION *(CONTINUED)*

1. Changes in shareholding and remuneration of current directors, supervisors, senior management and those who resigned during the Reporting Period *(Continued)*

Other senior management members:

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

Ms. Gong Jun, aged 40, is the Financial Controller and the head of the financial and accounting office of the Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Parent Company in 1996, she acted as the head of Audit Department of the Parent Company from March 2008 to May 2010 and acted as the head of Finance Office of the Parent Company from May 2010 to September 2010. She had been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department, deputy head and head of the Audit Department and head of the Financial Department of the Parent Company.

Mr. You Xiao An, aged 48, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now attending postgraduate courses in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Parent Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

II. POSITIONS HELD BY CURRENT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND THOSE WHO RESIGNED DURING THE REPORTING PERIOD

1. Positions held at shareholders

Name	Name of shareholders	Positions held at shareholders	Starting date of the tenure	Ending date of the tenure
Deng Qiang	Chongqing Iron & Steel Group	Deputy General Manager		
Yuan Jin Fu	Chongqing Iron & Steel Group	Director, Deputy General Manager and Chief Accountant		
Zhu Jian Pai	Chongqing Iron & Steel Group	Chairman of the Supervisory Committee, deputy secretary to the Communist Party Committee and the secretary of the Discipline Inspection Committee		
Li Zheng	Chongqing Iron & Steel Group	Office Director of the Supervisory Committee and the head of audit department		
Li Mei Jun	Chongqing Iron & Steel Group	Officer of the legal affairs office		

II. POSITIONS HELD BY CURRENT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND THOSE WHO RESIGNED DURING THE REPORTING PERIOD *(CONTINUED)*

2. Positions held at other entities

Name	Name of other entities	Positions held at other entities	Starting date of the tenure	Ending date of the tenure
Liu Tian Ni	Wonderful Sky Financial Group Limited, Silver Grant International Industries Limited, a listed company in Hong Kong, Sure Spread Company Limited	Chairman of Wonderful Sky Financial Group Limited, executive director of Silver Grant International Industries Limited and Managing Director of Sure Spread Company Limited		
Zhang Guo Lin	Southwest University of Political Science & Law	Secretary to the Party Committee, master tutor and an academic leader of Chongqing		
Ran Mao Sheng	Chongqing University	Head of Planning and Finance Division and the director of State-owned Assets Office		

III. REMUNERATIONS OF DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

Procedure for determining remunerations of Directors, Supervisors and Senior Management	The Remuneration Committee decides the remuneration plan for Directors, Supervisors and Senior Management for the next year
Basis for determining remunerations of Directors, Supervisors and Senior Management	Remuneration for the Company's executive Directors, the management and other senior management members is designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. Remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons.
Remunerations payable to Directors, Supervisors and Senior Management	RMB2,286,900
Total remunerations actually received by all Directors, Supervisors and Senior Management at the end of the Reporting Period	RMB2,286,900

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason for change
Wu Zi Sheng	Deputy General Manager	Retired	For health reasons
Liu Xing	Independent director	Retired	Re-election
Ran Mao Sheng	Independent director	Appointed	Re-election

V. CORE TECHNICAL TEAM OR KEY TECHNICAL PERSONNEL

During the Reporting Period, the Company's core technical team or key technical personnel(other than Directors, Supervisors and Senior Management) and other employee who are of great significance to the Company's core competitiveness remained stable and unchanged.

VI. EMPLOYEES OF THE COMPANY AND MAJOR SUBSIDIARIES

1. Employees

Number of in-service employees of the Company	11,392
Number of in-service employees of major subsidiaries	1,224
Total number of in-service employees	12,616
Number of retired employees for whom the Company and major subsidiaries need to bear certain expenses	482

Structure of profession **Type of profession**	**Number** **of people**
Production staff	10,167
Sales staff	153
Technical staff	898
Finance staff	77
Administrative staff	1,321
Total	12,616

Education background **Education level**	**Number** **of people**
Secondary technical graduates and below	7,195
Associate degree	3,654
Undergraduate	1,553
Master's degree and above	214
Total	12,616

2. Remuneration policy

Employees' remuneration refers to payments the Company makes to employees in cash for their labor. Currently, employees' remuneration mainly comprises base salary or documentary salary, post salary, bonus, overtime wages and various types of allowances (including middle-and night-shift allowances, book and newspaper perks, and senior technician allowance).

The Company has the freedom to determine the system, method and level of salary payment within the approved total amount of salary based on the Company's economic benefits and status as well as appraisal results through collective negotiation or upon consideration and approval at the staff representative congress. The Company adopts a salary payment system which features a structured salary, and bases its salary payment on the following factors:

VI. EMPLOYEES OF THE COMPANY AND MAJOR SUBSIDIARIES *(CONTINUED)*

2. Remuneration policy *(Continued)*

Economic benefits. The level of employees' salary is linked with and determined by and adjusted according to the Company's economic benefits.

Efficiency. The growth of salary is controlled based on the principle that "the growth of total salary should be slower than the growth of the Company's economic benefit and the growth of employees' average salary should be slower than the growth of the Company's productivity".

Contribution. The difference in salary should be based on each entity's fulfillment of production and operation indicators and the level of salary is determined by each employee's contribution on their post.

Fairness. The Company adheres to a policy of equal pay for equal work under the same salary system, giving the same pay to employees in the same working areas, on the same post, under the same working conditions, with the same educational background, same skills, contribution and performance .

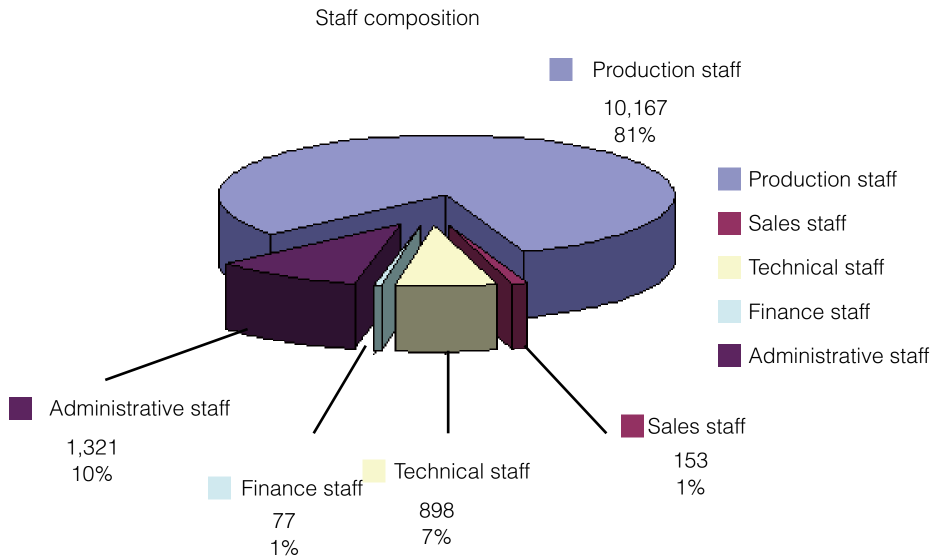
The Company implements a minimus salary system, requiring all of its entities to provide a salary not lower than the minimum salary prescribed by the local government for employees who offer normal labor in legitimate working time (including the trial period, probationary period, learning period and inspection period). The minimum salary does not include overtime wages and middle-and night-shift allowances.

3. Training program

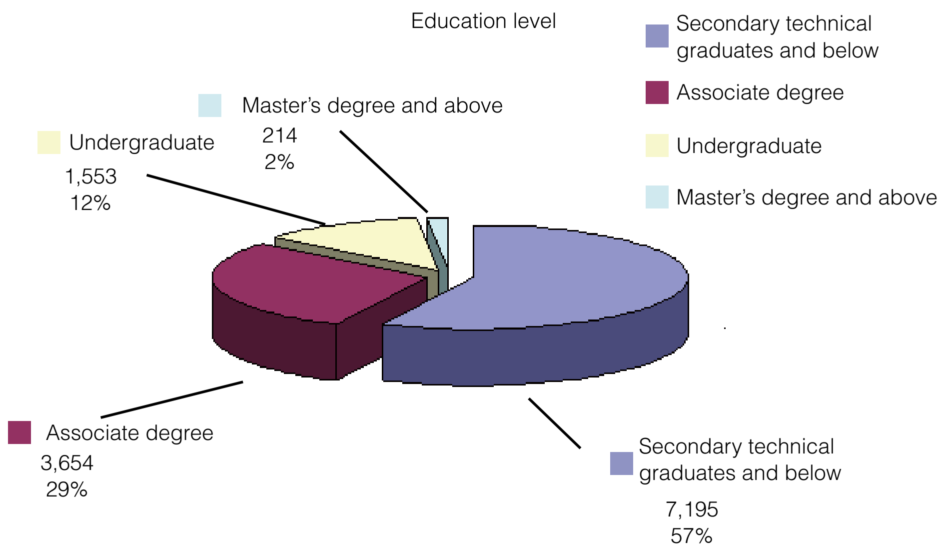
The Company has put in place a multi-level and multi-type training system, providing internal and external staff training according to development needs to enhance employees' skills and business capability and ensure employees' career development and the Company's sustainable development. The Company's efforts for wide and in-depth staff eduction and training aim to create a learning enterprise and build up a team of high-calibre and innovative talents with an optimized structure and the ability to meet the Company's demand.

VI. EMPLOYEES OF THE COMPANY AND MAJOR SUBSIDIARIES *(CONTINUED)*

4. Statistical diagram of staff composition



5. Statistical diagram of education level



I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT

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

The Company strongly believes that compliance with good corporate governance principles, improvement of corporate operation transparency and independence and establishment of effective accountability systems will help the Company maintain steady growth and create more value for shareholders. During the Reporting Period, the corporate governance of the Company was in line with the requirements of the Code of Corporate Governance for Listed Companies.

1. Shareholders and shareholders' general meeting: The Company convenes, gives notices of and holds general meetings in strict compliance with relevant requirements of the Company Law, the Articles of Association and the Rules of Procedure for General Meetings. The Company retains lawyers to witness the meetings and issue legal opinion, listen to shareholders' opinions and suggestions to ensure that shareholders, minority shareholders in particular, have equal status and that shareholders have and exercise lawful rights conferred by laws, regulations and the Articles of Association. During the Reporting Period, the Company held the 2011 annual general meeting and the first and second extraordinary general meetings. On-site and online voting was adopted for the second extraordinary general meeting. The 2011 annual report, re-election of the Board, amendments to the Articles of Association, the Material Assets Reorganisation and other matters were considered an approved at the general meetings with a view to protecting the lawful rights and interests of all shareholders.

2. Controlling Shareholder and the Company: The Company is completely separate from the Controlling Shareholder in terms of business, staff, organization and finance. The Company is a self-sustaining entity operating independently. The Company's Controlling Shareholder exercises a shareholder's rights in strict compliance with relevant requirement of the Company Law and the Articles of Association without overriding the general meeting or directly intervening in the Company's production and operation and important decision. At the end of the Reporting Period, none of the Company's capital and assets was appropriated by its substantial shareholders.

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT *(CONTINUED)*

3. Directors and the Board: The Company has established systems including the Rules of Procedure for the Board and the Working Rules for Special Committees of the Board according to relevant laws, regulations and the Articles of Association. The Board of the Company strictly follows the review process for significant events within its authority pursuant to relevant requirements and earnestly executes the resolution of general meetings. Special committees separately convened meetings in light of their respective responsibilities, putting forward advice and recommendations regarding the Company's development strategy, material capital operation, remuneration and appraisal of senior management, which effectively promoted the Board's standardized operation and scientific decision-making.

   The Board of the Company consists of nine members, including three independent directors, one of whom is a professional accountant. The Board has four special committee, namely the Strategy Committee, the Audit Committee, the Remuneration and Evaluation Committee and the Nomination Committee. The composition of the Board and special committees is in keeping with the requirement of the Guidance on Establishment of the Independent Director System in Listed Companies.

4. Supervisors and the Supervisory Committee: Presently, the Supervisory Committee comprises five members including two supervisors representing staff. The composition of the Supervisory Committee is in keeping with relevant requirement of the Company Law and other laws and regulations. The Supervisory Committee earnestly performs its prescribed duties according to the Articles of Association and the Rules of Procedure of the Supervisory Committee and monitors the Company's standardized operation, the Company's financial system and operation, the legitimacy and compliance of duty performance by the Company's directors and senior management.

5. Information disclosure and transparency: The Company strictly implements the Rules for Information Disclosure Management, specifies the person responsible for information disclosure to ensure the truthfulness, accuracy, timeliness and completeness, and treats all shareholders fairly to ensure equal right to know.

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT *(CONTINUED)*

6. Establishment of internal control system: The Board authorizes the internal control office to take charge of the implementation of internal control assessment and to assess the high-risk areas and units within the scope of the assessment. The internal control office carries out comprehensive evaluation of the implementation of internal control against indicators including internal environment, risk assessment, control measures, information and communication and internal oversight according to the basic standards and supporting guidelines issued by the five national ministries and commissions as well as relevant laws and regulations and the Articles of Association, based on the actual situation of the Company.

   In carrying out internal control measures, the Company built an internal control leading group with the Chairman of the Board as the group leader and an internal control working group with the vice chairman of the Board as the group leader. All relevant management department of the Company designated internal control commissioners to enhance internal control efforts. Meanwhile, the Company engaged KPMG Huazhen Certified Public Accountants(Special General Partnership) to conduct independent audit of the effectiveness of the Company's internal control.

   During the Reporting Period, the Company also strove to establish an effective risk assessment procedure, specifying the working process and methods for collecting, identifying, analyzing and evaluating risk information. The Company set the standards for risk rating, which requires analysis and sorting of identified risks according to the possibility and magnitude of influence of risks by using both qualitative and quantitative approaches. The Company determined risks worthy of high attention and prioritized control and made clear corresponding reporting process and reporting requirement to enhance risk prevention abilities and assure the achievement of strategic development goals.

   The Company came up with and improved corresponding control measures based on the risk assessment results through manual and automatic control as well as preventive and after-detection control to maintain risk control within tolerable bounds. Control measures usually include control on separation of incompatible posts, authorization approval, accounting system, property protection, budget, operation analysis and performance appraisal, etc.

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE AND INSIDERS REGISTRATION AND MANAGEMENT *(CONTINUED)*

7. Insider registration management: In accordance with the Notice on Furtherance of Relevant Work Regarding Information Insider Registration and Management (Yu Zheng Jian Fa [2011] No. 279) (the "Notice") issued by Chongqing Securities Regulatory Bureau on 8 November 2011, the Company amended and improved the Information Insider Management System formulated in April 2010. During the Reporting Period, the Company did well in the management of regular reporting and confidentiality, registration, disclosure, filing of insider information such as the Material Assets Reorganisation and insiders in strict accordance with the above requirement, effectively guarding the principle of fairness in information disclosure. During the Reporting Period, the Company had no inside information leakage or insider transactions.

II. INTRODUCTION OF GENERAL MEETINGS

Meeting	Date	Resolutions	Voting results	Websites designated for publication of resolutions	Date of publication of resolutions
2012 first extraordinary general meeting	28 February 2012	1. The resolution in relation to the bidding by the Company of the 100% equity interest in Chongqing Steel at the Chongqing United Assets and Equity Exchange; 2. resolution in relation to the feasibility study report on and investment in Jiangjin Base Project; 3. resolution in relation to e the feasibility study report on and investment in San Feng Dock Project of Xingang Operation Area in Jingjiang Port District of Taizhou Port; 4. resolution in relation to appointment of KPMG Huazhen Certified Public Accountants as the Company's internal control Auditor; 5. resolution in relation to appointment of Mr. Xia Tong, a candidate being nominated by Chongqing Iron & Steel (Group) Company Limited, the controlling shareholder of the Company, as director of the Company; 6. resolution in relation to finance lease by the Company; 7. resolution in relation to amendments to the Articles of Association of Chongqing Iron & Steel Company Limited	Passed upon consideration	http://www.sse.com.cn http://www.hkexnews.hk/index_c.htm	29 February 2012

II. INTRODUCTION OF GENERAL MEETINGS *(CONTINUED)*

Meeting	Date	Resolutions	Voting results	Websites designated for publication of resolutions	Date of publication of resolutions
2011 annual general meeting	31 May 2012	1. The report of the Supervisory Committee of the Company for the year 2011; 2. report of the Board of Directors of the Company for the year 2011; 3. Performance Report of the Independent Directors of the Company for the year 2011; 4 The audited financial report for the year 2011; 5. 2011 Annual Report; 6. profit distribution proposal for the year 2011; 7. Proposal for provision of guarantee by the Company in favour of Sanfeng Jingjiang Port Business and Logistic Company Limited; 8 Proposal for the feasibility report on and investment in the products structure adjustment project; 9. Proposal for re-appointment of KPMG Huazhen as the auditor and internal control auditor of the Company for the year 2012; 10. Election of members of the sixth session of the Board of Directors of the Company by cumulative voting; 11. Election of supervisors representing shareholders of the sixth session of the Supervisory Committee of the Company by cumulative voting.	Passed upon consideration	http://www.sse.com.cn http://www.hkexnews.hk/index_c.htm	1 June 2012
2012 second extraordinary general meeting, 2012 first class meeting of A shareholders and 2012 first class meeting of H shareholders	10 December 2012	1. Resolution in relation to the Satisfaction by the Company of conditions for the Material Assets Reorganisation and Fundraising; 2. the Resolution in relation to Material Assets Acquisition and Fundraising and connected transaction; 3. the resolution in relation to the Report on Material Assets Acquisition and Fundraising and Connected Transactions of Chongqing Iron & Steel Company Limited (draft) and its summary; 4. the resolution in relation to agreements between the Company and Chongqing Iron & Steel (Group) Co., Ltd. to enter into the Agreement on Acquisition of Assets and Environmental Relocation Loss Compensation and the Supplemental Agreement to the Agreement on Acquisition of Assets and Environmental Relocation Loss Compensation; 5. The resolution in relation to Material Assets Reorganisation constituting a substantial connected transaction; 6. the resolution in relation to the proposal of authorizing the Board at the EGM to deal with matters in connection with the Material Assets Reorganisation and the Fundraising; 7. Medium and long term dividend distribution plan of Chongqing Iron & Steel Company Limited; 8. the resolution in relation to amendments to the Articles of Association of Chongqing Iron & Steel Company Limited; 9. the resolution in relation to approving the auditing and valuation reports and the profit forecast in connection with the Material Assets Reorganisation; 10. the resolution in relation to obtaining a waiver in respect of the obligation on Chongqing Iron & Steel Group to acquire further shares by way of an offer; 11. the resolution in relation to obtaining approval from non-related shareholders of a waiver in respect of the obligation on the Parent Company pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases	Passed upon consideration	http://www.sse.com.cn http://www.hkexnews.hk/index_c.htm	11 December 2012

III. DUTY PERFORMANCE OF DIRECTORS

1. Directors' attendance of Board meetings and general meetings

		Attendance of Board meetings						Attendance of general meetings
Name of director	Independent director or not	Number of Board meetings	Attendance in person	Attendance via communication	Attendance by proxy	Absence	Whether failed to attend 2 consecutive meetings in person	Attendance of general meetings
Deng Qiang	No	6	6/6	0	0	0	No	3/3
Xia Tong	No	6	5/6	0	0	1/6	No	3/3
Yuan Jin Fu	No	6	5/6	0	0	1/6	No	2/3
Chen Hong (陳洪)	No	6	6/6	0	0	0	No	3/3
Sun Yi Jie	No	6	6/6	0	0	0	No	3/3
Li Ren Sheng	No	6	6/6	0	0	0	No	3/3
Liu Tian Ni	Yes	6	1/6	1/6	2/6	2/6	No	1/3
Zhang Guo Lin	Yes	6	5/6	0	1/6	0	No	2/3
Ran Mao Sheng	Yes	3	3/3	0	0	0	No	1/1
Liu Xing	Yes	3	2/3	0	0	1/3	No	2/2

The Company's directors Mr. Yuan Jin Fu and Mr. Xia Tong did not attend the 8th meeting of the fifth session of the Board due to other business affairs; the independent director Mr. Liu Xing (his term of office ended on 31 May 2012) did not attend the 9th meeting of the fifth session of the Board due to other business affairs; the independent director Mr. Liu Tian Ni did not attend the 9th meeting of the fifth session of the Board and the 1st meeting of the sixth session of the Board due to other business affairs; the independent director Mr. Liu Tian Ni attended the 8th meeting of the fifth session of the Board and the 10th meeting of the fifth session of the Board by proxy. Mr. Zhang Guo Lin attended the 8th meeting of the fifth session of the Board by proxy. Prior to the Board meetings, directors unable to attend reviewed carefully the proposed resolutions, made sufficient communication with their proxies and offered their opinions and asked proxies to vote on their behalf.

Number of Board meetings during the year	6
Including: number of physical meetings	5
number of virtual meetings	0
number of meetings by both physical and virtual means	1

III. DUTY PERFORMANCE OF DIRECTORS *(CONTINUED)*

2. Objections raised by independent directors in respect of relevant matters of the Company

During the Reporting Period, independent directors did not raise objections in respect of resolutions of the Board and other resolutions.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD

During the Reporting Period, the special committees of the Board faithfully performed their duties according to the requirements of their respective rules of procedure and played a positive role in improving the corporate governance structure and promoting the Company's standardized and healthy development.

(1) Work of the Strategy Committee. On 27 March 2012, the Company held its 4th meeting of the third Strategy Committee, at which the resolution regarding the feasibility study report on and investment in the Company's product mix adjustment project.

(2) Work of the Audit Committee. On 27 March 2012, the Company held 6th meeting of the fourth Audit Committee, at which the following resolutions were formed: (i) approving the annual financial report of the Group for the year ended 31 December 2011 and submitting the same to the Board for consideration; (ii) approving the annual report of the Company and its summary for 2011 and the annual results announcement for the year ended 31 December 2011 and submitting the same to the Board for consideration; (iii) confirming the continuing connected transactions of the Company in 2011; (iv) the Audit Committee's suggestion that the Board and the management pay high attention to the problems identified by auditors in the audit in 2011; (v) approving the the 2011 annual audit work summary report by KPMG Huazhen Certified Public Accountants and submitting the same to the Board for consideration; (vi)approving the re-appointment of KPMG Huazhen Certified Public Accountants as the domestic auditor of the Company for the year 2012 and submitting the same to the Board for consideration.

On 29 August 2012, the Company held the 1st meeting of the fifth Audit Committee, at which (i) the unaudited financial report of the Group for the six months ended 30 June 2012; (ii) the interim report of the Group for 2012 and its summary, unaudited interim results the Group for the six months ended 30 June 2012 were considered and approved.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD *(CONTINUED)*

(3) Work of the Remuneration and Evaluation Committee. On 28 December 2012, the Company held the 1st meeting of the fourth Remuneration and Evaluation Committee, at which the follow resolutions were formed: (i) Remuneration for the Company's executive Directors, the management and other senior management members in 2012 was designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons; remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. The above persons' remunerations were paid based on a established package including basic salary, monthly bonus, performance-based quarterly award and year-end bonus in line with the Company's economic benefits and in light of the performance appraisal results. The actual payment accorded with the remuneration scheme for 2012. (ii) approving the remuneration scheme for directors, supervisor and senior management of the Company for 2013; (iii) recommendation that the remuneration of directors, supervisor and senior management should continue to be linked with the Company's performance and the internal incentive and constraint mechanism should be further improved and refined.

(4) Work of the Nomination Committee. On 30 November 2012, the Company held the 1st meeting of the first Nomination Committee, at which the following resolutions were formed: (i) recommendations about the size and structure of the Board. In 2012, the Company completed the re-election of the new session of the Board, which maintained the same size and structure as the former one. Currently, the size and composition of the Board are proper and in line with relevant requirements on standardized governance; (ii) identifying, vetting and recommending the candidates for directors and senior management: in 2012. the Company completed the re-election of the new session of the Board. Having adequately vetted the profession, education, professional title, detailed work experience and all part-time jobs, the Nomination Committee is of the opinion that members of the new Board meet relevant requirements.

V. EXPLANATION ABOUT IDENTIFICATION OF RISKS IN THE COMPANY BY THE SUPERVISORY COMMITTEE

The Supervisory Committee had no objection to the matters of the Company under its supervision during the Reporting Period.

VI. EXPLANATION ABOUT INDEPENDENCE OF THE COMPANY FROM THE CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, STAFF, ASSETS, ORGANIZATION AND FINANCE AND THE COMPANY'S INDEPENDENT OPERATING CAPABILITY

Item	Whether independent and complete or not	Explanation
Business	Yes	The Company is a self-sustaining entity operating independently with an independent production, supply and sales system. The Company does not compete with its Controlling Shareholder in its principal business activities.
Staff	Yes	The Company is completely independent in terms of labor, personnel and salary affairs. All of the Company's senior management members including the general manager, deputy general manager, chief engineer, financial controller and secretary to the Board receive remuneration in the Company without concurrently holding posts at shareholders.
Assets	Yes	According to the requirements of Chongqing municipal government for energy conservation, emission reduction, industrial layout and planning, Chongqing Iron & Steel Group implemented the strategy of overall environmental relocation and promised the Company that it would fund the construction within Changshou New Zone itself and ultimately transfer or inject the projects or assets there related to iron and steel production to the Company. Currently, the Company and Chongqing Iron & Steel Group are carrying out the Material Assets Reorganisation. It is expected that all the iron and steel making related facilities will be injected into the Company within 2013.
Organization	Yes	The Company has a complete organizational structure and functional departments independent from the Controlling Shareholder. The Company's offices and production and operational premises are completely separated from those of the Controlling Shareholder.
Finance	Yes	The Company establishes a finance department as the independent financial accounting division, sets up an independent accounting system and financial management system, opens accounts independently with financial institutions and pays taxes separately.

In addition, the Company is not involved in horizontal competition arising from stock reform, industry's features, national policy, acquisition and merger.

VII. ESTABLISHMENT AND IMPLEMENTATION OF SENIOR MANAGEMENT APPRAISAL AND INCENTIVE MECHANISMS DURING THE REPORTING PERIOD

During the Reporting Period, the Company made an appraisal of economic responsibilities of the directors and senior management who received remunerations from the Company according to the implementation the Company's annual operational budget plan, and paid remuneration and bonus based on the appraisal results.

I. STATEMENT OF INTERNAL CONTROL RESPONSIBILITIES AND INTERNAL CONTROL SYSTEM ESTABLISHMENT

The Board of the Company is responsible for setting up and maintaining an effective internal control system related to financial reporting. The Company prepared the 2012 Internal Control Evaluation Report of Chongqing Iron & Steel Company Limited according to the internal control functioning in 2012 (for details, please refer to the announcement published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 29 March 2013).

II. EXPLANATION ABOUT RELEVANT MATTER OF THE INTERNAL CONTROL AUDIT REPORT

KPMG Huazhen Certified Public Accountants (Special General Partnership) audited the internal control of the Company in 2012 and issued a standard unqualified Audit Report on Internal Control of Chongqing Iron & Steel Company Limited in 2012 to the effect that the Company maintained effective internal control on financial reporting in all material aspects as at 31 December 2012 according to the Basic Standards for Enterprise Internal Control and relevant requirements.

III. EXPLANATION ABOUT THE ACCOUNTABILITY SYSTEM FOR MAJOR ERRORS IN ANNUAL REPORT AND IMPLEMENTATION THERE OF

The fourth session of the Board of the Company considered and approved at its 4th meeting the Information Disclosure Management System of Chongqing Iron & Steel Company Limited, which provides for accountability for major errors in information disclosure in the annual report of the Company.

This section was prepared according to the requirements under the Corporate Governance Code and Corporate Governance Report of the Stock Exchange.

I. CORPORATE GOVERNANCE PRACTICES

The Company has always been committed to improving corporate governance and deems corporate governance as part of value creation with the aim to demonstrate the fulfillment of commitments made by the Board and senior management, maintain transparency and accountability to shareholders and create maximum value for shareholders.

Other than a deviation from Rule A.6.7, the Company complied with the corporate governance principles and all the code provisions (if applicable, including most recommended best practices) (Corporate Governance Code) set out in Appendix 14 to the Listing Rules as at 31 December 2012.

The Company failed to observe Rule A.6.7 of the Corporate Governance Code which requires that independent non-executive directors should attend general meetings. The independent non-executive director Mr. Liu Tian Ni failed to attend the Company's 2011 annual general meeting and 2012 second extraordinary general meeting due to other business affairs; independent non-executive director Mr. Liu Xing failed to attend the Company's 2011 annual general meeting due to other business affairs; independent non-executive director Mr. Zhang Guo Lin failed to attend the Company's 2012 second extraordinary general meeting due to other business affairs. But all other independent non-executive directors attended the annual general meeting and the first and second extraordinary general meetings and replied to questions thereat to maintain effective communication with shareholders of the Company.

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

As at 31 December 2012, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the SFO) of the Directors, Supervisors and senior management members in the shares or underlying shares or debentures of the Group and its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules of the Stock Exchange") and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

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

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

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

Save as disclosed above, as at 31 December 2012 none of the Directors, Supervisors or their respective associates had any interest in the shares of the Group or its associated corporations.

During the year 2012, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS *(CONTINUED)*

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

At no time during the year 2012 was the Group, its fellow subsidiaries or its Parent Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year 2012 was the Group, its fellow subsidiaries or its Parent Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

2. Service Contracts of Directors and Supervisors

The directors and supervisors of the Company respectively entered into service contracts which expired on 31 May 2012. Neither terms for compensation for termination of service prior to the expiry of the service contracts nor the terms for compensation for no renewal of service upon the expiry of such service contracts were made.

3. Directors' and Supervisors' Interests in the Contracts

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

4. Model Code for Securities Transactions by Directors and Supervisors

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

III. THE BOARD

1. Composition of the Board

For details, please refer to “VIII.I.1” of this report.

2. Number of Board meetings during the financial year

For details, please refer to “IV.VI.(I) “ of this report.

3. Directors’ attendance of the Board meetings and general meetings

For details, please refer to “IX.III.1” of this report.

4. Division of responsibilities between the Board and the management

The Board is collectively responsible for the Company’s management and operation under the leadership of its chairman. The Board formulates the Group’s overall strategy, sets the Group’s business direction and financial performance target, ensure the establishment and implementation of a good corporate governance structure and procedure. The Board reports the Company’s performance and business to shareholders. The Board is the Group’s final decision-making organ other than matters which are required by the Company’s Articles of Association, the Listing Rules and other applicable laws and regulations to be subject to approval by shareholders.

The management takes charge of the Group’s business operation and implements policies formulated by the Board. The management is accountable to the Board and is required to make decisions for matters prescribed by the executive committee or seek prior approval of the executive committee before making commitments on behalf of the Company. The executive committee monitors the management’s performance according to the Group’s corporate goals, missions and business plan which are determined and approved by the Board from time to time.

5. The Company strictly complied with Rule 3.10(1) and (2) and Rule 3.10(A) of the Listing Rules during the Reporting Period.

6. The Company strictly complied with Rule 3.13 of the Listing Rules during the Reporting Period.

III. THE BOARD *(CONTINUED)*

7. There is no discloseable connected relationship between members of the Board of the Company.

8. Directors and senior management training

During the year, all directors received training required by appliable laws and regulatory regulations. In addition, some directors also attended training related to their profession or business to enhance their management capability. All new directors had proper understanding of the laws and rules which they should know for carrying out their duties before taking office.

IV. CHAIRMAN AND GENERAL MANAGER

The chairman is elected and removed by a majority vote of all directors, serves for a term of 3 years and is eligible for re-election. The chairman is responsible for the day-to-day work of the Board.

The general manager takes charges of the day-to-day production and operation. The general manager is appointed by the Board for a term of 3 years and is eligible for re-election.

The roles of chairman and general manager of the Company were performed by different individuals.

V. NON-EXECUTIVE DIRECTOR

Non-executive directors serve for a term of 3 years and are eligible for re-election. For detailed information about current members of the Board, please refer to VIII. I.1 of this report.

VI. COMMITTEES UNDER THE BOARD

(I) Functions of special committees

1. Primary responsibilities of the Strategy Committee

    (1) to study the strategic plan for long-term development of the Company and give suggestions;

    (2) to study the major investment and financing plans which are required by the Articles of Association to be approved by the Board and give suggestions;

    (3) to study the major capital operation and assets operation project which are required by the Articles of Association to be approved by the Board and give suggestions;

    (4) to study other significant events which may influence the Company's development and give suggestions;

    (5) to inspect the execution of the above matters;

    (6) Other matters authorized by the Board.

2. Primary responsibilities of the Audit Committee

    (1) to make recommendation on the appointment or removal of the external auditor;

    (2) to monitor the Company's internal audit system and the implementation thereof;

    (3) to coordinate the communication between the internal and external auditors;

    (4) to review the financial information and disclosure of the Company;

    (5) to review the internal control system of the Company and audit major connected transactions;

    (6) other matters authorized by the Board.

VI. COMMITTEES UNDER THE BOARD *(CONTINUED)*

(I) Functions of special committees *(Continued)*

3. Primary responsibilities of the Remuneration and Evaluation Committee

(1) to formulate the remuneration scheme or plan according to the main scopes, duties and importance of the positions of directors and senior management as well as the remuneration levels of similar positions of other similar enterprises;

(2) the remuneration scheme or plan includes but is not limited to the criteria and procedure for performance appraisal as well as the main plan and system for awards and punishment;

(3) to inspect duty performance of directors (non-independent director) and senior management and conduct annual performance evaluation;

(4) to monitor the implementation of the remuneration system;

(5) other matters authorized by the Board.

4. Primary responsibilities of the Nomination Committee

(1) to make recommendations to the Board regarding the size and composition of the Board based on the Company's business operation, asset size and shareholding structure;

(2) to study the criteria and procedure for electing directors and managers and make recommendation to the board;

(3) to identify individuals suitably qualified to become directors and managers;

(4) to vet the candidates for directors and managers and make recommendation and make recommendation;

(5) To vet other senior management to be appointed by the Board and make recommendation;

(6) other matters authorized by the Board.

VI. COMMITTEES UNDER THE BOARD *(CONTINUED)*

(II) Composition of all special committees

(1) The fourth Strategy Committee of the Board:

Chairman: Deng Qiang

Member: *Zhang Guo Lin,* Xia Tong, Chen Hong (陳洪), Sun Yi Jie, Li Ren Sheng

(2) The fifth Audit Committee of the Board:

Chairman: Ran Mao Sheng

Member: *Zhang Guo Lin, Liu Tian Ni*

(3) The third Remuneration and Evaluation Committee of the Board:

Chairman: *Zhang Guo Lin*

Member: Yuan Jin Fu, *Ran Mao Sheng, Liu Tian Ni*

(4) The first Nomination Committee of the Board:

Chairman: Deng Qiang

Member: *Ran Mao Sheng, Liu Tian Ni*

Note: names in italic letters are independent non-executive directors

(III) Work of special committees

For details, please refer to "IX.IV" of this report.

VII. REMUNERATION OF AUDITORS

For details, please refer to "VI.IX" of this report.

VIII. COMPANY SECRETARY

The Company did not engage any service institution as the company secretary.

IX. SHAREHOLDERS' RIGHTS

(I) Shareholders' right to convene an extraordinary general meeting

According to the Company law, the Articles of Association of the Company stipulates that: shareholders individually or collectively holding more than 10% of the Company's shares are entitled to request, which should be in written form, the Board to hold an extraordinary general meeting. The Board shall, in accordance with laws, regulations and the Articles of Association, give a written feedback indicating its agreement or objection to convening an extraordinary general meeting within 10 days of receipt of the requisition. If the Board agrees to the proposal, it shall issue a note convening the general meeting within 5 days of its decision and shall obtain relevant shareholders' consent in case of any changes to the original requisition. If the Board disagrees or does not give any feedback within 10 days of receipt of the requisition, shareholders individually or collectively holding more than 10% of the Company's shares has the right to propose, which should be in written form, the convening of an extraordinary general meeting to the Supervisory Committee.

(II) Enquiry procedure and available information

According to the Articles of Association of the Company, shareholders may have access to relevant information including:

1. the Articles of Association after paying the cost;

2. Inspect and copy, after paying reasonable fees:

    (1) all parts of the register of shareholders;

    (2) personal information of the Company's directors, supervisors, general manager and other senior management, including: (a) current and previous name and alias; (b) principal address (domicile); (c) nationality; (d) full-time and all other part-time jobs and titles; (e) identity document and number.

    (3) counterfoil of corporate bonds;

    (4) resolutions of the Board meetings;

    (5) resolutions of the Supervisory Committee meetings;

    (6) information about the share capital of the Company;

    (7) reports showing the total nominal value and number of each class of securities repurchased by the Company since the end of the last financial year, the maximum and minimum prices as well as the aggregate amount paid by the Company;

    (8) minutes of general meetings.

IX. SHAREHOLDERS' RIGHTS *(CONTINUED)*

(III) procedure for proposing a resolution

Shareholders individually or collectively holding more than 3% of the Company's shares may put forward a temporary proposal and submit the same to the convener 10 days prior to a general meeting.

X. INVESTOR RELATIONS

In 2012, bearing in mind the work concept of "actively rewarding investors", the the Company continuously enhanced investors' recognition of the Company's value, kept improving transparency of corporate governance, increased the scope and depth of information disclosure and took full advantage of the investors communication platform to strengthen exchanges with investors.

In order to meet the requirements of the regulatory authorities and improve investor relation efforts, the Company held promotion and interactive events at multiple levels and by various means in 2012. The Company launched a new special column entitled "rewarding investors" to publicize information of the Company on rewarding investors. In the day-to-day work, the Company made full use of the investors interactive platform on www.p5w.net to timely answer all kinds of questions raised by investors. The above activities brought about good publicity and communication effects.

In a bid to further tighten investor relation management and push into depth the theme event entitled "actively rewarding investors" and give investors a better understand of the Company's dividend distribution policy, return plan and business development, the Company participated in the "theme event of online open day for investors of listed companies in Qongqing" at 15:00-17:00, 25 September 2012. Senior management of the Company conducted timely and efficient exchanges and communication with investors via the online platform.

Looking into the future, the Company will continue to increase investor service awareness , keep exploring the investor relation management model, further improve the quality of communication with investors and bring positive returns to investors for their support for the Company.

畢馬威華振審字第1300140號

All Shareholders of Chongqing Iron and Steel Company Limited:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2012, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

AUDITORS' RESPONSIBILITY *(CONTINUED)*

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2012, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen
(Special General Partnership)

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

Ling Yun

China Beijing

Wan Shu

28 March 2013

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	2012	2011
Current assets			
Cash at bank and on hand	V.1	**3,800,917**	2,325,290
Bills receivable	V.2	**779,131**	1,417,422
Accounts receivable	V.3	**1,057,179**	697,365
Prepayments	V.4	**880,823**	651,251
Other receivables	V.5	**1,802,681**	264,008
Inventories	V.6	**7,196,682**	6,603,218
Other current assets	V.7	**473,185**	415,137
Total current assets		**15,990,598**	12,373,691
Non-current assets			
Long-term equity investments	V.8	**109,739**	5,000
Fixed assets	V.9	**8,282,293**	7,344,844
Construction in progress	V.10	**4,236,785**	3,252,903
Construction materials	V.11	**1,190,982**	1,537,078
Fixed assets to be disposed of	V.12	**320,732**	2,026,600
Intangible assets	V.13	**350,789**	402,297
Deferred tax assets	V.14	**17,892**	23,528
Other non-current assets	V.15	**606,589**	84,500
Total non-current assets		**15,115,801**	14,676,750
Total assets		**31,106,399**	27,050,441

The notes on pages 120 to 277 form part of these financial statements.

Consolidated balance sheet (Continued)

As at 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	2012	2011
Current liabilities			
Short-term loans	V.18	**5,620,216**	4,048,189
Financial liabilities held for trading	V.19	**1,556**	23,713
Bills payable	V.20	**861,000**	555,000
Accounts payable	V.21	**7,486,179**	4,808,932
Advances from customers	V.22	**3,646,951**	1,420,140
Employee benefits payable	V.23	**157,904**	182,429
Taxes payable	V.24	**5,618**	8,978
Interest payable	V.25	**22,173**	36,733
Other payables	V.26	**708,640**	420,746
Non-current liabilities due within one year	V.27	**3,862,674**	4,762,143
Other current liabilities	V.28	**7,712**	7,683
Total current liabilities		**22,380,623**	16,274,686
Non-current liabilities			
Long-term loans	V.29	**799,408**	1,056,600
Debentures payable	V.30	**1,971,617**	1,966,848
Long-term payables	V.31	**1,635,025**	3,254,896
Other non-current liabilities	V.32	**126,750**	256,296
Total non-current liabilities		**4,532,800**	6,534,640
Total liabilities		**26,913,423**	22,809,326

The notes on pages 120 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	**2012**	2011
Shareholders' equity			
Share capital	V.33	**1,733,127**	1,733,127
Capital reserve	V.34	**1,109,163**	1,109,163
Specific reserve	V.35	**1,615**	1,560
Surplus reserve	V.36	**606,991**	605,633
Retained earnings	V.37	**723,080**	625,625
Total equity attributable to shareholders of the Company		**4,173,976**	4,075,108
Minority interests		**19,000**	166,007
Total shareholders' equity		**4,192,976**	4,241,115
Total liabilities and shareholders' equity		**31,106,399**	27,050,441

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

Balance sheet

As at 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	*Note*	**2012**	2011
Current assets			
Cash at bank and on hand		**3,771,189**	2,205,461
Bills receivable		**769,881**	1,408,423
Accounts receivable	XI.1	**931,263**	764,131
Prepayments		**304,375**	463,970
Dividends receivable		**—**	11,546
Other receivables	XI.2	**1,794,099**	259,427
Inventories		**7,184,212**	6,568,691
Other current assets		**470,533**	404,801
Total current assets		**15,225,552**	12,086,450
Non-current assets			
Long-term equity investments	XI.3	**224,597**	286,044
Fixed assets		**8,232,887**	7,283,818
Construction in progress		**4,233,224**	2,750,191
Construction materials		**1,190,982**	1,537,078
Fixed assets to be disposed of		**316,476**	2,026,600
Intangible assets		**346,662**	321,823
Deferred tax assets		**17,116**	22,520
Other non-current assets		**606,589**	84,500
Total non-current assets		**15,168,533**	14,312,574
Total assets		**30,394,085**	26,399,024

The notes on pages 120 to 277 form part of these financial statements.

As at 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	2012	2011
Current liabilities			
Short-term loans		**5,555,216**	3,942,189
Financial liabilities held for trading		**1,556**	23,713
Bills payable		**861,000**	560,000
Accounts payable		**7,445,606**	4,465,026
Advances from customers		**3,124,969**	1,417,302
Employee benefits payable		**154,204**	178,508
Taxes payable		**2,791**	7,167
Interest payable		**22,173**	36,733
Other payables		**744,930**	422,437
Non-current liabilities due within one year		**3,862,674**	4,762,143
Other current liabilities		**7,712**	7,684
Total current liabilities		**21,782,831**	15,822,902
Non-current liabilities			
Long-term loans		**799,408**	1,056,600
Debentures payable		**1,971,617**	1,966,848
Long-term payables		**1,635,025**	3,254,896
Other non-current liabilities		**126,750**	232,902
Total non-current liabilities		**4,532,800**	6,511,246
Total liabilities		**26,315,631**	22,334,148

The notes on pages 120 to 277 form part of these financial statements.

Balance sheet (Continued)

As at 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	**2012**	2011
Shareholders' equity			
Share capital		**1,733,127**	1,733,127
Capital reserve		**1,140,611**	1,140,611
Surplus reserve		**577,012**	575,654
Retained earnings		**627,704**	615,484
Total shareholders' equity		**4,078,454**	4,064,876
Total liabilities and shareholders' equity		**30,394,085**	26,399,024

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

Consolidated income statement

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012	2011
I. Operating income	V.38	**18,458,776**	23,532,945
II. Less: Operating costs	V.38	**18,402,709**	22,571,662
Business taxes and surcharges	V.39	**12,268**	27,105
Selling and distribution expenses	V.40	**423,351**	372,449
General and administrative expenses	V.41	**650,617**	824,288
Financial expenses	V.42	**1,006,021**	750,047
Impairment losses	V.43	**379,743**	867,845
Add: Gains from changes in fair value ("( )" for losses)	V.44	**22,157**	(15,071)
Investment income ("( )" for losses)	V.45	**369,274**	—
Including: Income from investment in associates and jointly controlled enterprises		**7**	—
III. Operating profit ("( )" for losses)		**(2,024,502)**	(1,895,522)
Add: Non-operating income	V.46	**2,168,322**	528,287
Less: Non-operating expenses	V.47	**41,995**	7,861
Including: Losses from disposal of non-current assets		**41,044**	461
IV. Profit before income tax ("( )" for losses)		**101,825**	(1,375,096)
Less: Income tax expense	V.48	**2,982**	95,979
V. Net profit for the year ("( )" for net losses)		**98,843**	(1,471,075)
Attributable to:			
Shareholders of the Company		**98,813**	(1,471,082)
Minority interests		**30**	7

The notes on pages 120 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2012**	2011
VI. Earnings per share			
Basic earnings per share *(RMB)* ("( )" for net losses)	V.49	**0.057**	(0.849)
Diluted earnings per share *(RMB)* ("( )" for net losses)	V.49	**0.057**	(0.849)
VII. Other comprehensive income for the year		**—**	—
VIII. Total comprehensive income for the year		**98,843**	(1,471,075)
Attributable to:			
Shareholders of the Company		**98,813**	(1,471,082)
Minority interests		**30**	7

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012	2011
I. Operating income	XI.4	**18,372,275**	23,388,326
Less: Operating costs	XI.4	**18,377,090**	22,502,202
Business taxes and surcharges		**2,472**	15,728
Selling and distribution expenses		**421,378**	372,410
General and administrative expenses		**620,025**	780,461
Financial expenses		**1,000,461**	749,220
Impairment loss		**379,814**	867,688
Add: Gains from changes in fair value ("( )" for losses)		**22,157**	(15,071)
Investment income ("( )" for losses)	XI.5	**294,582**	14,818
Including: Income from investment in associates and jointly controlled enterprises		**7**	—
II. Operating profit ("( )" for losses)		**(2,112,225)**	(1,899,636)
Add: Non-operating income		**2,167,505**	527,456
Less: Non-operating expenses		**40,539**	7,829
Including: Losses from disposal of non-current assets		**39,595**	431
III. Profit before income tax ("( )" for losses)		**14,740**	(1,380,009)
Less: Income tax expense		**1,163**	92,724
IV. Net profit for the year ("( )" for losses)		**13,577**	(1,472,733)
V. Other comprehensive income for the year		**—**	—
VI. Total comprehensive income for the year		**13,577**	(1,472,733)

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

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The notes on pages 120 to 277 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012	2011
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**24,389,270**	27,188,488
Refund of taxes		**4,391**	5,479
Cash received from government subsidies		**2,001,800**	—
Cash received relating to other operating activities		**13,655**	17,445
Sub-total of cash inflows		**26,409,116**	27,211,412
Cash paid for goods and services		**(20,029,311)**	(25,394,082)
Cash paid to and for employees		**(969,049)**	(1,075,123)
Cash paid for all types of taxes		**(64,331)**	(275,637)
Cash paid relating to other operating activities	V.51(1)	**(31,812)**	(15,257)
Sub-total of cash outflows		**(21,094,503)**	(26,760,099)
Net cash inflow from operating activities	V.52(1)	**5,314,613**	451,313
II. Cash flows from investing activities:			
Cash received from disposal of investments		**—**	15,000
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**198,992**	17,444
Net cash received from disposal of subsidiaries and other business units	V.52(2)	**286,359**	—
Cash received relating to other investing activities	V.51(2)	**34,820**	111,209
Sub-total of cash inflows		**520,171**	143,653
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(2,313,843)**	(2,540,537)
Cash paid for acquisition of subsidiaries and other business units		**—**	(62,954)
Sub-total of cash outflows		**(2,313,843)**	(2,603,491)
Net cash outflow from investing activities		**(1,793,672)**	(2,459,838)

The notes on pages 120 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012	2011
III. Cash flows from financing activities:			
Cash received from investors		**—**	19,000
Including: Cash received from minority shareholders of subsidiaries		**—**	19,000
Cash received from borrowings		**6,878,511**	6,373,398
Cash received from finance leases		**200,000**	2,223,880
Sub-total of cash inflows		**7,078,511**	8,616,278
Cash repayments of borrowings		**(6,112,937)**	(5,575,600)
Cash paid for dividends, profit distributions or interest		**(769,828)**	(671,943)
Cash paid relating to other financing activities	V.51(3)	**(1,623,546)**	(596,139)
Sub-total of cash outflows		**(8,506,311)**	(6,843,682)
Net cash (outflow)/inflow from financing activities		**(1,427,800)**	1,772,596
IV. Net increase in cash and cash equivalents ("( )" for decreases)	V.52(1)	**2,093,141**	(235,929)
Add: Cash and cash equivalents at the beginning of the year		**1,301,423**	1,537,352
V. Cash and cash equivalents at the end of the year	V.52(3)	**3,394,564**	1,301,423

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012	2011
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**23,874,220**	26,947,580
Refund of taxes		**4,241**	5,479
Cash received from government subsidies		**2,001,800**	—
Cash received relating to other operating activities		**3,618**	17,440
Sub-total of cash inflows		**25,883,879**	26,970,499
Cash paid for goods and services		**(19,508,983)**	(25,275,302)
Cash paid to and for employees		**(876,000)**	(970,396)
Cash paid for all types of taxes		**(43,235)**	(262,026)
Cash paid relating to other operating activities		**(19,801)**	(15,219)
Sub-total of cash outflows		**(20,448,019)**	(26,522,943)
Net cash inflow from operating activities	XI.6	**5,435,860**	447,556
II. Cash flows from investing activities:			
Cash received from disposal of investments		**—**	15,000
Cash received from return on investments		**11,546**	3,272
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**196,728**	17,373
Net cash received from disposal of subsidiaries and other business units		**430,000**	—
Cash received relating to other investing activities		**34,702**	11,192
Sub-total of cash inflows		**672,976**	46,837
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(1,779,141)**	(2,242,293)
Cash paid for acquisition of investments		**—**	—
Net cash paid for acquisition of subsidiaries and other business units		**(61,546)**	(113,954)
Sub-total of cash outflows		**(1,840,687)**	(2,356,247)
Net cash outflow from investing activities		**(1,167,711)**	(2,309,410)

The notes on pages 120 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2012**	2011
III. Cash flows from financing activities			
Cash received from borrowings		**6,171,514**	6,202,398
Cash received from finance leases		**—**	2,223,880
Sub-total of cash inflows		**6,171,514**	8,426,278
Cash repayments of borrowings		**(5,864,937)**	(5,405,600)
Cash paid for dividends, profit distributions or interest		**(767,937)**	(671,238)
Cash paid relating to other financing activities		**(1,623,546)**	(596,139)
Sub-total of cash outflows		**(8,256,420)**	(6,672,977)
Net cash inflow from financing activities		**(2,084,906)**	1,753,301
IV. Net increase in cash and cash equivalents ("( )" for decreases)	XI.6	**2,183,243**	(108,553)
Add: cash and cash equivalents at the beginning of the year		**1,181,593**	1,290,146
V. Cash and cash equivalents at the end of the year		**3,364,836**	1,181,593

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

Consolidated statement of changes in shareholder's equity

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		2012							2011						
		Attributable to shareholders of the Company							Attributable to shareholders of the Company						
	Note	**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
I. 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		–	–	–	–	–	–	–	–	21,913	–	22,181	1,298	–	45,392
II. Balance at the beginning of the year		**1,733,127**	**1,109,163**	**1,560**	**605,633**	**625,625**	**166,007**	**4,241,115**	1,733,127	1,163,621	808	605,633	2,096,707	147,000	5,746,896
III. Changes in equity for the year ("( )" for decreases)															
1. Net profit for the year		–	–	–	–	**98,813**	**30**	**98,843**	–	–	–	–	(1,471,082)	7	(1,471,075)
2. Other comprehensive income for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	
Sub-total of 1 & 2		–	–	–	–	**98,813**	**30**	**98,843**	–	–	–	–	(1,471,082)	7	(1,471,075)
3. Appropriate of profits															
— Appropriation for surplus reserve	V. 36	–	–	–	**1,358**	**(1,358)**	–	–	–	–	–	–	–	–	–
— Distributions to shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Disposal of subsidiaries	IV.3	–	–	–	–	–	**(147,037)**	**(147,037)**	–	–	–	–	–	–	–
5. Specific reserve															
— Accrued	V.35	–	–	**29,204**	–	–	–	**29,204**	–	–	1,378	–	–	–	1,378
— Utilised	V.35	–	–	**(29,149)**	–	–	–	**(29,149)**	–	–	(626)	–	–	–	(626)
6. Adjustment of capital reserve For business combination under common control		–	–	–	–	–	–	–	–	(62,954)	–	–	–	–	(62,954)
7. Investment in subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	19,000	19,000
8. Others		–	–	–	–	–	–	–	–	8,496	–	–	–	–	8,496
IV. Balance at the end of the year		**1,733,127**	**1,109,163**	**1,615**	**606,991**	**723,080**	**19,000**	**4,192,976**	1,733,127	1,109,163	1,560	605,633	625,625	166,007	4,241,115

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

Statement of changes in shareholder's equity

For the year ended 31 December 2012
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2012 Share capital	2012 Capital reserve	2012 Specific reserve	2012 Surplus reserve	2012 Retained earnings	2012 Total	2011 Share capital	2011 Capital reserve	2011 Surplus reserve	2011 Retained earnings	2011 Total
I. 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
Add: Others		**—**	**—**	**—**	**—**	**1**	**1**	—	—	—	—	—
II. Balance at the beginning of the year		**1,733,127**	**1,140,611**	**—**	**575,654**	**615,485**	**4,064,877**	1,733,127	1,156,267	575,654	2,088,217	5,553,265
III. Changes in equity for the year												
1. Net profit for the year ("( )" for decrease)		**—**	**—**	**—**	**—**	**13,577**	**13,577**	—	—	—	(1,472,733)	(1,472,733)
2. Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Sub-total of 1 & 2		**—**	**—**	**—**	**—**	**13,577**	**13,577**	—	—	—	(1,472,733)	(1,472,733)
3. Appropriate of profits												
— Appropriation for surplus reserve		**—**	**—**	**—**	**1,358**	**(1,358)**	**—**	—	—	—	—	—
— Distributions to shareholders		**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
4. Adjustment of capital reserve for business combination under common control		**—**	**—**	**—**	**—**	**—**	**—**	—	(15,656)	—	—	(15,656)
5. Specific reserves		**—**	**—**	**(27,566)**	**—**	**—**	**—**	—	—	—	—	—
— Accrued		**—**	**—**	**27,566**	**—**	**—**	**(27,566)**	—	—	—	—	—
— Utilized		**—**	**—**	**—**	**—**	**—**	**27,566**	—	—	—	—	—
IV. Balance at the end of the year		**1,733,127**	**1,140,611**	**—**	**577,012**	**627,704**	**4,078,454**	1,733,127	1,140,611	575,654	615,484	4,064,876

These financial statements were approved by the Board of Directors of the Company on 28 March 2013.

Legal Representative: Deng Qiang The person in charge of accounting affairs: Gong Jun

The head of the accounting department: Gong Jun (Company stamp)

The notes on pages 120 to 277 form part of these financial statements.

I. COMPANY STATUS

Chongqing Iron & Steel Company Limited (the "Company") is a joint stock limited company incorporated in Chongqing on 11 August 1997. The Company's parent company is 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 the State Council. As part of the implementation of the restructuring of the Parent Group, 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 ("HKSE") on 15 October 1997 and 6 November 1997 respectively. Such shares, with a par value of RMB 1, were listed on the HKSE on 17 October 1997 and 10 November 1997 respectively. Upon the issuance of H shares, the Company's total number of shares was 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 the assets and liabilities of Hengda in December 2002. Meanwhile, the Company transferred all the state-owned shares of Hengda to the Parent Group.

On 9 August 2006, 319,183,200 bonus shares were distributed to the holders of ordinary shares by the Company, at three bonus shares for every ten shares as approved at the annual general meeting on 9 June 2006. Upon the distribution of bonus shares, the Company's total number of 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 were converted into A shares automatically upon the issuance of the above mentioned A shares. The Parent Group undertook that it would neither transfer or entrust any other parties to manage the shares held by it, nor agree to the Company to repurchase such shares within 36 months from the listing date of the Company's A shares, the 845,000,000 conditional shares, held by the 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 number of shares increased to 1,733,127,200 shares from 1,383,127,200 shares, including 1,195,000,000 domestic A shares and 538,127,200 overseas listed H shares.

The 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.

Environmental Relocation and Material Assets Reorganization

Under the requirements of energy saving and emission reduction, industrial layout and planning of the Chongqing Municipal Government, the Parent Group would launch an environmental relocation to relocate its principal operations from Da Du Kou District of Chongqing ("Da Du Kou District") to Yanjia Industry Zone, Jiangnan Town, Changshou District of Chongqing ("Changshou New Zone"). The Company is included in the relocation plan. On 22 March 2011, the Chongqing Municipal Government approved the Parent Group's "Report on Shutting Down the Da Du Kou District Steel Production Facilities", and agreed the Company to shut down all production facilities completely in Da Du Kou District before 25 September 2011.

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 were transferred to Changshou New Zone gradually. By 31 December 2011, the Company's main equipments located in Changshou New Zone including the 4100mm wide thick plate, the 1780mm hot rolled plate and the 2700mm medium size plate production lines have been ready for their intended use.

I. COMPANY STATUS *(CONTINUED)*

Environmental Relocation and Material Assets Reorganization *(Continued)*

The Company had entered into a lease contract of land use right and its supplementary agreement ("lease agreement") with the Parent Group on 14 August 1997, 8 December 2002, 20 October 2005 and 12 January 2007 respectively. Based on the lease agreement, "the Company owns the right of first refusal under the same conditions, on condition that the Parent Group is willing to transfer the contractual land use right in the lease term. The Parent Group should pay for any losses, costs and expense to the Company due to the fully (or partly) rental of the land use right". As all the production land of the Company in Da Du Kou District is rented from the Parent Group, the preparation for the environmental relocation of the Parent Group might 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 use certain of its assets in Changshou New Zone to compensate the losses of fixed assets incurred by the Company arising from the relocation, including the facilities shut down according to the relevant approval of the Ministry of Industry and Information Technology, and the losses are based on the book value of the fixed assets at their time of suspension from production less the proceeds of disposal.

Considering the extra expenses occurred in the environmental relocation of the Company, after the approval of State-owned Assets Supervision and Administration Commission ("SASAC"), in April 2010, the Parent Group has authorized free use of the steel smelting production line and its auxiliary public facilities amounting to RMB 3.99 billion which had reached an expected conditions for use, and the authorized period is from 1 April 2010 to 31 March 2011. In December 2010, the Parent Group further authorized free use of the steel smelting production line and its auxiliary public facilities amounting to RMB 1.97 billion 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 above mentioned Authorized free use of assets in 2010 expired, the Parent Group authorized the Company to continue the free use of the steel production line and the related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which have been ready for their intended use, amounting to approximately RMB 10.86 billion; the authorized period was from 1 April 2011 to 31 March 2012. In September 2011, the Parent Group further authorized the Company the free use of the steel production line and the related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which have been ready for their intended use, amounting to approximately RMB 5.9 billion; the authorized period was from 1 October 2011 to 31 March 2012 ("Authorized free use of assets in 2011").

On 31 March 2012, the above mentioned Authorized free use of assets in 2011 expired, and the Company has basically completed the environment relocation, the major production activities have been relocated to Changshou New Zone. Meanwhile, in order to ensure the Company to have a complete steel smelting production line, the Company launched the material assets reorganization with the Parent Group (refer to Note VI 6 (5)).

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

1 Basis of preparation

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

As at 31 December 2012, the Group's current liabilities exceeded its current assets by RMB 6,390,025,000 (2011: the Group's current liabilities exceeded its current assets by RMB 3,900,995,000). As at 31 December 2012, the Group has been granted available bank facilities amounting to RMB 3,767,960,000 (Note X.3(2)) and according to the profit forecast and working capital forecast for 12 months ending 31 December 2013 prepared by the management of the Group, the Group has sufficient working capital to ensure its continuing operation. The management of the Group consider it appropriate for the financial statements to be prepared on a going concern basis.

2 Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises — Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2012, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No.15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission (CSRC) in 2010.

3 Accounting period

The accounting year of the Group is from 1 January to 31 December.

4 Functional 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

5 Accounting treatments for a business combination involving enterprises under and 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 (see Note II.19). 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 CORRECTIONS 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 enterprises 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 of 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 involving enterprises not 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 recognised as investment income for the current period; the amount recognised 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 (share premium) in the consolidated balance sheet. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS 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 therefor 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. Comprehensive income attributable to minority shareholders is presented separately in the consolidated income statement below the total comprehensive income 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 owners' 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

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

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

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

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences, 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 include cash at bank and on hand, receivables, payables, loans and borrowings, debentures payable and share capital.

(1) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

9 Financial instruments *(Continued)*

(1) Recognition and measurement 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 related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly 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.

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

9 Financial instruments *(Continued)*

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

— 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.

— Available-for-sale financial assets

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

Available-for-sale investments in equity instruments 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.

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

9 Financial instruments *(Continued)*

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

— Other financial liabilities

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

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the Group (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.

(2) Presentation of financial assets and financial liabilities

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

— the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable

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

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

9 Financial instruments *(Continued)*

(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 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 derecognised 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 for derecognition, the difference between the two amounts below is recognised in profit or loss:

— the carrying amount of the financial asset transferred

— the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises 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 CORRECTIONS 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:

(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 decline in the fair value (i.e. a decline of 20% in the fair value) or prolonged decline in the fair value (i.e. a decline in the fair value persisting for a period of nine months) of an investment in an equity instrument below its cost.

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

9 Financial instruments *(Continued)*

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

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

— Held-to-maturity investments

Held-to-maturity investments 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 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.

The assessment is made collectively where held-to-maturity investments 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 factors reflecting present economic conditions.

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 what the amortised cost would have been had no impairment loss been recognised in prior years.

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

9 Financial instruments *(Continued)*

(5) Impairment of financial assets (Continued)

— Available-for-sale financial assets

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

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

(6) Equity instrument

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 in shareholders' equity.

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

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

10 Impairment of receivables

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

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

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors 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 what the amortised cost would have been had no impairment loss been recognised in prior years.

(a) Receivables that are individually significant and assessed individually for impairment:

Judgment basis or 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 flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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

10 Impairment of receivables *(Continued)*

(b) Receivables that are individually insignificant but assessed individually for impairment:

Reason for assessing individually for impairment of receivables that are individually insignificant	Except for note (a) 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 flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

(c) Receivables that are collectively assessed for impairment:

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

Basis for determining the group	Receivables 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	Ageing analysis method
Group 2	No provision

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

10 Impairment of receivables *(Continued)*

(c) Receivables that are collectively assessed for impairment: (Continued)

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

Ageing	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%

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

11 Inventories

(1) Classification

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

(2) Cost of inventories transferred out

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

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

11 Inventories *(Continued)*

(3) Basis for determining the net realisable value of inventories and provisioning 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 realisable 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 realisable 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 and in instalments when they are used. 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments

(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 enterprises 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 amount 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 other than through a business combination

— A long-term equity investment acquired other 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments *(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.

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 policies 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments *(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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments *(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.

— The Group adjusts the carrying amount of the long-term equity investment for changes in owners' equity of the investee other than those arising from net profits or losses, and recognises the corresponding adjustment in shareholders' equity.

(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 subsequently using the cost method. 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments *(Continued)*

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

Joint control is the contractually agreed sharing of control over an investee's economic activities, and exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing the control. The following factors are usually considered when assessing 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 all investors

— If one investor is appointed, through contract or agreement by all investors, to manage the investee's daily 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 does not have control or joint control over those policies. The following one or more factors are considered usually when assessing 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

12 Long-term equity investments *(Continued)*

(4) Method of impairment testing and measurement

For the method of impairment testing and measurement for investments in subsidiaries, jointly controlled enterprises and associates, refer to Note II. 17.

For other long-term equity investments, the carrying amount is tested for impairment at the balance sheet date. If there is objective evidence that the investment may be impaired, impairment is assessed on an individual basis. Impairment loss is measured at 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 and recognised in profit or loss. Such impairment loss is not reversed.

Other long-term equity investments are stated at cost less accumulated 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 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 the parts of an item of fixed assets have different useful lives or provide benefits to the Group in a different pattern thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the criteria to recognise fixed assets are satisfied, and the carrying amount of the replaced part is derecognise. The costs of the day-to-day servicing of fixed assets are recognised 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

13 Fixed assets *(Continued)*

(2) Depreciation of fixed assets

The cost of fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.

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 measurement, 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

13 Fixed assets *(Continued)*

(5) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

— when the fixed asset is on disposal; or

— when no future economic benefit is 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 proceeds on disposal and the carrying amount of the item and are recognised 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 asset 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 accumulated impairment losses (see Note II.17).

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

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

15 Borrowing costs

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

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

During the capitalisation period, the amount of interest (including amortisation 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 capitalised 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 capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation 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 recognised 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 capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

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

15 Borrowing costs *(Continued)*

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation 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 for more than three months.

16 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (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 estimated residual value and accumulated impairment losses is amortised 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 amortised 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 expenditure on the research phase and expenditures on the development phase.

Expenditure on the research phase is recognised in profit or loss when incurred. Expenditure on the development phase is capitalised 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 the development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see Note II.17). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

17 Impairment of assets other than inventories, financial assets and other long-term equity 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

— investment properties measured using a cost model

— 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 Group'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 an appropriate pre-tax discount rate.

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

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

If the result of the recoverable amount calculation 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 recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment of the asset is recognised 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 lower than the greatest amount 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 recognised, it is not reversed in a subsequent period.

18 Provisions

A provision is recognised for an obligation related to a contingency if the group 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 Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met.

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

19 Revenue recognition *(Continued)*

(1) Sale of goods

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

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

— The Group retains neither continuing managerial involvement 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 consideration 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 consideration 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 recognised by reference to the stage of completion of the transaction based on the progress of work performed or the proportion of costs incurred to date to the estimated total costs.

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS 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 recognised 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 recognised to the extent of contract costs incurred that can be recovered, and the contract costs are recognised as contract expenses when incurred;

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

(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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

20 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised 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, 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. 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 expire, 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 are 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 CORRECTIONS 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 any 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 recognised 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 recognised initially as deferred income and amortised 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 recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

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

22 Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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 recognised 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 recognised 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). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

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

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

22 Income tax *(Continued)*

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

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

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

— the same taxable entity; or

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

23 Operating leases 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 . An operating lease is a lease other than a finance lease.

(1) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term.

(2) Assets leased out under operating leases

Fixed assets leased out under operating leases except for investment properties are depreciated in accordance with the Group's depreciation policies described in Note II.13(2). Impairment losses are recognised in accordance with the accounting policy described in Note II.17. Income derived from operating leases is recognised 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 amortised 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.

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

23 Operating leases and finance leases *(Continued)*

(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 value 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 recognised as unrecognised finance charges. Initial direct costs that are attributable to a finance lease incurred by the Group are added to the amounts recognised 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.

Unrecognised finance charge under finance lease is amortised using an effective interest method over the lease term. The amortisation is accounted for in accordance with the principles of borrowing costs (see Note II.15).

At the balance sheet date, long-term payables arising from finance leases, net of the unrecognised 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 CORRECTIONS 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 or, joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company 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 the 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 of the Group 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 or, jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

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

25 Related parties *(Continued)*

In addition to the related parties stated above, which are determined in accordance with the requirements of CAS, the following enterprises or individuals (but not limited to) are considered as 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 which hold more than 5% 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.

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

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 engages in business activities from which it may earn revenues and incur expenses, whose financial performance is regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available.

— 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

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and are same or similar in respect of the nature of each product and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment

— the nature of each product and service

— the nature of production processes

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

— the methods used to distribute the products or provide the 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. Segment accounting policies are consistent with those for the consolidated financial statements.

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

27 Significant accounting estimates and judgments

The preparation of the 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 recognised in the period in which the estimate is revised and in any future periods affected.

Except for Note III.2 and Note X.3 which contains information about income tax rate for the companies and the assumptions and their risk factors relating to fair value of financial instruments respectively, other key sources of estimation uncertainty are as follows:

(1) Impairment of receivables

As described in Note II.10, receivables that are measured at amortisation cost 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 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 recognised for the excess of inventories' carrying amounts over their net realisable value. When making estimates of net realisable 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 CORRECTIONS OF PRIOR PERIOD ERRORS *(CONTINUED)*

27 Significant accounting estimates and judgments *(Continued)*

(3) Impairment of assets other than 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 amortisation of assets such as fixed assets and intangible assets

As described in Note II.13 and 16, assets such as fixed assets and intangible assets are depreciated and amortised 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 amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experience of similar assets and the estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised prospectively.

As described in Note I, the Parent Group undertook to "compensate the losses of fixed assets incurred by the Company arising from the relocation based on the net book of the fixed assets at their time of suspension from production less the proceeds of 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 tax 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%
Land use tax	Based on land area occupied	RMB 2~7/m^2

The income tax rate applicable to the Company for the year is 15% (2011: 15%).

The income tax rates for the subsidiaries are as follows:

	2012	2011
Chongqing Electronics	**15%**	15%
Chongqing Transportation	**15%**	15%
Jingjiang San Feng Steel Processing & Distribution Company Limited ("San Feng Steel")	**25%**	25%
Jingjiang Chongqing Iron & Steel East China Trading Co., Ltd. ("East China Trading")	**25%**	N/A

III. TAXATION *(CONTINUED)*

2 Income tax rate

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 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 Iron & Steel Group Electronics Company Limited ("Chongqing Electronics") and Chongqing Iron & Steel Group Transportation Company Limited ("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 Income tax rate *(Continued)*

The tax preferential policy of western development program has expired on 31 December 2010. Up to the approval date of financial statements, the State Administration of Taxation has not published relevant documents about the continuance of the western development corporate income tax preferential policies. However, according to the "Notice of taxation policy of Deepening Implementation of the Western Development Program" issued by MOF (Cai Shui Zi No.58 [2011]), "the income tax rate for the companies of encouraged industries in the western area is 15% from 1 January 2011 to 31 December 2020". The Company and its subsidiaries estimate that the continuance of the tax preferential policy is highly possible, therefore there is no change in the tax rates and preferential treatments that the Company and its subsidiaries are entitled to compared with the previous year. As at 31 December 2012, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using 15% 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

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 recognised as proceeds 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 CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing balance of other items that in substance from net investment in a subsidiary	Share holding percentage (%)	Voting rights percentage (%)	Consolidated (Y/N)	Closing balance of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code
Jingjiang San Feng Steel Processing & Distribution Company Limited	Company Limited	Jingjiang, Jiangsu Province	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
Jingjiang Chongqing Iron & Steel East China Trading Company Limited	Company limited	Jingjiang, Jiangsu Province	Jin Zili	Trading of metal products	50,000	Metal and mineral mine, metal products, non-metallic ores and products, machinery and equipments, sales of electronic products, manufacturing and sales of special equipments for environmental pollution control, recycling and sales of scrap metal products	50,000	—	100%	100%	Y	—	—	59864716-6

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Background of major subsidiaries *(Continued)*

(2) Subsidiaries acquired under common control

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing balance of other items that in substance from net investment in a subsidiary	Share holding percentage *(%)*	Voting rights percentage *(%)*	Consolidated *(Y/N)*	Closing balance of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code
Chongqing Iron & Steel Group Electronics Company Limited	Company Limited	Chongqing	Zhang Qiao Chuan	Construction and installation	22,172	Development. production and sale of computer software; electronic products; construction and installation of integrated computer network automation system	22,172	–	100%	100%	Y	–	–	50427800-6
Chongqing Iron & Steel Group Transportation Company Limited	Company Limited	Chongqing	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

On 3 July 2012, the Company increased the registered capital and paid-in capital of Chongqing Electronics by RMB 11,546,000, increasing the registered capital and paid-in capital from RMB 10,626,000 to RMB 22,172,000. Chongqing Hua Xi Certified Public Accountants have verified the capital increase and issued related capital verification reports Chong Qing Xi Hui Yan Zi (2012) No. 164.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Changes in the consolidation scope

A new subsidiary, East China Trading, had been newly set up and was included for consolidation by the Group in 2012, refer to Note IV. 3 (1).

Due to the disposal of a portion of the equity investment in San Feng Jingjiang Logistics Co., Ltd. ("San Feng Logistics"), the Group lost control of the subsidiary which had ceased to be consolidated since the date of losing control, refer to Note IV.3 (2).

3 Enterprises that are newly consolidated and those that had ceased to be consolidated during the year

(1) Subsidiaries that are newly consolidated during the year

Name	*Note*	Judgment of control	Net assets at 31 Dec 2012	Net profit of 2012
East China Trading	IV(2)	100% voting rights	52,469	2,469*

* Net profits for the year ended 31 December 2012 was the net profits for the period from the date the subsidiary was set up to 31 December 2012.

(2) Subsidiaries that had ceased to be consolidated during the year

		Carrying amounts at disposal date			31 December 2011			Period from 1 January 2012 to disposal date		
Name	*Note*	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity	Operating income	Operating costs and expense	Net profit
San Feng Logistics	IV.2	1,370,054	1,069,976	300,078	880,922	580,907	300,015	**378,431**	**378,368**	**63**

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Enterprises that are newly consolidated and those that had ceased to be consolidated during the year *(Continued)*

(2) *Subsidiaries that had ceased to be consolidated during the year* (Continued)

Details of San Feng Logistics that had ceased to be consolidated during the year:

Name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing amount of other items that in substance from net investment in the subsidiary	Organization code
San Feng Jingjiang Logistics Co., Ltd	Company Limited	Jingjiang, Jiangsu Province	Li Rensheng	Logistics	300,000	Goods-loading, lighterage, storage, traffic agent, stowage, common carrier	300,000	—	55025866-3

4 Loss of control of subsidiaries through disposal of interests

Subsidiary	Disposal date	Recognition method of gains and losses
San Feng Logistics	26 December 2012	The difference between the total amount of consideration received from the transaction and the fair value of the remaining equity investment and the carrying amounts of net assets in the former subsidiary immediately before the loss of the control is recognised as investment income for the current period in the Group's consolidated financial statement.

In December 2012, the Company, with the approval of the relevant authorities, disposed of 41% equity interest in San Feng Logistics to Chongqing Shipping Group and Chongqing Energy Group. On 26 December 2012, the Company received all the consideration and completed the transfer of equity interest.

Upon completion of the disposal, the equity interest in San Feng Logistics held by the Company decreased from 51% to10%. The Company will have significant influence over San Feng Logistics instead of being a controlling shareholder.

The fair value of the remaining 10% equity investment the Company held at the date when control is lost was RMB 104,739,000. The resulting gain arising from the fair value remeasurement was RMB 74,731,000.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

Item	2012 Original currency	2012 Exchange rate	2012 RMB/RMB equivalents	2011 Original currency	2011 Exchange rate	2011 RMB/RMB equivalents
Cash on hand						
RMB	—	—	693	—	—	696
Deposits with banks						
RMB	—	—	2,435,151	—	—	1,295,629
US Dollars	152,470	6.2855	958,350	15	6.3009	94
HK Dollars	70	0.8108	57	67	0.8107	54
Sub-total			3,393,558			1,295,777
Other monetary funds						
RMB	—	—	406,427	—	—	1,028,578
US Dollars	38	6.2855	239	38	6.3009	239
Sub-total			406,666			1,028,817
Total			3,800,917			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	2012 Original currency	2012 Exchange rate	2012 RMB/RMB equivalents	2011 Original currency	2011 Exchange rate	2011 RMB/RMB equivalents
Restricted						
— Guarantees for letter of credit:						
RMB	**—**	**—**	**406,114**	—	—	1,023,628
US Dollars	**38**	**6.2855**	**239**	38	6.3009	239
Sub-total			**406,353**			1,023,867
Unrestricted						
— Cash in transit						
RMB	**—**	**—**	**313**	—	—	4,950
Total			**406,666**			1,028,817

2 Bills receivable

(1) At year end, all bills receivable 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.7 (1).

(3) As at 31 December 2012, no bank acceptance receivable pledged as security by the Group (2011: RMB 123,563,000, these bills receivable were due before 14 June 2012).

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable

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

Type	Note	2012	2011
Third party		**777,385**	488,853
Related party	VI.7(2)	**436,231**	372,978
Sub-total		**1,213,616**	861,831
Less: Provision for bad and doubtful debts		**156,437**	164,466
Total		**1,057,179**	697,365

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

	2012		2011	
Debtor	Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Parent Group	**9,750**	**—**	18,793	—

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

Ageing	2012	2011
Within 1 year (inclusive)	**833,714**	697,726
Over 1 year but within 2 years (inclusive)	**222,618**	5,000
Over 2 year but within 3 years (inclusive)	**3,571**	1,758
Over 3 years	**153,713**	157,347
Sub-total	**1,213,616**	861,831
Less: Provisions for bad and doubtful debt	**156,437**	164,466
Total	**1,057,179**	697,365

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

(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:*

		2012				2011			
		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 significant and assessed individually for impairment		—	—	—	—	—	—	—	—
Individually insignificant but assessed individually for impairment	(5)	**2,756**	**0%**	**2,756**	**2%**	10,358	1%	10,358	6%
Collectively assessed for impairment (*)									
Group 1	(6)	**777,385**	**64%**	**153,681**	**98%**	488,853	57%	154,108	94%
Group 2		**433,475**	**36%**	—	—	362,620	42%	—	—
Sub-total		**1,210,860**	**100%**	**153,681**	**98%**	851,473	99%	154,108	94%
Total		**1,213,616**	**100%**	**156,437**	**100%**	861,831	100%	164,466	100%

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

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

(5) *Provision for 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 of provision
Accounts receivable due from related parties	2,756	2,756	100%

As at 31 December 2012, the Group's amounts due from related parties with ageing over 3 years mainly include the amount of RMB 2,756,000 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 RMB 2,756,000 was therefore made for the debts.

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

	2012 Carrying amount			2011 Carrying amount		
Ageing	Amount	Percentage *(%)*	Provision for bad and doubtful debts	Amount	Percentage *(%)*	Provision for bad and doubtful debts
Within 3 months	**550,470**	**71%**	**—**	231,421	48%	—
4 to 12 months	**72,260**	**9%**	**3,613**	105,028	21%	5,251
Sub-total	**622,730**	**80%**	**3,613**	336,449	69%	5,251
1 and 2 years (inclusive)	**3,924**	**1%**	**981**	3,880	1%	970
2 and 3 years (inclusive)	**3,289**	**0%**	**1,645**	1,275	0%	638
Over 3 years	**147,442**	**19%**	**147,442**	147,249	30%	147,249
Total	**777,385**	**100%**	**153,681**	488,853	100%	154,108

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

3 Accounts receivable *(Continued)*

(7) Reversal or recovery of provision for bad and doubtful debts during the year

Accounts receivable for which a full provision or a significant provision was made in the previous periods that are recovered or reversed partly or in full amount during the year are as follows:

Accounts receivable	Reason for reversal or recovery	Reason for original provision	Accumulated provision for bad and doubtful debts before reversal or recovery	Amount reversed or recovered
Accounts receivable due from third parties	Account received	Full provision was made due to the overdue based on ageing analysis method	290	290

(8) Accounts receivable written off during the year

Debtor	Nature of accounts receivable	Written-off amount	Reason for write-off	Accounts receivable resulted from related party transactions (Y/N)
Chongqing Iron & Steel Group Thermal Ceramics Company Limited	Sale of goods	7,648	The debtor is bankrupt and accounts is unrecoverable	Y
Others	Constructing and service fee	137	Unrecoverable	N
Total		7,785		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

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

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable *(%)*
1. Shanghai Chonggang Trade Co., Ltd	Third party	350,853	within 1 year	29%
2. Chongqing Si Gang Steel Co., Ltd	Related party	156,285	within 2 years	13%
3. Chongqing San Gang Steel Co., Ltd	Related party	95,133	within 2 years	8%
4. San Feng Logistics	Related party	88,500	within 1 year	7%
5. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,571	within 2 years	6%
Total		761,342		63%

4 Prepayment

(1) *The prepayments by category:*

Item	2012	2011
Material prepayments	**879,459**	527,053
Prepayments for construction and equipment	**1,364**	—
Prepaid land auction fee	**—**	124,198
Total	**880,823**	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:

Ageing	**2012** Amount	**2012** Percentage (%)	2011 Amount	2011 Percentage (%)
Within 1 year (inclusive)	**867,067**	**99%**	589,948	90%
Over 1 but within 2 years (inclusive)	**2,271**	**0%**	17,621	3%
Over 2 but within 3 years (inclusive)	**11,008**	**1%**	30,498	5%
Over 3 years	**477**	**0%**	13,184	2%
Total	**880,823**	**100%**	651,251	100%

The ageing is counted starting from the date prepayments is recognised. Payments aged over one year are the amount of prepayment reclassified from long-term prepayment for raw materials (Note V.15).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment *(Continued)*

(4) Prepayment due from the top five debtors:

Debtor	Relationship with the Company	Amount	Percentage of total prepayment *(%)*	Date of prepayment	Reason for unsettlement
1. China Shipping Logistics Co., Ltd	Third party	361,903	41%	2012	Goods not arrived
2. Jiangyin hengchi metal materials Co., Ltd	Third party	184,196	21%	2012	Goods not arrived
3. Jiangsu He Ao International Trade Co., Ltd	Third party	62,590	7%	2012	Goods not arrived
4. Chongqing Tong Hui Coal Washing Co., Ltd	Third party	45,695	5%	2012	Goods not arrived
5. Guangzhou Fushi Mineral Development Co., Ltd	Third party	31,690	4%	2012	Goods not arrived
Total		686,074	78%		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables

(1) Other receivables by customer type:

Customer type	*Note*	2012	2011
The third parties		**116,254**	145,362
Related parties	VI.7(3)	**1,703,385**	135,604
Sub-total		**1,819,639**	280,966
Less: Provision for bad and doubtful debts		**16,958**	16,958
Total		**1,802,681**	264,008

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

	2012		2011	
Debtor	Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Patent Group	**1,703,385**	**—**	135,604	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables *(Continued)*

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

Ageing	2012	2011
Within 1 year (inclusive)	**1,779,852**	252,291
Over 1 but within 2 years (inclusive)	**13,625**	4,085
Over 2 but within 3 years (inclusive)	**2,242**	2,998
Over 3 years	**23,920**	21,592
Sub-total	**1,819,639**	280,966
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,802,681**	264,008

The ageing is counted starting from the date when other receivables are recognised.

(4) *Other receivables by category:*

	2012				2011			
	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	**1,770,615**	**97%**	**15,827**	**93%**	220,486	78%	16,958	100%
Individually insignificant but assessed individually for impairment	**49,024**	**3%**	**1,131**	**7%**	60,480	22%	—	—
Total	**1,819,639**	**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.*

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

5 Other receivables *(Continued)*

(6) *Other receivables due from the top five debtors*

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivables *(%)*
1. Parent Group	Related party	1,703,385	Within 1 year	94%
2. Chongqing Customs	Third party	41,637	Within 1 year	2%
3. Zhanjiang Economic Development Zone Chongqing Iron & Steel Company Zhanjiang Industrial & Trading Joint Group Company *	Third party	10,240	Over 3 years	1%
4. CECIC Chongqing Industry Co., Ltd	Third party	9,766	Within 1 years	0%
5. People's Court of the Neijiang City in Sichuan Province	Third party	5,587	Over 3 years	0%
Total		1,770,615		97%

* These amounts have been fully provided for.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories

(1) Inventories by category:

Item	2012 Book value	2012 Provision	2012 Carrying amount	2011 Book value	2011 Provision	2011 Carrying amount
Raw materials	**5,628,130**	**252,072**	**5,376,058**	4,717,368	587,586	4,129,782
Work in progress	**1,029,818**	**91,620**	**938,198**	1,308,843	167,771	1,141,072
Finished goods	**344,336**	**14,328**	**330,008**	770,833	144,780	626,053
Consumables	**575,186**	**22,768**	**552,418**	781,348	75,037	706,311
Total	**7,577,470**	**380,788**	**7,196,682**	7,578,392	975,174	6,603,218

No capitalized borrowing costs were included in the Group's closing balance of inventories (2011: Nil).

At the year end, no inventory was pledged as security by the Group (2011: Nil).

(2) An analysis of the movements of inventories for the year is as follows:

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	4,717,368	15,932,330	15,021,568	5,628,130
Work in progress	1,308,843	25,534,345	25,813,370	1,029,818
Finished goods	770,833	18,031,233	18,457,730	344,336
Consumables	781,348	763,441	969,603	575,186
Sub-total	7,578,392	60,261,349	60,262,271	7,577,470
Less: Provision for diminution in value of inventories	975,174	379,987	974,373	380,788
Total	6,603,218	59,881,362	59,287,898	7,196,682

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories *(Continued)*

(3) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Provision made for the year	Written back during the year		Balance at the end of the year
			Reversal	Write-off	
Raw materials	587,586	252,072	—	587,586	252,072
Work in progress	167,771	91,620	—	167,771	91,620
Finished goods	144,780	14,328	—	144,780	14,328
Consumables	75,037	21,967	—	74,236	22,768
Total	975,174	379,987	—	974,373	380,788

As at 31 December 2012, according to the holding purpose, the 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 by the Group.

The written down provision in 2012 is 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	2012	2011
Deductible input VAT	**458,950**	412,582
Prepaid corporate income tax	**—**	2,555
Others	**14,235**	—
Total	**473,185**	415,137

8 Long-term equity investments

(1) Long-term equity investments by category:

Item	2012	2011
Investments in associates	**104,739**	—
Other long-term equity investments	**5,500**	5,500
Sub-total	**110,239**	5,500
Less: Provision for impairment	**500**	500
Total	**109,739**	5,000

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

8 Long-term equity investments *(Continued)*

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

Investee	Investment cost	Balance at the beginning of the year	Increase/ decrease	Balance at the end of the year	Share-holding percentage	Voting rights percentage	Provision for impairment	Provision made during the year	Cash dividend for the year
						(%)			
Equity method									
San Feng Logistics	30,000	—	104,739	104,739	10%	10%	—	—	—
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	—	—
Subtotal	5,500	5,500	—	5,500			500	—	—
Total	35,500	5,500	104,739	110,239			500	—	—

According to the financial position of Chongqing Ying Kang Company, the Group made full provision for the investment in 2006.

(3) Details of major associates

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total operating income for the year	Net profit for the year
San Feng Logistics	1,370,054	1,069,976	300,078	378,431	63

The Company's significant influence was established as a result of 10% voting rights and are representative on the Board of Directors which means the Company participates in decision-making, and making operating policies substantively.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets

(1) Fixed assets

Item	Plant & buildings	Machinery & equipment	Motor vehicles	Total
Cost				
Balance at the beginning of the year	2,310,994	5,387,891	117,157	7,816,042
Additions during the year	—	—	1,550	1,550
Transfer from construction in progress	385,294	917,727	1,528	1,304,549
Disposal during the year	6,980	6,667	15,442	29,089
Balance at the end of the year	2,689,308	6,298,951	104,793	9,093,052
Accumulated depreciation				
Balance at the beginning of the year	87,032	312,387	68,384	467,803
Charge for the year	61,822	289,197	9,992	361,011
Written off during the year	2,688	4,343	13,360	20,391
Balance at the end of the year	146,166	597,241	65,016	808,423
Provision for impairment				
Balance at the beginning of the year	—	286	3,109	3,395
Charge for the year	—	—	—	—
Written off on disposal	—	—	1,059	1,059
Balance at the end of the year	—	286	2,050	2,336
Carrying amounts				
At the end of the year	2,543,142	5,701,424	37,727	8,282,293
At the beginning of the year	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)*

(2) Fixed assets acquired under finance leases

	2012				2011			
Item	Cost	Accumulated depreciation	Provision for impairment	Net book value	Cost	Accumulated depreciation	Provision for impairment	Net book value
Machinery and equipment:								
— Sale leaseback	**3,100,827**	**602,009**	**—**	**2,498,818**	3,100,827	451,619	—	2,649,208
— Direct lease	**931,000**	**34,471**	**—**	**896,529**	440,000	—	—	440,000
Total	**4,031,827**	**636,480**	**—**	**3,395,347**	3,540,827	451,619	—	3,089,208

(3) Fixed assets with pending certificates of ownership

As at 31 December 2012, the Group was in the process of obtaining ownership certificates of certain plants and buildings with cost of RMB 848,556,000 and carrying amount of RMB 816,101,000 (2011: cost of RMB 741,245,000 and carrying amount of RMB 727,587,000).

(4) Fixed assets leased out under operating leases

Item	2012	2011
Plant and buildings	**1,782**	—

(5) Plant and buildings used as mortgage for bank loans by the Group as at 31 December 2012, refer to Note V.17.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress

(1) Construction in progress

Project	2012 Book value	2012 Provision for impairment	2012 Carrying amount	2011 Book value	2011 Provision for impairment	2011 Carrying amount
Sintering project	**—**	**—**	**—**	533,668	—	533,668
Coke oven project	**781,964**	**—**	**781,964**	797,860	—	797,860
Product restructuring project	**2,616,262**	**—**	**2,616,262**	827,828	—	827,828
Recycle heat power station	**265,973**	**—**	**265,973**	85,677	—	85,677
Jingjiang Base	**—**	**—**	**—**	499,921	—	499,921
Jiangjin Base	**—**	**—**	**—**	389,357	—	389,357
Limestone transportation system	**63,560**	**—**	**63,560**	48,660	—	48,660
Dabaopo project	**32,353**	**—**	**32,353**	25,634	—	25,634
Jingxing mine project	**27,954**	**—**	**27,954**	17,775	—	17,775
Equipment upgrade project	**403,483**	**—**	**403,483**	20,668	—	20,668
Others	**45,236**	**—**	**45,236**	5,855	—	5,855
Total	**4,236,785**	**—**	**4,236,785**	3,252,903	—	3,252,903

The book value of construction in progress at the end of year included capitalised borrowing costs of RMB 184,911,000 (2011: RMB 88,079,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(Continued)*

(2) The Group's major constructions in progress as at 31 December 2012

Project	Note	Budget	Balance at the beginning of the year	Additions during the year	Transfer to fixed assets	Transfer to others	Balance at the end of the year	Percentage of actual cost to budget	Project progress	Accumulated capitalised interest	Including: interest capitalised in 2012	Interest rate for capitalisation in 2012	Sources of funds
Sintering project		461,870	533,668	202,658	736,326	—	—	159%	100%	18,831	1,298	7.71%	Bank loans/ self-financing
Coke oven project		1,098,546	797,860	549,574	565,470	—	781,964	123%	100%	68,754	39,425	5.21%~11.45%	Bank loans/ self-financing
Product restructuring project		2,920,000	827,828	1,788,434	—	—	2,616,262	90%	88%	128,493	87,276	5.78%~11.45%	Bank loans/ self-financing
Recycle heat power station		375,000	85,677	180,296	—	—	265,973	71%	71%	9,242	9,242	6.03%	Bank loans/ self-financing
Jingjiang Base	(a)	1,300,000	499,921	416,222	—	916,143	—	—	—	—	—	—	Bank loans/ self-financing
Jiangjin Base	(b)	1,046,000	389,357	7,525	—	396,882	—	—	—	—	—	—	Bank loans/ self-financing
Limestone transportation system		61,180	48,660	14,900	—	—	63,560	104%	100%	5,920	5,920	6.03%	Bank loans/ self-financing
Dabaopo project		10,200	25,634	6,719	—	—	32,353	317%	100%	—	—	—	Bank loans/ self-financing
Jingxing mine project		76,740	17,775	10,179	—	—	27,954	36%	36%	—	—	—	Bank loans/ self-financing
Equipment upgrade project		428,705	20,668	390,190	—	7,375	403,483	96%	96%	6,695	6,695	6.03%	Bank loans/ self-financing
Others		—	5,855	42,134	2,753	—	45,236	—	—	—	—	—	
Total		7,778,241	3,252,903	3,608,831	1,304,549	1,320,400	4,236,785			237,935	149,856		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(Continued)*

(2) The Group's major constructions in progress as at 31 December 2012 (Continued)

(a) The Company lost control of San Feng Logistics, which had ceased to be consolidated as at 31 December 2012. As a result, the related construction in progress decreased.

(b) In 2011, the renovated and utilized fixed assets have been transferred to construction in progress and construction materials at the suspended carrying amount, among which machines and equipment with carrying amount of RMB 357,659,000 were considered usable for Jiangjin Base and transferred in to construction in progress. In 2012, the Company changed its investment plan and decided to terminate the construction of the Jiangjin Base and therefore transferred the assets mentioned above to fixed assets to be disposed of (Note V.12). Meanwhile, the Company transferred construction in progress expenses of RMB 39,223,000 which were not within the scope of compensation by the Parent Group to non-operating expenses.

(3) Progress of major construction projects

Project	Progress	Note
Coke oven project	100%	Equipment installation completed, under trial operation
Product restructuring project	88%	Equipment installation completed, under trial operation
Recycle heat power station	71%	Equipment under installation
Limestone transportation system	100%	Equipment installation completed, under trial operation
Dabaopo project	100%	Equipment installation completed, under trial operation
Jingxing mine project	36%	Equipment under construction
Equipment upgrade project	96%	Equipment under installation

(4) Construction in progress under finance lease

Item	2012	2011
Machinery and equipment	**870,151**	309,811

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

11 Construction materials

(1) Construction materials

Item	Balance at the beginning of the year	Additions during the year	Decrease during the year	Balance at the end of the year
Construction materials for large equipment	1,024,109	460,366	657,602	826,873
Construction materials for special equipment	512,969	22,818	171,678	364,109
Total	1,537,078	483,184	829,280	1,190,982

(2) Construction materials under financial leases

Item	**2012**	2011
Machinery and equipment	**801,550**	1,014,289

12 Fixed assets to be disposed of

Item	**2012**	2011	Reason for disposal
Plant and buildings	**143,502**	1,021,148	Environmental relocation
Machinery and equipment	**177,230**	1,005,246	Environmental relocation
Motor vehicles	**—**	206	Environmental relocation
Total	**320,732**	2,026,600	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

12 Fixed assets to be disposed of *(Continued)*

As mentioned in Note I, the Parent Group has promised to compensate the Company for the losses of fixed assets arising from the environmental relocation based on the net book value at the time the fixed assets were suspended from production less the proceeds on disposal. As at 31 December 2012, all the fixed assets suspended to be disposed of were within the scope of compensation by the Parent Group, the Company did not therefore make provision for these fixed assets suspended to be disposed of.

(1) Fixed assets transferred to "Fixed assets to be disposed of" due to environmental relocation during the year

In 2011, the Company transferred certain fixed assets which could be modified and re-utilised from Da Du Kou District to Changshou New Zone. Such fixed assets were transferred to construction in progress and construction materials at their net book values at their time of suspension from production. In 2012, the Company changed its investment plan, certain of these machineries and equipment would no longer undergo modification and would be disposed of. As a result, the Company transferred construction in progress and construction materials with carrying amount of RMB 357,659,000 (Note V.10 (2)) and RMB 150,043,000 respectively to "Fixed assets to be disposed of" (2011: Fixed assets with carrying amount of RMB 2,344,462,000 were transferred to "Fixed assets to be disposed").

(2) Fixed assets disposed of during the year due to relocation is as follows:

Item	2012	2011
Disposal income	**341,342**	225,726
Less: disposal cost	**165,624**	43,468
Net proceeds on disposal	**175,718**	182,258
Less: book value of the disposed assets	**2,216,544**	317,862
Net loss	**(2,040,826)**	(135,604)

The Parent Group has agreed to compensate the Company for the losses of fixed assets arising from the environmental relocation based on the net book value at the time the fixed assets were suspended less proceeds on disposal. As at 31 December 2012, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 2,176,430,000 (Note VI.7 (3) (a)) (2011: RMB 135,604,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

13 Intangible assets

Item	Land use rights	Trademark	Total
Book value			
Balance at the beginning of the year	430,690	6,478	437,168
Additions during the year	133,987	—	133,987
Reductions during the year	180,494	—	180,494
Balance at the end of the year	384,183	6,478	390,661
Accumulated amortisation			
Balance at the beginning of the year	28,393	6,478	34,871
Additions during the year	11,556	—	11,556
Reductions during the year	6,555	—	6,555
Balance at the end of the year	33,394	6,478	39,872
Net book value			
Balance at the end of the year	350,789	—	350,789
Balance at the beginning of the year	402,297	—	402,297

The trademark was invested by the Parent Group during the restructuring of the Company. The initial amount was determined based on the appraisal value issued by the independent valuer, Zhongzi Assets Assessment Co., Ltd. which has been certified by the State-owned Assets Administration Department at the time of the restructuring of the Company.

As at 31 December 2012, the Company was in the process of obtaining ownership certificates of certain land use rights with carrying amount of RMB 94,461,000 (2011: RMB 94,461,000).

The land use right used as mortgage for bank loans by the Group as at 31 December 2012, 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 and deferred tax liabilities

(1) Deferred tax assets or liabilities after offsetting and the corresponding deductible or taxable temporary differences

	2012		2011	
Item	**Deductible or taxable temporary differences ("( )" for taxable temporary difference)**	**Deferred tax assets/ liabilities ("( )" for liabilities)**	Deductible or taxable temporary differences ("( )" for taxable temporary difference)	Deferred tax assets/ liabilities ("( )" for liabilities)
Deferred tax assets:				
Provision for impairment against assets	**5,175**	**776**	6,722	1,008
Deductible tax losses	**515,129**	**77,269**	572,301	85,845
Sub-total	**520,304**	**78,045**	579,023	86,853
Amount of offsetting	**—**	**(60,153)**	—	(63,325)
Balance after offsetting	**—**	**17,892**	—	23,528
Deferred tax liabilities:				
Capitalized realised gain or loss arising from try run	**(401,020)**	**(60,153)**	(422,168)	(63,325)
Sub-total	**(401,020)**	**(60,153)**	(422,168)	(63,325)
Amount of offsetting	**—**	**60,153**	—	63,325
Balance after offsetting	**—**	**—**	—	—

As at 31 December 2012, taking into account of the expected recovery or settlement of the deferred tax assets, the Company computed the book value of the deferred tax assets by adopting the applicable tax rate in respect of calculating the repossessing of the assets in the future.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets and deferred tax liabilities *(Continued)*

(2) Deductible temporary differences of unrecognised deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Details of unrecognised deferred tax assets at the end of the year are as follows:

Item	2012	2011
Deductible temporary differences	**769,776**	1,176,147
Deductible tax losses	**1,402,086**	981,388
Total	**2,171,862**	2,157,535

The carrying amount of deferred tax asset is reviewed at each balance sheet date. As at 31 December 2012, the Group recognised deferred tax assets to the extent that it was probable that future taxable profits would be available against which deductible temporary differences can be utilised, and reduced part of the carrying amount of deferred tax asset recognised in the previous year, consider it is no longer probable that sufficient taxable profit in the future would be available to allow all the benefit of deferred tax asset to be utilized.

(3) Expiration of deductible tax losses for unrecognised deferred tax assets

Year	2012	2011
2014	**456,611**	456,611
2015	**150,133**	—
2016	**761,225**	524,777
2017	**34,117**	—
Total	**1,402,086**	981,388

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets and deferred tax liabilities *(Continued)*

(4) Unrecognised deferred tax liabilities

When the Group lost control of a subsidiary due to the disposal of a portion of an equity investment, the remaining equity investment is remeasured at its fair value at the date when control is lost. The management considers the temporary differences caused by remeasurement would probably not be reversed in the foreseeable future as the Group controls the time of disposal of the remaining equity investment. Therefore the Group did not recognise the deferred tax liabilities of the gain caused by the remeasurement of fair value mentioned above.

15 Other non-current assets

Item	2012	2011
Prepayments for purchase of raw materials	**21,150**	21,150
Prepaid land use right premiums	**522,089**	—
Guarantee monies for finance lease	**63,350**	63,350
Total	**606,589**	84,500

Prepayments for the purchase of raw materials will be settled between 2009 and 2015. Prepaid land use right premiums represents the cost of four pieces of industrial lands and related expenses paid to the the Bureau of Land Resources of Changshou District, Chongqing. Guarantee monies for finance lease will be refunded from the lessor when the finance lease ends.

No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of other non-current assets.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

16 Provisions for impairment

Item	*Note*	Balance at the beginning of the year	Charge for the year	Decrease during the year		Balance at the end of the year
				Reversal	Write-off	
Accounts receivable	V.3	164,466	46	290	7,785	156,437
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	975,174	379,987	—	974,373	380,788
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.9	3,395	—	—	1,059	2,336
Total		1,160,493	380,033	290	983,217	557,019

The reasons for the recognition of impairment losses are set out in the notes of respective assets.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

17 Restricted assets

As at 31 December 2012, the assets with restrictions placed on their ownership were as follows:

Item	*Note*	Balance at the beginning of the year	Additions during the year	Decrease during the year	Balance at the end of the year
Assets pledged as collateral					
Cash at bank and on hand	V.1	1,023,867	1,309,131	1,926,645	406,353
Bills receivable — pledged bank acceptance	V.2	123,563	—	123,563	—
Assets secured as mortgage					
Plant and building	V.9(5)	—	48,833	—	48,833
Land use rights	V.13	76,247	230,214	76,247	230,214
Finance leases					
Fixed assets	V.9(2)	3,089,208	491,000	184,861	3,395,347
Construction in progress	V.10(4)	309,811	738,734	178,394	870,151
Construction materials	V.11(2)	1,014,289	260,501	473,240	801,550
Total		5,636,985	3,078,413	2,962,950	5,752,448

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

18 Short-term loans

Item	2012	2011
Loans with pledge	**56,586**	780,543
Loans with mortgage	**286,000**	58,000
Loans with guarantee	**5,027,630**	2,929,646
Loans on credit	**250,000**	280,000
Total	**5,620,216**	4,048,189

Loans with guarantee are guaranteed by the Parent Group solely (Note VI.6 (3)) or jointly guaranteed by the Parent Group and Chongqing Yu Fu Assets Management Group Co., Ltd.

The pledges for the loans with pledge are the security deposits provided by the Group (Notes V.1).

The mortgages for the loans with mortgage are the plants of the Group (Notes V.9 (5)).

19 Financial liabilities held for trading

Item	*Note*	2012	2011
Foreign currency derivatives		**—**	18,344
Interest rate derivatives	(1)	**1,556**	5,369
Total		**1,556**	23,713

(1) As at 31 December 2012, the interest rate derivative of the Group is a US dollar interest rate swap agreement signed between the Company and the Hong Kong and Shanghai Banking Corporation Limited ("HSBC") on 29 September 2010, which is based on the loan agreement, with a nominal principal amount of USD 43,785,000 and expired on 30 August 2013. The Company agreed to pay fixed interest rate of 4.12% and receive floating interest rate of 3-month LIBOR + 3%.

20 Bills payable

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

21 Accounts payable

(1) Accounts payable by category:

Item	2012	2011
Raw material accounts payable	**4,182,812**	2,444,965
Accounts payable for construction and equipment	**3,303,367**	2,363,967
Total	**7,486,179**	4,808,932

(2) No amount due to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable. Accounts payable due to related party see Note VI.7 (4).

(3) Ageing analysis of accounts payable:

	2012		2011	
	Amount	**Percentage**	Amount	Percentage
Within 1 year (inclusive)	**6,816,241**	**91%**	4,524,861	94%
Over 1 year but within 2 years (inclusive)	**444,743**	**6%**	223,225	5%
Over 2 years but within 3 years (inclusive)	**170,615**	**2%**	15,450	0%
Over 3 years	**54,580**	**1%**	45,396	1%
Total	**7,486,179**	**100%**	4,808,932	100%

The ageing is counted starting from the date accounts payable is recognised.

As at 31 December 2012, payables aged over 3 years mainly represented payables for construction equipment and other procurement payables. Construction payables mainly represent project quality deposit. Other procurement payables have not yet settled because of the quality problem of the supplied goods. As at the date of approval of these financial statements, the above payables remained unsettled.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

22 Advances from customers

(1) Advances are payments prepaid by customers of the Company. As at 31 December 2012. Advances from customers due over one year are the long-term payment on goods received in advance and to be realised within one year (Note V.32).

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of advances from customers.

23 Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
I. Salaries, bonus, allowances	21,240	587,795	605,033	4,002
II. Staff welfare fees	10,093	57,029	52,707	14,415
III. Social insurances				
Including:				
1. Medical insurance premium	—	86,698	86,698	—
2. Pension insurance premium	130,156	162,312	171,531	120,937
3. Unemployment insurance premium	472	11,242	10,165	1,549
4. Work injury insurance premium	—	4,956	4,956	—
5. Maternity insurance premium	—	4,399	4,399	—
IV. Housing fund	—	63,213	63,213	—
V. Termination benefits (including early retirement cost)*	16,402	12,597	14,447	14,552
VI. Others	4,066	20,770	22,387	2,449
Including: union fund and employee education fund	4,066	13,540	15,158	2,448
Total	182,429	1,011,011	1,035,536	157,904

* As at 31 December 2012, no termination benefits stated above include the compensation payment for the termination of certain labor contract relationship.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

24 Taxes payable

Item	2012	2011
Value added tax	**714**	702
Business tax	**2,181**	778
Corporate income tax	**181**	909
Urban maintenance and construction tax	**170**	111
Others	**2,372**	6,478
Total	**5,618**	8,978

25 Interests payable

Item	2012	2011
Interest payable for long-term loans with interest paid in installments and principal repaid on maturity	**11,840**	26,400
Interest payable for debentures	**10,333**	10,333
Total	**22,173**	36,733

26 Other payables

(1) Other payables by category:

Item	*Note*	2012	2011
Payables to third party		**118,450**	175,847
Payables to related parties	VI.7 (5)	**590,190**	244,899
Total		**708,640**	420,746

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

26 Other payables *(Continued)*

(2) The amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of other payables:

Name of enterprises	2012	2011
Parent Group	**224,498**	51,900

(3) As at 31 December, no significant other payable of the Group is ageing of more than one year.

27 Non-current liabilities due within one year

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

Item	*Note*	2012	2011
Long-term loans due within one year	(2)	**1,591,933**	3,343,175
Long-term payables due within one year	(3)	**2,270,741**	1,418,968
Total		**3,862,674**	4,762,143

(2) Long-term loans due within one year

Item	2012	2011
Guaranteed loans	**1,506,933**	2,917,962
Credit loans	**85,000**	425,213
Total	**1,591,933**	3,343,175

Loans with guarantee are guaranteed by the Parent Group solely (Note VI.6 (3)) or jointly guaranteed by the Parent Group and Chongqing Yu Fu Assets Management Group Co., Ltd.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

27 Non-current liabilities due within one year *(Continued)*

(2) Long-term loans due within one year (Continued)

As at 31 December 2012, the five largest long-term loans due within one year:

Lender	Inception date	Maturity date	Currency	Interest rate (%)	2012 Original currency	2012 RMB equivalent	2011 Original currency	2011 RMB equivalent
1. HSBC Bank Consortium	2010-09-17	2013-09-02	RMB	6.15%~ 6.65%	**–**	**349,944**	–	349,944
2. HSBC Bank Consortium	2010-09-17	2013-09-02	USD	1 month LIBOR+ 3.00%	**43,050**	**270,591**	43,050	271,254
3. Agriculture Bank of China	2010-11-26	2013-11-25	RMB	6.15%~ 6.65%	**–**	**196,000**	–	196,000
4. Industrial Bank Co. Ltd	2010-10-11	2013-10-10	RMB	6.15%~ 6.65%	**–**	**98,000**	–	98,000
5. Bank of Communications	2011-04-28	2013-01-11	RMB	6.15%~ 6.65%	**–**	**93,100**	–	93,100
Total						**1,007,635**		1,008,298

(3) Long-term payables due within one year

As at 31 December 2012, long-term payables due within one year included net obligations under finance leases of RMB 2,270,741,000 (gross amount of RMB 2,455,475,000 net of unrecognised finance charges of RMB 184,734,000). As at 31 December 2011, long-term payables due within one year included net obligations under finance leases of RMB 1,418,968,000 (gross amount of RMB 1,495,580,000 net of unrecognised finance charges of RMB 76,612,000).

As at 31 December 2012, the amounts of long-term payables due within one year which were guaranteed by the Parent Group solely (Note VI 6 (3)) or jointly guaranteed by the Parent Group and Chongqing Yu Fu Assets Management Group Co., Ltd were RMB 1,392,303,000 and RMB 286,063,000 respectively.

As at December 2012, the Group reclassified an amount of RMB 323,239,000 to non-current liabilities due within one year because the amount did not satisfy certain financial covenants as stipulated in the relevant agreements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

28 Other current liability

Item	2012	2011
Deferred income — government allowance	**922**	893
Deferred income — unrealised income of sale and leaseback transactions	**6,790**	6,790
Total	**7,712**	7,683

Other current liabilities are the deferred income expected to be realised in one year, see Note V.32.

29 Long-term loans

(1) Long-term loans by category

Item	2012	2011
Loan with guarantee	**784,408**	956,600
Loan on credit	**15,000**	100,000
Total	**799,408**	1,056,600

Loan with guarantee were guaranteed by the Parent Group (Note VI.6 (3)).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

29 Long-term loans *(Continued)*

(2) As at 31 December 2012, the five largest long-term loans:

Lender	Inception date	Maturity date	Currency	Interest rate (%)	2012 Original currency	2012 RMB equivalent	2011 Original currency	2011 RMB equivalent
1. China Development Bank	2011-09-06	2014-08-21	USD	6 month LIBOR+3.20%	**50,000**	**314,275**	50,000	315,045
2. China Development Bank	2011-09-06	2014-04-10	USD	6 month LIBOR+3.20%	**16,000**	**100,568**	16,000	100,814
3. China Development Bank	2012-11-29	2015-11-29	USD	3 month LIBOR+4.60%	**15,000**	**94,283**	—	—
4. Industrial Bank Co. Ltd	2011-11-30	2014-11-29	RMB	6.77%~7.32%	**—**	**50,000**	—	50,000
5. Agriculture Bank of China	2011-02-25	2014-02-24	RMB	6.15%~6.65%	**—**	**47,500**	—	50,000
Total						**606,626**		518,859

30 Debentures payable

Item	Balance at the beginning of the year	Additions during the year	Decreases during the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,966,848	4,769	—	1,971,617

The analysis of debentures payable is set out as follows:

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable at the beginning of the year	Interest accrued during the year	Interest paid during the year	Interests payable at the end of the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 December 2010	7 year	2,000,000	10,333	124,000	124,000	10,333	1,971,617

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payables

Item	Note	2012	2011
Obligations under finance leases	(2)	**3,905,766**	4,673,864
Less: Obligations under finance leases due within a year		**2,270,741**	1,418,968
Total		**1,635,025**	3,254,896

(1) As at 31 December 2012, the five largest long-term payables are as follows:

	2012					
Lender	Amount	Unrecognised finance charge	Less: amounts within a year	Ending balance	Interest rate	Borrowing terms
Kun Lun Financial Leasing Co., Ltd	836,567	59,519	286,063	490,985	6.52%	Guarantee
Unismart International Leasing Co., Ltd	577,871	59,229	158,305	360,337	5.78%	
Unismart International Leasing Co., Ltd	494,311	46,007	135,967	312,337	5.21%	
Hua Rong Leasing Co., Ltd	523,085	81,039	170,923	271,123	11.45%	Guarantee
Min Sheng Financial Leasing	242,369	10,669	155,456	76,244	8.09%	
Total	2,674,203	256,463	906,714	1,511,026		

The long-term payables are amortised using effective interest rate.

As at 31 December 2012, the amounts of long-term payables which were guaranteed by the Parent Group solely (Note VI (3)) or jointly guaranteed by the Parent Group and Chongqing Yu Fu Assets Management Group Co., Ltd were RMB 322,509,000 and RMB 490,985,000 respectively.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payable *(Continued)*

(2) Details of obligations under finance leases included in long-term payables

The total future minimum lease payments under finance leases after 31 December 2012 are as follows:

Minimum lease payments	2012	2011
Within 1 year (inclusive)	**2,455,475**	1,495,580
Over 1 year but within 2 years (inclusive)	**915,175**	1,868,281
Over 2 year but within 3 years (inclusive)	**783,978**	1,157,858
Over 3 years	**172,158**	813,040
Sub-total	**4,326,786**	5,334,759
Less: Unrecognised finance charges	**421,020**	660,895
Total	**3,905,766**	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 to the shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of long-term payables.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

32 Other non-current liabilities

Item	*Note*	**2012**	2011
Other financial liabilities	(1)	**410,122**	410,242
Less: part expected to be realised in one year	V.22	**410,122**	310,242
Sub-total		**—**	100,000
Deferred income — government grants	(2)	**17,848**	40,575
Deferred income — unrealised income of sale and leaseback transactions	(3)	**116,614**	123,404
Less: expected to realised in one year	V.28	**7,712**	7,683
Sub-total		**126,750**	156,296
Total		**126,750**	256,296

(1) According to relevant agreements, the Company received an advance from customers totaling RMB 500,000,000 in 2009. Such amounts were settled on a monthly basis during the period from February 2009 to December 2013. The customer was entitled to a certain amount of discount in selling prices every month. Such long-term advance was recognised as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the interest rate in agreement. In 2012, the interest rate was 5.40% (2011: 5.40%); interest expense for financial liabilities has been recognised at RMB 18,951,000 (2011: RMB 23,062,000).

(2) Government grants

Item	**2012**	2011
Grants due to the construction of environmental protection equipment and facilities	**17,848**	17,182
Land allowance	**—**	23,393
Total	**17,848**	40,575

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

32 Other non-current liabilities *(Continued)*

(3) The Company entered into sale and leaseback finance leasing transactions with several financial leasing companies respectively (Note V.9(2)), and the difference between the selling prices and the book value of the assets is deferred, amounted to RMB 137,125,000 (2011: RMB 137,125,000). This difference is amortised in accordance with the depreciation progress of these assets under finance leasing, as an adjustment to the depreciation cost, and the amortization amounted to RMB 6,790,000 in 2012 (2011: RMB 8,126,000).

33 Share capital

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
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

34 Capital reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premiums	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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

35 Specific reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Specific reserve	1,560	29,204	29,149	1,615

The specific reserve is provided for production safety expenses and other similar expenses based on operating income arising from transportation service and metallurgy, construction and installation project costs. The year-end balance of this account represents unutilized safety production expenses and other similar expenses.

36 Surplus reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Statutory surplus reserve	605,633	1,358	—	606,991

37 Retained earnings

Item	*Note*	Amounts
Retained earnings at the beginning of the year		625,625
Add: net profits for the year attributable to shareholders of the Company		98,813
Less: statutory surplus reserve	(1)	1,358
Retained earnings at the end of the year		723,080

As at 31 December 2012, the Company's retained earnings amounted to RMB 723,080,000, which shall be shared on a pro-rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

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

37 Retained earnings *(Continued)*

(1) Appropriation to surplus reserves

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the board of directors, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital.

In 2012, the Company appropriated totalling RMB 1,358,000 net profit to statutory surplus reserve (2011: Nil).

The amount appropriated to discretionary surplus reverse is proposed by the board of directors and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. The Company did not appropriate any profit to the discretionary surplus reserve in 2012.

(2) Distribution of ordinary share dividends

During the board of directors meeting on 28 March 2013, the directors of the Company resolved to declare no dividend in respect of 2012 (2011: Nil).

(3) Retained earnings at the end of the year

The Company's surplus reserve attributable to the Company for the year is RMB 863,000 (2011: RMB 1,648,000).

As at 31 December 2012, the consolidated retained earnings attributable to the Company included an appropriation of RMB 2,940,000 to surplus reserve made by the subsidiaries (2011: RMB 2,077,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Operating income and operating costs

(1) Operating income and operating costs

Item	2012	2011
Operating income from principal activities	**18,356,326**	23,449,445
Other operating income	**102,450**	83,500
Operating income	**18,458,776**	23,532,945
Operating costs from principal activities	**18,343,877**	22,515,869
Other operating costs	**58,832**	55,793
Operating costs	**18,402,709**	22,571,662

(2) Principal activities (by industry)

	2012		2011	
Industry	**Operating income from principal activities**	**Operating costs from principal activities**	Operating income from principal activities	Operating costs from principal activities
Iron and steel	**18,275,271**	**18,276,544**	23,302,190	22,391,485
Electronic engineering design, construction and installation	**32,679**	**27,466**	95,352	81,419
Transportation	**48,376**	**39,867**	51,903	42,965
Total	**18,356,326**	**18,343,877**	23,449,445	22,515,869

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Operating income, operating costs *(Continued)*

(3) Principal activities (by product)

	2012		2011	
Product	**Operating income from principal activities**	**Operating cost from principal activities**	Operating income from principal activities	Operating cost from principal activities
Steel plates	**9,500,328**	**9,506,060**	7,764,550	7,451,510
Hot-rolled coil	**7,090,337**	**7,147,541**	8,168,129	8,213,454
Steel billets	**499,341**	**522,388**	1,058,460	1,021,259
Steel sections	**49,401**	**55,352**	3,145,078	2,890,959
Wire rods	**23,549**	**24,726**	1,573,575	1,419,557
Cool-rolled sheets	**257,021**	**301,526**	464,978	524,899
By-product	**855,294**	**718,951**	1,127,420	869,847
Others	**81,055**	**67,333**	147,255	124,384
Total	**18,356,326**	**18,343,877**	23,449,445	22,515,869

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

Name of customer	**Operating income**	**Percentage total operating income** *(%)*
1. Shanghai Chonggang Trade Co., Ltd	1,810,856	10%
2. Chongqing Wanda Steel Strip Co., Ltd	1,390,624	8%
3. Chong Qing Jiang Nan Metal Materials Co	1,196,053	6%
4. Jiang Su Yang Chuan Materials Co., Ltd	1,148,218	6%
5. Sichuan Tianhao Metallurgy Industry Co., Ltd	865,237	5%
Total	6,410,988	35%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

39 Business taxes and surcharges

Item	2012	2011
Business tax	**8,834**	10,545
City maintenance and construction tax	**1,996**	10,033
Education surcharge	**924**	4,384
Local education surcharge	**514**	2,143
Total	**12,268**	27,105

40 Selling and distribution expenses

Item	2012	2011
Labour cost	**20,275**	20,596
Transportation fee	**234,727**	226,066
Ship inspection fee	**113,815**	87,314
Others	**54,534**	38,473
Total	**423,351**	372,449

41 General and administrative expenses

Item	2012	2011
Labour cost	**177,101**	265,057
Repair fee	**324,804**	459,427
Assets usage fee	**30,022**	—
Others	**118,690**	99,804
Total	**650,617**	824,288

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

42 Financial expenses

Item	2012	2011
Interest expenses from loans and payables	**1,170,016**	992,295
Less: Borrowing costs capitalised	**149,856**	149,836
Net interest expenses	**1,020,160**	842,459
Interest income from deposits and receivables	**(34,820)**	(11,209)
Net exchange loses/(gains)	**18,735**	(89,059)
Other financial expenses	**1,946**	7,856
Total	**1,006,021**	750,047

The capitalization rate used by the Group for determining the annual capitalization interest is 5.21%~11.45% (2011: 5.97%~11.12%).

43 Impairments losses

Item	2012	2011
Account receivable	**(244)**	5,727
Inventories	**379,987**	862,118
Total	**379,743**	867,845

44 Gains from changes in fair value ("( )" for losses)

Item	2012	2011
Financial liabilities held for trading		
— Changes in fair value during the year	**(855)**	(15,071)
— Transfer to investment income for derecognised financial liabilities held for trading	**23,012**	—
Total	**22,157**	(15,071)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

45 Investment income ("()" for losses)

Investment income by item

Item	2012	2011
Investment income from disposal of long-term equity investments	**381,699**	—
Investment income from disposal of financial assets held for trading	**(12,425)**	—
Total	**369,274**	—

46 Non-operating income

(1) Non-operating income by item is as follows:

Item	*Note*	2012	2011	Amount recognised in extraordinary gain and loss in 2012
Gains on disposal of fixed assets		**646**	2,242	646
Government grants	(2)	**2,001,616**	4,521	2,001,616
Received tax return		**150**	5,479	150
Income from gas emission reduction		**—**	10,894	—
Relocation compensation	(3)	**162,739**	503,204	162,739
Others		**3,171**	1,947	3,171
Total		**2,168,322**	528,287	2,168,322

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

46 Non-operating income

(2) Government grants

Item	Note	2012	2011
Government environmental relocation grants	(a)	**2,000,000**	—
Special appropriation for environmental protection	V.32(2)	**1,134**	892
Deferred income amortisation and allowance	V.32(2)	**482**	724
Relocation compensation		**—**	202
Others		**—**	2,703
Total		**2,001,616**	4,521

(a) Government environmental relocation grants

According to the document of the "Approval of the Grant of Fiscal Subsidies to Chongqing Iron & Steel Company Limited from the Finance Bureau of Changshou District, Chongqing City" (Changcaijing [2012] No.449) issued by the Finance Bureau of Changshou District, Chongqing City on 18 December 2012, and the document of the "Notice of the Grant of Fiscal Subsidies to Chongqing Iron & Steel Company Limited from the Finance Bureau of Chongqing City" (Yu Cai Qi [2012] No. 818) issued by the Finance Bureau of Chongqing City in 19 December 2012 respectively, the Company received the said government subsidies totaling RMB 2,000,000,000 in December 2012 which are used to support the environmental relocation of the Company and compensate the additional operating costs of the Company such as financial expenses that had been incurred due to environmental relocation from 2010 to 2012.

(3) Relocation compensation

The Parent Group had authorised free use of the production line of RMB 16.76 billion for steel production line and its auxiliary public facilities, refer to Note I. The charge for using the production line and its auxiliary facilities is regarded by the Parent Group as the compensation of relevant expense of the Group during the environmental relocation, refer to Note VI.6(5).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

47 Non-operating expenses

Item	2012	2011	Amount recognised in extraordinary gain and loss in 2012
Losses on disposal of fixed assets	**41,044**	461	41,044
Donations provided	**450**	1,970	450
Losses on debt restructuring	**—**	565	—
Others	**501**	4,865	501
Total	**41,995**	7,861	41,995

48 Income tax expenses

Item	*Note*	2012	2011
Current tax expense for the period based on tax law and corresponding regulations		**1,587**	3,307
Changes in deferred tax	(1)	**5,636**	92,672
Over provision for income tax in respect of preceding years.		**(4,241)**	—
Total		**2,982**	95,979

(1) The analysis of changes in deferred tax assets is set out below:

Item	2012	2011
Origination and reversal of temporary differences	**(16,884)**	(52)
Change in unrecognised deductible temporary differences	**22,520**	92,724
Total	**5,636**	92,672

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

48 Income tax expenses *(Continued)*

(2) Reconciliation between income tax expense and accounting profits is as follows:

Item	2012	2011
Profit before taxation ("( )" for losses)	**101,825**	(1,375,096)
Expected income tax expense at a tax rate of 15%	**15,274**	(206,264)
Add: Tax effect of unused tax losses not recognised	**63,105**	147,209
Unrecognised temporary differences	**(72,159)**	152,416
Non-deductible expenses	**1,003**	2,618
Returning of provision for income tax in respect of preceding year due to settlement	**(4,241)**	—
Income tax expense	**2,982**	95,979

49 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:

	2012	2011
Consolidated net profit of the Company attributable to ordinary shareholders ("( )" for losses)	**98,813**	(1,471,082)
Weighted average number of ordinary shares outstanding *('000 shares)*	**1,733,127**	1,733,127
Basic earnings per share ("( )" for losses)	**0.057**	(0.849)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

49 Basic earnings per share and diluted earnings per share *(Continued)*

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. As at 31 December 2012, there were no issuance of dilutive potential ordinary shares (2011: Nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

50 Supplement to income statement

Expenses are analysed by their nature as follows:

Item	2012	2011
Operating income	**18,458,776**	23,532,945
Add: Government grants	**2,001,616**	—
Investment Income	**369,274**	—
Less: Changes in inventories of finished goods and work in progress	**705,522**	(198,880)
Raw materials and consumables used	**16,266,679**	20,691,699
Employee benefits expenses	**1,011,011**	1,138,446
Depreciation and amortisation expenses	**372,567**	387,280
Impairment losses	**379,743**	867,845
Financial expenses	**1,006,021**	750,047
Others	**986,298**	1,271,604
Profit before income tax ("( )" for losses)	**101,825**	(1,375,096)

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

51. Notes to cash flow statement

(1) Cash paid relating to other operating activities

Item	Amount
Safety fees	29,149
Bank charges	1,946
Others	717
Total	31,812

(2) Cash received relating to other investing activities

Item	Amount
Interest income on deposits of bank	34,820

(3) Cash paid relating to other financing activities

Item	Amount
Rent for finance leases	1,623,546

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplement to cash flow statement

(1) Supplement to cash flow statement

Item	2012	2011
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("( )" for losses)	**98,843**	(1,471,075)
Add: Impairment provisions for fixed assets	**379,743**	867,845
Depreciation of fixed assets	**361,011**	377,907
Amortization of intangible assets	**11,556**	9,373
Losses on disposal of fixed assets (gains denoted with "( )")	**40,398**	(1,781)
Losses on change of fair value (gain denoted with "( )")	**(22,157)**	15,071
Financial expenses (income denoted with "( )")	**985,126**	635,144
Investment losses (gain denoted with "( )")	**(369,274)**	—
Decrease in deferred tax assets (increase denoted with "( )")	**5,636**	92,672
Decrease in gross inventories (increase denoted with "( )")	**(973,451)**	(764,843)
Decrease in operating receivables (increase denoted with "( )")	**307,796**	216,578
Increase in operating payables (decrease denoted with "( )")	**4,604,959**	1,199,610
Increase in safety fees	**55**	752
Decrease in restricted cash (increase denoted with "( )")	**(115,628)**	(725,940)
Net cash flow from operating activities	**5,314,613**	451,313
(b) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance leases	**486,782**	901,482
(c) Change in cash and cash equivalents:		
Cash at the end of the year	**3,394,564**	1,301,423
Less: Cash at the beginning of the year	**1,301,423**	1,537,352
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "( )")	**2,093,141**	(235,929)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplement to cash flow statement *(Continued)*

(2) Information on disposal of subsidiaries and other business units during the year

Item	2012	2011
Consideration of disposing subsidiaries and other business units	**430,000**	—
Cash and cash equivalents received for disposing subsidiaries and other business units	**430,000**	—
Less: Cash and cash equivalents held by disposed subsidiaries and other business units	**143,641**	—
Net cash and cash equivalents received for disposing subsidiaries and other business units	**286,359**	—
Non-cash assets and liabilities held by the disposed subsidiaries and other business units		
— Current assets	**279,008**	—
— Non-current assets	**1,091,045**	—
— Current liabilities	**293,423**	—
— Non-current liabilities	**776,553**	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplement to cash flow statement *(Continued)*

(3) Cash and cash equivalents

Item	2012	2011
Cash and cash equivalents	**3,394,564**	1,301,423
Including: Cash on hand	**693**	696
Bank deposits available on demand	**3,393,558**	1,295,777
Other monetary fund available on demand	**313**	4,950
Cash equivalents	**—**	—
Closing balance of cash and cash equivalents	**3,394,564**	1,301,423

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	Related party relationship	Entity type	Registered place	Legal representative	Business nature	Registered capital	Shareholding percentage *(%)(1)*	Percentage of voting right *(%)s*	Ultimate controlling party of the company	Organisation code
Chongqing Iron & Steel Group Limited Company	The parent	Company Limited	Chongqing	Dong lin	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%	Chongqing State-owned Assets Supervision and Administration Bureau	202803370

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VI. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1 Information on the parent of the Company *(Continued)*

Neither the parent nor the ultimate controlling party publishes financial statement.

(1) 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 Information on the associates of the Company

Name of investee	Entity type	Registered place	Legal representative	Business nature	Registered capital	Shareholding Percentage *(%)*	Percentage of voting rights *(%)*	Related party relationship	Organization code
San Feng Logistics	Company Limited	No. 1 Kangqiao Road Xingang District Jingjiang	Jin Zili	Logistics	300,000	10%	10%	Associate	55025866-3

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Transactions with its key management personnel

Remuneration of key management personnel	*Note*	Fees	Basic salaries, bonuses and other allowances	Insurance fees	2012 Total
Director					
Mr. Deng Qiang	(4)	—	—	—	—
Mr. Yuan Jinfu	(4)	—	—	—	—
Mr. Xia Tong	(1)	—	107	44	151
Mr. Sun Yijie		—	196	53	249
Mr. Li Rensheng		—	193	53	246
Mr. Chen Hong		—	221	53	274
Mr. Liu Xing	(2)	30	—	—	30
Mr. Liu Tianni		71	—	—	71
Mr. Zhang Guolin		71	—	—	71
Mr. Ran Maosheng	(2)	42	—	—	42
Supervisors					
Mr. Zhu Jianpai	(4)	—	—	—	—
Ms Chen Hong		—	144	53	197
Mr. Li Zheng	(4)	—	—	—	—
Mr. Li Meijun	(4)	—	—	—	—
Mr. Dou hui	(3)	—	153	53	206
Key management personnel					
Mr. Wu Zisheng		—	92	12	104
Mr. You Xiao'an		—	145	53	198
Mr. Guan Zhaohui		—	187	53	240
Ms Gong Jun		—	155	53	208
Total		213	1,593	481	2,287

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Transactions with its key management personnel *(Continued)*

Remuneration of key management personnel	*Note*	Fees	**Basic salaries, bonuses and other allowances**	Insurance fees	2011 Total
Director					
Mr. Deng Qiang	(4)	—	—	—	—
Mr. Dong Lin		—	—	—	—
Mr. Yuan Jinfu	(4)	—	—	—	—
Mr. Chen Shan		—	252	34	286
Mr. Sun Yijie		—	234	37	271
Mr. Li Rensheng		—	233	37	270
Mr. Chen Hong		—	261	37	298
Mr. Liu Xing	(2)	71	—	—	71
Mr. Liu Tianni		71	—	—	71
Mr. Zhang Guolin		71	—	—	71
Supervisors					
Mr. Zhu Jiangpai	(4)	—	—	—	—
Ms. Chen Hong		—	186	37	223
Mr. Gao Shoulun		—	147	22	169
Mr. Li Zheng	(4)	—	—	—	—
Mr. Li Meijun	(4)	—	—	—	—
Mr. Dou Hui	(3)	—	55	15	70
Key management personnel					
Mr. Wu Zisheng		—	144	9	153
Mr. You Xiao'an		—	188	37	225
Mr. Guan Zhaohui		—	206	37	243
Ms. Gong Jun		—	176	37	213
Total		213	2,082	339	2,634

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

4 Transactions with its key management personnel *(Continued)*

(1) During the first extraordinary general meeting for 2012 held on 28 February 2012, the appointment of Mr. Xia Tong as Director of the Company was approved. During the eighth meeting of the fifth Board of Directors held on 28 February 2012, Mr. Xia Tong was selected as the vice Board Chairman.

(2) During the general meeting for 2011 held on 31 May 2012, Mr. Ran Maosheng was selected as independent Directors of the Company. The Board of Directors announced on 13 June 2012 that due to the expiration of appointment, Mr. Liu Xing resigned from the duties of Independent Directors of the Company effective from 31 May 2012.

(3) On 25 July 2011, Gao Shoulun resigned from the fifth Chongqing Iron & Steel Co., Ltd. Workers' Representative Supervisor position due to job change. During the 63rd head meeting of the second Workers' Congress of the Company held on 25 July 2011, Mr. Dou Hui was selected as the fifth Representative Supervisor of the Company.

(4) According to contracts entered with the Company in 2012, the salaries of Mr. Deng Qiang, Mr. Yuan Jin Fu, Mr. Zhu Jian Pai , Mr Li Zheng and Mr. Li Meijun will be paid by the Parent Group.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related parties in which the Company has no control

Name of related party	Organization code	Related party
San Feng Logistics	55025866-3	Have significant influence
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 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 Donghua Special Steel Company Limited	75622782-X	Under the same parent company

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Related parties in which the Company has no control *(Continued)*

Name of related party	Organization code	Related party
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 Te An Acetylene cylinder detection Co., Ltd	78424377-1	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 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 Huashen Steel Structure Engineering Company Limited	75929686-3	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
Asia Iron & Steel Shareholding Co., Ltd	34244066-000-01-12-4	Under the same parent company jointly control
Chongqing Xin Gang Chang Long Logistics Company Limited	66641868-1	Under the same parent company jointly control
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	Under the same parent company in the preceding 12 months
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	66359560-7	Under the same parent company in the preceding 12 months
Chongqing Sanfeng Environment Industry Group Company Limited	69925005-3	Under the same parent company in the preceding 12 months
Chongqing Fengsheng Environment Protection Company Limited	69391416-2	Under the same parent company in the preceding 12 months
Chengdu Jiujiang Environment Protection and Electricity Company Limited	67431581-8	Under the same parent company in the preceding 12 months
Chongqing Tongxing Refuse Disposal Company Limited	73395998-0	Under the same parent company in the preceding 12 months
Jingjiang San Feng renewable resources supply Co. Ltd	569192713	Under the same parent company in the preceding 12 months

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions

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

(a) The Group

		2012		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	**1,333,059**	**14.45%**	1,690,031	15.70%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**458,289**	**97.72%**	625,137	98.17%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**150,658**	**3.25%**	366,407	5.82%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**85,005**	**4.96%**	41,032	0.60%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**54,893**	**5.03%**	—	—
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**36,157**	**3.09%**	53,508	3.61%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**23,218**	**1.36%**	86,612	1.39%
Chongqing Iron & Steel Research Institute	Alloy and Accessories	**12,993**	**0.87%**	—	—
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**8,901**	**1.43%**	11,661	0.22%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and Scrap steel	**6,443**	**0.41%**	21,404	0.20%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**4,289**	**1.48%**	18,310	5.89%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**682**	**0.06%**	58,118	4.84%
Others		**9,369**		10,502	
Total		**2,183,956**		2,982,722	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(Continued)*

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

(b) The Company

		2012		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	**1,333,059**	**14.45%**	1,690,030	15.70%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**458,258**	**97.71%**	625,074	98.16%
San Feng Logistics	Ore	**242,143**	**2.98%**	193,110	1.96%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**150,658**	**3.25%**	366,407	5.82%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**85,005**	**4.96%**	41,032	0.60%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**54,893**	**5.03%**	—	—
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**36,052**	**3.08%**	53,395	3.61%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**23,042**	**1.35%**	86,612	1.39%
Chongqing Electronics	Spare parts	**21,017**	**3.00%**	19,090	2.26%
Chongqing Transportation	Scrap steels	**14,491**	**1.33%**	9,760	0.65%
Chongqing Iron & Steel Research Institute	Alloy and accessories	**12,993**	**0.87%**	—	—
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**8,901**	**1.43%**	11,661	0.22%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and scrap steels	**6,403**	**0.41%**	21,054	0.20%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**4,289**	**1.48%**	18,310	5.89%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**682**	**0.06%**	58,118	4.84%
Others		**5,716**		10,258	
Total		**2,457,602**		3,203,911	

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

6 Related-party transactions *(Continued)*

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

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

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

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(Continued)*

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

(a) The Group

		2012		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 and spare parts	**309,145**	**70.90%**	465,061	45.97%
Chongqing Iron & Steel Group Mining Company Limited	Energy and spare parts	**85,828**	**19.69%**	45,415	4.49%
Chongqing Si Gang Steel Company Limited	Steel products	**42,530**	**0.24%**	197,864	0.89%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and spare parts	**32,330**	**0.19%**	242,403	1.09%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**23,583**	**0.14%**	318,318	1.44%
Parent Group	Spare parts	**16,650**	**7.89%**	77,849	7.70%
Chongqing San Gang Steel Company Limited	Steel products	**16,478**	**0.09%**	335,827	1.52%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and spare parts	**7,690**	**0.04%**	148,025	0.67%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts	**4,578**	**2.17%**	65,113	0.29%
Others		**3,097**		28,509	
Total		**541,909**		1,924,384	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(Continued)*

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

(b) The Company

		2012		2011	
	Sale of Products	Transaction amount	Percentage in the total amount of similar transactions *(%)*	Transaction amount	Percentage in the total amount of similar transactions *(%)*
East China Trading*	Steel products	**766,210**	**4.40%**	—	—
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy and Spare parts	**309,114**	**70.90%**	464,937	45.96%
San Feng Logistics	Steel	**136,288**	**0.78%**	—	—
Chongqing Iron & Steel Group Mining Company Limited	Energy and Spare parts	**83,092**	**19.06%**	44,343	4.38%
Chongqing Si Gang Steel Company Limited	Steel products	**42,530**	**0.24%**	197,864	0.89%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and Spare parts	**24,124**	**0.14%**	239,457	1.08%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**23,583**	**0.14%**	318,318	1.44%
Chongqing San Gang Steel Company Limited	Steel products	**16,472**	**0.09%**	335,823	1.52%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and Spare parts	**7,110**	**0.04%**	147,930	0.67%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts	**4,439**	**2.10%**	65,105	0.29%
Others	Spare parts	**5,392**		43,597	
Total		**1,418,354**		1,857,374	

* Please refer to note IV (3).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(Continued)*

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

(b) The Company *(Continued)*

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

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

(3) *Guaranty:*

The Group

Name of guarantor	*Note*	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty completed (Y/N)
Providing guaranty						
The Group	(a)	San Feng Logistics	700,000	2012-04-17	2022-08-30	N
Guaranty secured						
The Parent Group	(b)	The Company	9,745,831	2010-01-11	2014-11-20	N

The Company

Name of guarantor	*Note*	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty completed (Y/N)
Providing guaranty						
The Company		San Feng Logistics	700,000	2012-04-17	2022-08-30	N
The Company		Chongqing Transportation	5,000	2012-06-21	2013-06-20	N
The Company		East China Trading	60,000	2012-08-29	2013-08-28	N
Total	(a)		765,000			
Guaranty secured						
The Parent Group	(b)	The Company	9,745,831	2010-01-11	2014-11-20	N

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

6 Related-party transactions *(Continued)*

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

(a) As at 31 December 2012, bank loans and finance lease of San Feng Logistics, Chongqing Transportation and East China Trading amounted to RMB 765,000,000 were guaranteed by the Company (2011: RMB 5,000,000).

(b) As at 31 December 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 4,962,630,000 and RMB 2,291,341,000 (2011: RMB 2,136,548,000 and RMB 3,433,494,000) respectively were guaranteed by the Parent Group.

All liabilities under the lease agreement between the Company and several Financial Leasing companies (Note V.27 (3), V.31 (1)) are guaranteed by the Parent Group. The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

The Parent Group did not charge the Company in respect of the above pledges and guarantees.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(Continued)*

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

(a) The Group

		2012		2011	
	Note	**Transaction amount**	**Percentage in the total amount of similar transactions *(%)***	Transaction amount	Percentage in the total amount of similar transactions *(%)*
Social welfare expenses paid by the Parent Group	(i)	**80,717**	**22.66%**	74,797	20.50%
Fees paid for supporting services	(ii)	**536,043**	**24.99%**	578,727	32.03%
Rental expenses	(iii)	**590**	**100.00%**	15,458	100.00%
Fees received for supporting	(iv)	**21,101**	**12.07%**	53,113	58.99%
Entrusted trial operation gains/losses settlement	(v)	**—**	**—**	40,293	100.00%
Fees paid for purchasing ore	(vi)	**8,996**	**100%**	2,252	100.00%

(b) The Company

		2012		2011	
	Note	**Transaction amount**	**Percentage in the total amount of similar transactions *(%)***	Transaction amount	Percentage in the total amount of similar transactions *(%)*
Social welfare expenses paid by the Parent Group	(i)	**80,717**	**24.92%**	74,797	22.76%
Fees paid for supporting services	(ii)	**763,886**	**26.01%**	827,602	34.74%
Rental expenses	(iii)	**553**	**100.00%**	15,458	100.00%
Fees received for supporting services	(iv)	**—**	**—**	451	0.96%
Entrusted trial operation gains/losses settlement	(v)	**—**	**—**	40,293	100.00%
Fees paid for purchasing ore	(vi)	**8,996**	**100.00%**	2,252	100.00%

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

6 Related-party transactions *(Continued)*

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

(b) The Company *(Continued)*

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.

(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 September 2011, as commissioned by the Parent Group, the Company launched the debugging process for the #3 blast furnace equipments which belong to the Parent Group in Changshou New Zone. The revenue or losses during the debugging process would be undertaken by the Parent Group. The agreed commission period for debugging is from 1 September 2011 to 30 September 2011. After commissioning, the Parent Group would authorize the Company free use of these assets. The Company completed the commission in 2011 and therefore no debugging management fee incurred in 2012.

(vi) In 2012, Chonggang HK procured RMB 2,343,637,000 (2011: RMB 3,172,248,000) worth of iron ore for the Company for an agency fee of RMB 8,996,000 (2011: RMB 2,252,000). As at 31 December 2012, the amount of purchasing iron ore payable to Chonggang HK by the Company was RMB 346,566,000 (2011: RMB 288,195,000).

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

6 Related-party transactions *(Continued)*

(5) Authorized use of assets by the Parent Group and Environmental relocation

As mentioned in Note I, as at 31 March 2012, the Parent Group had authorized the Company the free use of the steel production line and related auxiliary public facilities belonging to the Parent Group in Changshou New Zone, which have been ready for their intended use, 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 during the period from January to March of 2012 is RMB 163,739,000 (From 1 January to 31 December 2011: RMB 495,660,000), and the fees for the use of these assets as compensation for the environmental relocation is RMB 162,739,000 during the period from January to March of 2012 (From 1 January to 31 December 2011: RMB 503,204,000).

On 31 March 2012, the authorization agreement of free use of the assets expired. Meanwhile, to ensure the completeness of steel smelting production line of the Company, the Company launched the material assets reorganization with the Parent Group.

On 3 May 2012 and 24 October 2012, the Company and the Parent Group entered into an Agreement on Acquisition of Assets and environmental relocation Loss Compensation and its Supplemental Agreement (collectively referred as "the Acquisition Agreements"), and, on 24 October 2012, the Company made further announcement on the Report on Proposal of Proposed Acquisition, Fundraising and Connected Transactions (draft) of the Company (the "Report").

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

6 Related-party transactions *(Continued)*

(5) Authorized use of assets by the Parent Group and Environmental relocation (Continued):

Pursuant to the Acquisition Agreements and the Report, the transaction under the material assets reorganization involves iron-making and steelmaking related assets and supporting public and ancillary facilities invested and constructed by the Parent Group in the Changshou New District (the "Target Assets"), and the Parent Group will comply with its undertaking in connection with the relocation of the Company to compensate the Company for the impairment loss of fixed assets arising from the environmental relocation with part of the value of the Target Assets. The consideration of Target Assets, net of the Fixed Assets Impairment of the Old District that the Parent Group has undertaken to compensate, will be satisfied by the Company by the issuance of shares to the Parent Group, assumption of liabilities and payment of cash consideration. The transaction reference date of the Material Assets Reorganization was 31 March 2012 (the "Transaction Reference Date").

According to the Acquisition Agreements, from the Transaction Reference Date to the completion of the Material Assets Reorganization (the "Transitional Period") , the Target Assets shall be used by the Company itself and all the costs and expenses on the Company's use of the Target Assets shall be borne by the Company. Pursuant to the arrangement of the Target Assets agreed by the Company and the Parent Group, in respect of the Company's use of the Target Assets by the Group during the Transitional Period, in order to reasonably reflect the cost of using the Target Assets, the Company shall accrue usage fees payable to the Parent Group based on the depreciation (amortization) of the Target Assets and reduce the Acquisition Consideration of the Target Assets upon the completion of the material assets reorganisation.

During the Transitional Period, the Company is required to pay usage fee to the Parent Group in the terms of the depreciation of the steel production line and related auxiliary public facilities and the amortisation of the land belonging to the Parent Group in Changshou New Zone. In 2012, the usage fee accrued during the Transitional Period was RMB 524,203,000.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Balance of accounts due from and due to related parties

(1) Bills receivable

(a) The Group and the Company

Related Party	2012	2011
Chongqing Iron & Steel Group Steel Pipe Company Limited	**2,403**	1,000
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**50**	—
Chongqing San Gang Steel Company Limited	**—**	17,870
Chongqing Si Gang Steel Company Limited	**—**	22,770
Total	**2,453**	41,640

(2) Account receivable

(a) The Group

Related Party	2012	2011
Chongqing Si Gang Steel Company Limited	**156,285**	130,756
Chongqing San Gang Steel Company Limited	**95,133**	110,880
San Feng Logistics	**88,500**	—
Chongqing Iron & Steel Group Steel Pipe Company Limited	**70,571**	94,673
Parent Group	**9,750**	18,793
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**4,961**	264
Chongqing Iron & Steel Group Mining Company Limited	**3,836**	2,259
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	2,758
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	**2,273**	2,277
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**1,251**	1,488
Others	**915**	8,830
Sub-total	**436,231**	372,978
Less: Provision for bad and doubtful debts	**2,756**	10,358
Total	**433,475**	362,620

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Balance of accounts due from and due to related parties *(Continued)*

(2) Account receivable (Continued)

(b) The Company

Related Party	2012	2011
Chongqing Si Gang Steel Company Limited	**155,643**	130,264
Chongqing San Gang Steel Company Limited	**95,133**	110,880
Chongqing Iron & Steel Group Pipe Company Limited	**70,571**	94,673
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**4,682**	—
Chongqing Iron & Steel Group Mining Company Limited	**3,498**	1,995
Others	**3,130**	107,688
Sub-total	**332,657**	445,500
Less: Provision for bad and doubtful debts	**2,756**	10,079
Total	**329,901**	435,421

(3) Other receivables

(a) The Group and the Company

Related Party	2012	2011
Parent Group	**1,703,385**	135,604

The Parent Group has promised to compensate the Company for the losses of fixed assets arising from the environmental relocation based on the net book value of the fixed assets at the time the fixed assets were suspended from production less the proceeds on disposal . As at the year-end date, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 2,227,588,000, comprising loss from unusable assets in Da Du Kou District of RMB 2,176,430,000 (Note V.12), loss of scrapped constructions in progress of RMB 7,375,000 (Note V.10 (2)), and loss of scrapped spare parts of RMB 43,783,000 (2011: RMB 135,604,000) from the Parent Group.

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

7 Balance of accounts due from and due to related parties *(Continued)*

(3) Other receivables (Continued)

(a) The Group and the Company *(Continued)*

As mentioned in Note I, according to the Report, in respect of the Company's use of the Target Assets, in order to reasonably reflect the cost of using the Target Assets by the Company and the adjustment for the Acquisition Consideration of the Target Assets occurred upon Completion, the Company shall accrue usage fees payable to the Parent Group based on the depreciation (amortization) of the Target Assets during the Transitional Period and reduce the Acquisition Consideration of the Target Assets accordingly. During the period from 1 April 2012 to 31 December 2012, the Group accrued usage fees of RMB 524,203,000 payable to the Parent Group.

(4) Accounts payables

(a) The Group and the Company

Related Party	2012	2011
Chonggang HK *(Note VI.6(4)(vi))*	**346,566**	288,195

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Balance of accounts due from and due to related parties *(Continued)*

(5) Other payables

(a) The Group

Related Party	2012	2011
Parent Group	**224,498**	51,900
Chongqing Iron & Steel Group Industrial Company Limited	**142,111**	81,503
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**129,983**	49,971
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**28,850**	29,767
Chongqing Donghua Special Steel Company Limited	**20,673**	—
San Feng Logistics	**20,794**	—
Chongqing Xin Gang Chang Long Logistics Company Limited	**11,574**	—
Chongqing Iron & Steel Group Design and Research Institute	**6,854**	13,074
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**2,697**	12,856
Others	**2,156**	5,828
Total	**590,190**	244,899

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Balance of accounts due from and due to related parties *(Continued)*

(5) *Other payables* *(Continued)*

(b) The Company

Related parties	2012	2011
Parent Group	**224,498**	51,900
Chongqing Iron & Steel Group Industrial Company Limited	**141,941**	81,333
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**129,983**	49,903
Chongqing Electronics	**33,389**	15,757
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**28,850**	29,767
Chongqing Donghua Special Steel Company Limited	**20,673**	—
San Feng Logistics	**20,393**	—
Chongqing Transportation	**18,216**	18,075
Chongqing Xin Gang Chang Long Logistics Company Limited	**11,574**	—
Others	**9,635**	27,813
Total	**639,152**	274,548

(6) ***The Group and Company has no collaterals, guarantees for the inter-company balances with related parties, and no fixed period for repayment.***

VII. CONTINGENCIES

1 Contingent liabilities arising from outstanding litigations and arbitration and related financial effect

No contingent liabilities arose from outstanding litigations and arbitration and related financial effect in 2012.

2 Contingent liabilities arising from guarantees provided for other enterprises and related financial effect

At the balance sheet date, the Company provided guarantees for the bank loans of its subsidiaries amounted to RMB 65,000,000 (2011: RMB 85,000,000). The Company provided guarantees for the bank loans and finance lease of its associate amounted to RMB 700,000,000 (2011: Nil).

The directors of the Company considered that the Company will not undertake any risk because of these guarantees.

3 Other contingent liabilities and related financial effect

On 2 September 2010, the Group entered into a loan agreement with the HSBC consortium. According to the loan agreement, test on the financial covenants should be conducted "on a consolidated basis with reference to the audited annual consolidated financial statements submitted within 120 days after the financial year end and unaudited consolidated financial statements submitted within 90 days after the end of interim financial year". As at 31 December 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 the loan agreement will expire in September 2013, the Group had already reclassified the long-term loans with a carrying value of RMB 709,191,000 as "Long-term loans due within one year" as at 31 December 2012.

The Group had received exemption letters from HSBC on 28 August 2012 and 31 December 2012 which agreed to exempt the Group from the financial covenants for the financial periods as of 31 December 2011 and 30 June 2012. The Group is communicating with the HSBC consortium in relation to the breach of covenants as of 31 December 2012 and has not received any formal reply from the HSBC consortium before the publication of the financial statements. According to the loan agreement, as at 31 December 2012, although the Group has breached the financial covenants, the management considered it unnecessary to account for any potential interest penalty or breach penalty to HSBC consortium.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VIII. COMMITMENTS

1 Capital commitments

Item	*Note*	**2012**	2011
Significant construction contracts entered into under performance or preparation of performance		**3,720,393**	4,142,977
Significant construction contracts authorized but not yet contracted for		**—**	1,048,324
Finance leases contracts entered into under performance or preparation of performance		**4,326,786**	5,334,759
Total		**8,047,179**	10,526,060

During the year 2012, the Group paid RMB 808,849,000 for settlement of construction contracts and equipment which has been disclosed in capital commitment of 2011.

2 Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Item	**2012**	2011
Within 1 year (inclusive)	**25**	53
After 1 year but within 2 years (inclusive)	**25**	53
After 2 years but within 3 years (inclusive)	**25**	53
After 3 years	**893**	1,924
Total	**968**	2,083

IX. POST BALANCE SHEET EVENTS

1 Material events after the balance sheet date

As at the approval date of the financial statements, no material post balance sheet date event was needed to be disclosure for the Company.

2 Profit appropriation after the balance sheet date

During the board of directors meeting on 28 March 2013, the directors of the Company resolved to declare no dividend in respect of 2012 (2011: Nil).

X. OTHER MATERIAL EVENTS

1 Leases

Details of finance lease refer to Note V. 9(2), 10(4), 11(2) and 31(1).

2 Segment reporting

The Group has three reportable segments, which are iron and steel, electronic construction and installation and logistics segment, determined based on the structure of its internal organization, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance. Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses will be allocated to each segment based on revenue.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as accounts receivable, with the exception of deferred tax assets and other unallocated corporate assets. Segment liabilities include payables, prepayments and bank borrowings attributable to the individual segments.

Financial performance is the amount of revenue after deducting expenses, depreciation, amortization and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

(1) Reportable information on the Group's reporting segments in 2012 is set out as follows:

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination among segments		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Operating income from external customers	18,377,343	23,385,278	32,679	95,352	48,754	52,315	—	—	18,458,776	23,532,945
Inter-segment operating income	767,241	3,048	109,774	112,730	533,946	363,177	(1,410,961)	(478,955)	—	—
Interest in the profit or loss of associate and joint ventures	7	—	—	—	—	—	—	—	7	—
Impairment for the year	379,814	867,688	(71)	84	—	73	—	—	379,743	867,845
Depreciation and amortization	360,384	376,871	973	1,107	11,210	9,302	—	—	372,567	387,280
Interest income from bank deposits	34,777	11,192	30	7	13	10	—	—	34,820	11,209
Interest expense	840,587	757,720	—	—	4,400	754	—	—	844,987	758,474
Profit before income tax ("( )" for losses)	17,246	(1,380,009)	10,183	15,030	(295)	4,701	74,691	(14,818)	101,825	(1,375,096)
Income tax expense	1,201	92,724	1,550	2,202	231	1,053	—	—	2,982	95,979
Net profit ("( )" for losses)	16,405	(1,472,733)	8,633	12,828	(526)	3,648	74,691	(14,818)	98,843	(1,471,075)
Total assets	31,024,236	26,399,024	91,808	87,313	156,819	1,027,669	(166,464)	(463,525)	31,106,399	27,050,441
Total liabilities	26,893,313	22,334,148	30,061	45,799	41,654	611,900	(51,605)	(182,521)	26,913,423	22,809,326

X. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(Continued)*

(2) Major customers

The Group has one customer (2011: Nil), the operating income from which is over 10% of the Group's total operating income. The operating income from the customer represents approximately 10% of the Group's total operating income (2011: 6%), which is listed in the table below:

Customer	2012	2011
Shanghai Chonggang Trade Co., Ltd	**1,810,856**	1,145,643

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

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include:

— Credit risk
— Liquidity risk
— Interest rate risk
— Foreign currency risk

This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is primarily attributable to cash at bank and receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Group is mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

The Group requires prepayment by cash or bills from most of its clients prior to delivery. In respect of receivables, the Group has established a credit policy under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers. Normally, the Group does not obtain collateral from customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in Note V 3 and Note V 5 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the guarantees provided by the Group mentioned in Note VII, the Group did not provide any other guarantees which would expose the Group to credit risk. At the balance sheet date, the maximum exposure to credit risk of financial guarantee mentioned above was recorded at Note VII.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(2) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Company and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's liquidity management is to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity was carried out on a regular basis by the Group to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Group held negotiation with financial institutions for enough banking facilities. The Group's banking facility was granted by several financial institutions in the PRC. As at 31 December 2012, the Group had an undrawn standby credit of RMB 3,767,960,000. Drawn borrowing facilities were recorded in short-term loans, non-current liabilities due within one year and long-term loans respectively.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's financial assets and financial liabilities, which are based on contractual cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(2) *Liquidity risk* (Continued)

	2012 Contractual undiscounted cash flow					
Item	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
Financial assets						
Cash at bank and on hand	3,800,917	–	–	–	3,800,917	3,800,917
Bills receivable	779,131	–	–	–	779,131	779,131
Accounts receivable and other receivables	2,859,860	–	–	–	2,859,860	2,859,860
Sub-total	7,439,908	–	–	–	7,439,908	7,439,908
Financial liabilities						
Short-term loans	(5,785,775)	–	–	–	(5,785,775)	(5,620,216)
Bills payable	(861,000)	–	–	–	(861,000)	(861,000)
Accounts payable and other payables	(8,194,819)	–	–	–	(8,194,819)	(8,194,819)
Employee benefits payable	(157,904)				(157,904)	(157,904)
Taxes payable	(5,618)				(5,618)	(5,618)
Interest payable	(22,173)				(22,173)	(22,173)
Non-current liabilities due within 1 year	(4,106,884)	–	–	–	(4,106,844)	(3,862,674)
Long-term loans*	(37,063)	(695,275)	(130,526)	–	(862,864)	(799,408)
Debentures payable	(124,000)	(124,000)	(2,372,000)	–	(2,620,000)	(1,971,617)
Long-term payables	–	(915,175)	(956,136)	–	(1,871,311)	(1,635,025)
Sub-total	(19,295,236)	(1,734,450)	(3,458,662)	–	(24,488,348)	(23,130,454)
Net amount	(11,855,328)	(1,734,450)	(3,458,662)	–	(17,048,440)	(15,690,546)

* As part of the long-term loan agreements / exemption letter contains requirements on the financial ratio for the Group in the future, the analysis of above contractual cash flow was based on the reasonable estimate that the Group would satisfy the financial ratio in the future.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(2) *Liquidity risk* (Continued)

	2011 Contractual undiscounted cash flow					
Item	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
Financial assets						
Cash at bank and on hand	2,325,290	—	—	—	2,325,290	2,325,290
Bills receivable	1,417,422	—	—	—	1,417,422	1,417,422
Accounts receivable and other receivables	961,373	—	—	—	961,373	961,373
Sub-total	4,704,085	—	—	—	4,704,085	4,704,085
Financial liabilities						
Short-term loans	(4,146,803)	—	—	—	(4,146,803)	(4,048,189)
Bills payable	(555,000)	—	—	—	(555,000)	(555,000)
Accounts payable and other payables	(5,229,678)	—	—	—	(5,229,678)	(5,229,678)
Employee benefits payable	(182,429)	—	—	—	(182,429)	(182,429)
Taxes payable	(8,978)	—	—	—	(8,978)	(8,978)
Interest payable	(36,733)	—	—	—	(36,733)	(36,733)
Non-current liabilities due within 1 year	(4,989,997)	—	—	—	(4,989,997)	(4,762,143)
Long-term loans*	(70,916)	(1,113,121)	(191,850)	—	(1,375,887)	(1,056,600)
Debentures payable	(124,000)	(124,000)	(372,000)	(2,124,000)	(2,744,000)	(1,966,848)
Long-term payables	—	(1,868,281)	(1,970,898)	—	(3,839,179)	(3,254,896)
Sub-total	(15,344,534)	(3,105,402)	(2,534,748)	(2,124,000)	(23,108,684)	(21,101,494)
Net amount	(10,640,449)	(3,105,402)	(2,534,748)	(2,124,000)	(18,404,599)	(16,397,409)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(3) Interest rate risk

Interest-bearing financial instruments at fixed rates and at variable rates expose the Group to fair value interest risk and cash flow interest rate risk, respectively. The Group adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Group has achieved an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. Interest rates for short-term and long-term liabilities are set out in Note V. 18, 27, 29, 30, 31 and 32. As at 31 December 2012, the fair value of derivative financial instruments of the interest rate swap contract recorded is RMB 1,556,000 (2011: RMB 5,369,000). The changes in the fair value of derivative financial instruments is recognised in profit and loss, see Note V.44.

(a) As at 31 December, the Group held the following interest-bearing financial instruments:

Fixed rate instruments:

Item	**2012** Annual interest rate	**2012** Amount	2011 Annual interest rate	2011 Amount
Financial assets				
Short-term loans	**5.95%~7.22%**	**(925,160)**	5.52%~7.20%	(905,808)
Debentures payable	**6.20%**	**(1,971,617)**	6.20%	(1,966,848)
Total		**(2,896,777)**		(2,872,656)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(3) Interest rate risk *(Continued)*

(a) As at 31 December, the Group held the following interest-bearing financial instruments *(Continued)*

Variable rate instruments:

Item	2012 Annual interest rate	2012 Amount	2011 Annual interest rate	2011 Amount
Financial assets				
Cash at bank and on hand	**0.35%~0.5%**	**3,393,558**	0.36%~0.5%	1,295,777
Financial liabilities				
Short-term loans	**Libor+1.4%~ 7.22%**	**(4,695,056)**	3 month libor~7.22%	(3,142,381)
Non-current liabilities due within one year	**1 month Libor+3.00%~ 7.32%**	**(3,862,674)**	6 month Libor+2.30%~ 7.56%	(4,762,143)
Long-term loans	**6 month Libor+3.2%~ 7.32%**	**(799,408)**	6.41%~7.32%	(1,056,600)
Long-term payables	**6.08%~7.25%**	**(1,635,025)**	5.56%~7.25%	(3,254,896)
Total		**(7,598,605)**		(10,920,243)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(3) Interest rate risk *(Continued)*

(b) Sensitivity analysis

As at 31 December 2012, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's net profit and equity by RMB 64,588,000 (2011: RMB 92,779,000).

The sensitivity analysis above indicates the instantaneous change in the net profit and equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the previous year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(4) Foreign currency risk

As the Group's sales of products and purchases of raw material for production are mainly carried out in Renminbi, foreign currency risk is primarily attributable to the foreign currency deposits and loans. In order to avoid foreign currency risk related to US dollar loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. As at 31 December 2012, all the forward exchange contracts recognised as derivative financial instruments were expired. The changes in the fair value of derivative financial instruments is recognised in profit and loss, see Note V.44.

(a) The Group's exposure as at 31 December to foreign currency risk arising from recognised assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

	2012		2011	
Item	**USD**	**EUR**	USD	EUR
Deposits with bank	**958,589**	**—**	333	—
Short-term loans	**(1,376,541)**	**(136,305)**	(1,477,334)	—
Long-term loan due within one year	**(334,389)**	**—**	(1,228,676)	—
Long-term loans	**(603,408)**	**—**	—	—
Gross balance sheet exposure	**(1,355,749)**	**(136,305)**	(2,705,677)	—
Notional amounts of forward exchange contracts used as economic hedges	**—**	**—**	(458,182)	—
Net balance sheet exposure	**(1,355,749)**	**(136,305)**	(2,247,495)	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(4) Foreign currency risk *(Continued)*

(b) Major foreign exchange rates applied by the Group:

Item	Average rate 2012	Average rate 2011	Reporting date mid-spot rate 2012	Reporting date mid-spot rate 2011
USD	**6.2932**	6.4618	**6.2855**	6.3009
EUR	**8.2401**	8.4845	**8.3176**	8.1625

(c) Sensitivity analysis

Assuming all other risk variables remained constant, a 5% strengthening of the Renminbi against the US dollar, Euro and HK dollar as at 31 December would have increased (decreased) the Group's equity and net profit by the amount shown below, whose effect is in Renminbi and translated using the spot rate at the year-end date.

	Equity	Net profit
As at 31 December 2012		
USD	**(57,619)**	**(57,619)**
EUR	**(5,793)**	**(5,793)**
Total	**(63,412)**	**(63,412)**
As at 31 December 2011		
USD	(114,991)	(114,991)
Total	(114,991)	(114,991)

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for 2011.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(5) Other price risks

As the Group sells steel and iron products at market prices, it is exposed to market price fluctuations.

(6) Fair values

(a) Financial instruments carried at fair value

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative financial instruments (Note V.19) measured by the Group measures on the basis of the fair value belong to Level 2.

During the year ended 31 December 2012, there were no changes in valuation technique of fair value.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(6) Fair values (Continued)

(b) Fair value of other financial instruments (carried at other than fair value)

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2012 and 2011 except as follows:

	2012		2011	
	Carrying amount	**Faire value**	Carry amount	Faire value
Debentures payable	**1,971,617**	**2,030,000**	1,966,848	1,955,400

(7) Estimation and assumption of fair value

The following summarises the major methods and assumptions used in estimating the fair value of financial assets, financial liabilities and items set out in Note X.3 (6) above that measured at fair value on the balance sheet date.

(a) Receivables

The fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

(b) Loans, debentures payable, long-term payables and other non-derivative financial liabilities

The fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date. In respect of the liability component of convertible bonds, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

X. OTHER MATERIAL EVENTS *(CONTINUED)*

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

(7) Estimation and assumption of fair value (Continued)

(c) Derivatives

The fair value of forward exchange contracts is either based on their listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar interest rate instrument at the measurement date.

(d) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows are based on the market interest rate of bank loans at the balance sheet date plus an adequate credit spread.

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Group's other long-term equity investments without public quotations do not have a significant impact on the financial condition and operating result of the Group.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable

(1) *Accounts receivable by customer type:*

Type	Note	2012	2011
Third party		**752,648**	480,215
Related party	VI · 7(2)	**332,657**	445,500
Sub-total		**1,085,305**	925,715
Less: Provision for bad and doubtful debts		**154,042**	161,584
Total		**931,263**	764,131

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

Ageing	2012	2011
Within 1 year (inclusive)	**720,079**	776,435
Over 1 year but within 2 years (inclusive)	**217,158**	3,480
Over 2 years but within 3 years (inclusive)	**2,308**	800
Over 3 years	**145,760**	145,000
Sub-total	**1,085,305**	925,715
Less: Provisions for bad and doubtful debt	**154,042**	161,584
Total	**931,263**	764,131

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(Continued)*

(3) Accounts receivable by category:

Category	*Note*	2012				2011			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*
Individually significant and assessed individually for impairment		–	–	–	–	–	–	–	–
Individually insignificant but assessed individually for impairment	(4)	2,756	0%	2,756	2%	10,079	1%	10,079	6%
Collectively assessed for impairment(*)									
Group 1	(5)	752,648	69%	151,286	98%	480,215	52%	151,505	94%
Group 2		329,901	31%	–	–	435,421	47%	–	–
Sub-total		1,082,549	100%	151,286	98%	915,636	99%	151,505	94%
Total		1,085,305	100%	154,042	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)

XI. 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
Accounts receivable from related parties	2,756	2,756	100%

As at 31 December 2012, the Company's amounts due from related parties which aged over 3 years represented the balance of RMB 2,756,000 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 RMB2,756,000 was therefore made for the debts.

(5) *Accounts receivable which are collectively assessed for impairment using the ageing analysis method:*

	2012			2011		
	Balance			Balance		
Ageing	**Amount**	**Percentage**	**Bad debt provision**	Amount	Percentage	Bad debt provision
Within 1 year						
Within 3 months	**529,197**	**70%**	**—**	226,240	47%	—
Within 4 to 12 months	**72,260**	**10%**	**3,613**	104,695	22%	5,235
Sub-total of within 1 year	**601,457**	**80%**	**3,613**	330,935	69%	5,235
Over 1 year but within 2 years (inclusive)	**3,152**	**1%**	**788**	3,480	1%	870
Over 2 year but within 3 years (inclusive)	**2,308**	**0%**	**1,154**	800	0%	400
Above 3 years	**145,731**	**19%**	**145,731**	145,000	30%	145,000
Total	**752,648**	**100%**	**151,286**	480,215	100%	151,505

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

1 Accounts receivable *(Continued)*

(6) Reversal or recovery of provision for bad and doubtful debts during the year:

Accounts receivable for which a full provision or a significant provision was made in the previous periods that are recovered or reversed partly or in full amount during the year are as follows.

Accounts receivable	Reason for reversal or recovery	Reason for original provision	Accumulated provision for bad and doubtful debts before reversal or recovery	Amount reversed or recovered
Accounts receivable due from third parties	Amounts received	Full provision was made due the overdue based on ageing analysis method	219	219

(7) Accounts receivable written off during the year:

Due to the cessation of business and restructuring of Chongqing Iron & Steel Group Thermal Ceramics Company Limited in 2006, the Company 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 liquidation in late 2009 and completed the liquidation in the February 2012. The Group wrote off the provision in April 2012 (2011: Nil).

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

1 Accounts receivable *(Continued)*

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

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable *(%)*
1. Shanghai Chonggang Trade Co., Ltd	Third parry	350,853	within 1 year	32%
2. Chongqing Si Gang Steel Co., Ltd	Related party	155,643	within 2 year	14%
3. Chongqing San Gang Steel Co., Ltd	Related party	95,133	within 2 year	9%
4. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	70,571	within 2 year	7%
5. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third parry	66,251	within 1 year	6%
Total		738,451		68%

(9) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the above balance of accounts receivable (Note VI 7(2)).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables

(1) *Other receivables by customer type:*

Type	Note	2012	2011
Related parties		**1,703,385**	135,604
The third parties	VI.7(3)	**107,672**	140,781
Sub-total		**1,811,057**	276,385
Less: Provision for bad and doubtful debts		**16,958**	16,958
Total		**1,794,099**	259,427

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

Ageing	2012	2011
Within 1 year (inclusive)	**1,771,405**	247,973
1 to 2 years (inclusive)	**13,583**	3,922
2 to 3 years (inclusive)	**2,179**	2,927
Above 3 years	**23,890**	21,563
Sub-total	**1,811,057**	276,385
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,794,099**	259,427

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(Continued)*

(3) Other receivables by category:

Category	2012 Carrying amount Amount	2012 Carrying amount Percentage (%)	2012 Provision for bad and doubtful debts Amount	2012 Provision for bad and doubtful debts Percentage (%)
Individually significant and assessed individually for impairment	**1,770,615**	**98%**	**15,827**	**93%**
Individually insignificant but assessed individually for impairment	**40,442**	**2%**	**1,131**	**7%**
Total	**1,811,057**	**100%**	**16,958**	**100%**

Category	2011 Carrying amount Amount	2011 Carrying amount Percentage (%)	2011 Provision for bad and doubtful debts Amount	2011 Provision for bad and doubtful debts Percentage (%)
Individually significant and assessed individually for impairment	220,485	80%	15,827	93%
Individually insignificant but 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)

XI. 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	2012 Carrying amount	2012 Provision for bad and doubtful debt	2011 Carrying amount	2011 Provision for bad and doubtful debt
Parent Group	**1,703,385**	**—**	135,604	—

Other receivables due from other related parties see Note VI.7 (3).

(5) *Other receivables due from the top five debtors*

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivable *(%)*
1. Parent Group	Related party	1,703,385	Within 1 year	94%
2. Chongqing Customs	Third party	41,637	Within 1 year	2%
3. Zhanjiang Economic Development Zone Chongqing Iron & Steel Company Zhanjiang Industrial & Trading Joint Group Company *	Third party	10,240	Over 3 years	1%
4. CECIC Chongqing Industry Co., Ltd	Third party	9,766	Within 1 year	1%
5. People's Court of the Neijiang City in Sichuan Province*	Third party	5,587	Over 3 years	0%
Total		1,770,615		98%

* These amounts have been fully provided for.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment

(1) Long-term equity investments by category:

Item	**2012**	2011
Investments in subsidiaries	**189,589**	281,044
Investments in associates	**30,008**	—
Other long-term equity investments	**5,000**	5,000
Sub-total	**224,597**	286,044
Less: Provision for impairment	**—**	—
Total	**224,597**	286,044

(2) Long-term equity investments were as follows:

Investee	Accounting for method	Investment cost	Balance at the beginning of the year	Increase/ decrease	Balance at the end of the year	Shareholding percentage (%)	Voting Rights percentage (%)	Provision for impairment	Provision made during the year	Cash dividend for the year
Cost method-subsidiaries										
Chongqing Electronics	Cost method	29,745	29,745	11,545	41,290	100%	100%	—	—	—
San Feng Steel	Cost method	51,000	51,000	—	51,000	51%	51%	—	—	—
Chongqing Transportation	Cost method	47,299	47,299	—	47,299	100%	100%	—	—	—
East China Trading	Cost method	50,000	—	50,000	50,000	100%	100%	—	—	—
San Feng Logistics	Cost method	153,000	153,000	(153,000)	—			—	—	—
Subtotal		331,044	281,044	(91,455)	189,589			—	—	—
Equity method-associates										
San Feng Logistics	Equity method	30,000	—	30,008	30,008	10%	10%	—	—	—
Cost method-other long term equity investment										
Xiamen Shipbuilding	Cost method	5,000	5,000	—	5,000	2%	2%	—	—	—
Total		366,044	286,044	(61,447)	224,597			—	—	—

Details of information on the subsidiaries of the Company see Note IV. The equity investment in San Feng Logistics converts to equity method from cost method, refer to Note IV.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment *(Continued)*

(3) Details of major associates

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total operating income for the year	Net profit for the year
San Feng Logistics	1,370,054	1,069,976	300,078	378,431	63

4 Operating income, operating costs

(1) Operating income, operating costs

Item	2012	2011
Operating income from principal activities	**18,269,803**	23,305,238
Other operating income	**102,472**	83,088
Operating income	**18,372,275**	23,388,326
Operating costs from principal activities	**18,317,596**	22,445,915
Other operating costs	**59,494**	56,287
Operating costs	**18,377,090**	22,502,202

(2) Principal activities (by product)

Product	2012 Operating income from principal activities	2012 Operating cost from principal activities	2011 Operating income from principal activities	2011 Operating cost from principal activities
Steel plates	**9,494,230**	**9,506,060**	7,764,550	7,451,510
Hot-rolled coil	**7,090,337**	**7,147,541**	8,168,129	8,213,454
Steel billets	**499,341**	**522,388**	1,058,460	1,021,259
Steel sections	**49,401**	**55,352**	3,145,078	2,890,959
Wire rods	**23,549**	**24,726**	1,573,575	1,419,557
Cool-rolled sheets	**257,021**	**301,526**	464,978	524,899
By-product	**855,924**	**760,003**	1,130,468	924,277
Total	**18,269,803**	**18,317,596**	23,305,238	22,445,915

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income, operating costs *(Continued)*

(3) Information on the Company's operating income from top five customers

Name of customer	Operating income	Percentage of operating income
1. Shanghai Chonggang Trade Co., Ltd	1,810,856	10%
2. Chongqing Wanda Steel Strip Co., Ltd	1,390,624	8%
3. Chong Qing Jiang Nan Metal Materials Co	1,196,053	6%
4. Jiang Su Yang Chuan Materials Co., Ltd	1,148,218	6%
5. Sichuan Tianhao Metallurgy Industry Co., Ltd	865,237	5%
Total	6,410,988	35%

5 Investment income

Item	*Note*	**2012**	2011
Income from long-term equity investments under cost method	IV. 3	**307,007**	—
Investment income from disposal of financial liabilities held for trading		**(12,425)**	—
Income from long-term equity investments accounted for using cost method		**—**	14,818
Total		**294,582**	14,818

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Supplement to cash flow statement

Item	2012	2011
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("( )" for losses)	**13,577**	(1,472,733)
Add: Impairment provisions for fixed assets	**379,814**	867,688
Depreciation of fixed assets	**353,218**	369,862
Amortisation of intangible assets	**7,166**	7,009
Losses on disposal of fixed assets (gains denoted with "( )")	**39,579**	(1,710)
Loss on change in fair value (gain denoted with "( )")	**(22,157)**	15,071
Financial expenses (income denoted with "( )")	**979,589**	634,407
Investment losses (gain denoted with "( )")	**(294,582)**	(14,818)
Decrease in deferred tax assets (increase denoted with "( )")	**5,404**	92,724
Decrease in gross inventories (increase denoted with "( )")	**(995,508)**	(744,371)
Decrease in operating receivables (increase denoted with "( )")	**1,048,393**	207,672
Increase in operating payables (decrease denoted with "( )")	**4,036,995**	1,212,695
Decrease in restricted cash (increase denoted with "( )")	**(115,628)**	(725,940)
Net cash flow from operating activities	**5,435,860**	447,556
(2) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance lease	**486,782**	901,482
(3) Change in cash and cash equivalents:		
Cash at the end of the year	**3,364,836**	1,181,593
Less: Cash at the beginning of the year	**1,181,593**	1,290,146
Add: Cash equivalents at the end of the year	**—**	—
Less: Cash equivalents at the beginning of the year	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "( )")	**2,183,243**	(108,553)

1 EXTRAORDINARY GAIN AND LOSS

Item	Note	2012	2011
Disposal of non-current asset		**(40,398)**	1,781
Tax refunds, exemptions and reductions without proper approved or without formal approval document		**150**	5,479
Government grants recognised through profit or loss	V.46(2)	**2,001,616**	4,521
Fees for reorganization		**(17,157)**	—
Investment income		**369,274**	—
Profit or loss of subsidiaries generated before combination date of a business combination involving entities under common control		**—**	1,529
Actual additional expenditure incurred in relation to the environmental relocation	(1)	**(163,739)**	(495,660)
Amount for free use of the Parent Group's assets	(1)	**162,739**	503,204
Other non-operating income and expenses other than the above items		**2,220**	5,441
Less: Amount of effect on taxation		**347,244**	4,211
Total		**1,967,461**	22,084

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 free use of the iron and steel refinery production line (as stated in Note I). As estimated by both the Parent Group and the Company, the extra relocation-related expenses incurred in 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 in 2012 amounted to RMB 162,739,000 (as stated in Note VI.6 (5).

2 RETURN ON NET ASSETS AND EARNINGS PER SHARE

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

Profit under reporting period	Weighted average return on net asset (%)	Earnings per share Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	2.40%	0.057	0.057
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	(45.31%)	(1.078)	(1.078)

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS

(1) Cash at bank and on hand

The increase in the balance of cash at bank and on hand was mainly due to the RMB 2 billion government grants received in December 2012 by the Group.

(2) Bills receivable

The decrease in the balance of bills receivable was mainly due to the increase in discount and endorsement of the bills by the Group.

(3) Accounts receivable

The increase in the balance of accounts receivable was mainly due to the looser credit policy for strategic clients implemented by the Group.

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(4) Prepayment

The increase in the balance of prepayment was mainly due to the increase in the prepayments for goods.

(5) Other receivables

The increase in the balance of other receivables was mainly due to the increase in compensation for the impairment losses of fixed assets related to environmental relocation receivable from the Parent Group.

(6) Long-term equity investments

The increase in the balance of long-term equity investment was mainly due to that the Group disposed of the 41% equity investment in San Feng Logistics in 26 December 2012. Upon completion of the disposal, the equity investment of San Feng Logistics held by the Company decreased from 51% to 10%. As a result, instead of being a controlling shareholder, the Company has significant influence over San Feng Logistics.

(7) Construction in progress

The increase in the balance of construction in progress was mainly due to the Group's further investment and development of the Product restructuring project in 2012.

(8) Fixed assets to be disposed of

As the compensation for the impairment losses of fixed assets related to the environmental relocation has been transferred to other receivables, the balance of fixed assets to be disposed of decreased accordingly.

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(9) Other non-current assets

The increase in the balance of other non-current assets was mainly due to the Group prepaid land premiums and related tax expense to the Bureau of Land and Resource of Changshou District, Chongqing.

(10) Short-term loans

The increase in the balance of short-term loans was mainly due to the Group increased short-term loans for operating needs.

(11) Bills payable

The increase in the balance of bills payable was mainly due to the increasing use of bills as the settlement method by the Group in 2012.

(12) Accounts payable

The increase in the balance of accounts payable was mainly due to the Group has delayed payments to suppliers by making better use of the credit period and increase of construction and equipment payables for new construction in progress in 2012.

(13) Advances from customers

The increase in the balance of advances from customers was mainly due to the Group established stable strategic long-term partnership with some customers such as China Shipping Logistics Co., Ltd, and the balance of advances increased accordingly.

(14) Interest payable

The decrease in the balance of interest payable was mainly due to the repayment of loans and interests.

(15) Other payables

The increase in the balance of other payables was mainly due to the delay of settling part of other payables with the related parties.

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(16) Long-term loans

The decrease in the balance of long-term loans was mainly due to the reclassification of the long-term loans due within one year to non-current liabilities due within one year in 2012.

(17) Long-term payables

The decrease in the balance of long-term payables was mainly due to the payment of the rent of finance leases by the Group in 2012.

(18) Other non-current liabilities

The decrease in the balance of other non-current liabilities was mainly due to the reclassification of the advances from Chongqing City Construction and Investment Company which will due within one year to advances from customers.

(19) Financial expenses

The increase in financial expenses was mainly due to the increase in expenses from discounted bills and the amortization of financial leases.

(20) Impairment loss

The decrease in loss from changes in fair value was mainly due to the decrease in provision for diminution in value of inventories in 2012.

(21) Investment income

Investment income mainly represented gain on transferring the equity investment of San Feng Logistcs on 26 December 2012.

(22) Non-operating income

The increase in non-operating income was mainly due to the RMB 2 billion government grants which compensated the Group for expenses incurred received in 2012.

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(23) Non-operating expense

The increase in non-operating expense was mainly due to the increase in net losses resulting from the disposal of fixed assets and construction in progress.

(24) Income tax expense

The decrease in income tax expense was mainly due to the Group reduced the book value of deferred tax assets recognised in previous year by RMB 92,154,000 in 2011, while in 2012 the reduced amount is smaller.

Documents Available for Inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. The original copy of the auditor's report stamped by the accounting firm and signed and stamped by certified public accountant.

3. The original copies of all documents and announcements of the Company which have been publicly disclosed in newspapers designated by CSRC during the Reporting Period.

Chairman: **Deng Qiang**
Chongqing Iron & Steel Company Limited

28 March 2013