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)

2013 INTERIM REPORT

Contents

IMPORTANT NOTICE

1. The Board, the Supervisory Committee, and directors, supervisors and senior management of Company warrant that there are no false representations, misleading statements contained in or material omissions from this interim report and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents of this interim report.

2. All directors of the Company attended Board meetings.

3. The interim financial statements of the Company are unaudited.

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 interim report.

5. The forward-looking statements set out in this interim 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. During the Reporting Period, the Company did not provide external guarantee in violation of the stipulated decision making procedure.

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

Definition

I. DEFINITION

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

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	From January to June in 2013
RMB, RMB'000	RMB yuan, RMB'000 yuan

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. CHANGES IN 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. CHANGES IN INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Name of newspapers designated by the Company for information disclosure	China Securities Journal, Shanhai Securities News, Securities Times and Securities Daily
Website designated by CSRC for publishing interim reports	www.sse.com.cn
Place for inspection of interim 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	01053	/

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD

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

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	

I THE COMPANY'S KEY FINANCIAL DATA AND INDICATORS

(I) Major financial data

Unit: RMB'000

Major financial data	**For the Reporting Period (Jan.—Jun.)**	For the corresponding period of last year	Increase/ decrease from the corresponding period of last year *(%)*
Operating revenue	**9,294,698**	10,282,042	-9.60%
Net profit attributable to shareholders of the Company	**-1,115,978**	-648,046	72.21%
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**-1,120,458**	-648,069	72.89%
Net cash flow from operating activities	**-388,547**	1,859,238	-120.90%

	At the end of the Reporting Period	At the end of last year	Increase/ decrease at the end of reporting period from the end of last year *(%)*
Net assets attributable to shareholders of the Company	**3,057,957**	4,173,976	-26.74%
Total assets	**30,503,785**	31,106,399	-1.94%

I THE COMPANY'S KEY FINANCIAL DATA AND INDICATORS *(Continued)*

(II) Major financial indicators

Major financial indicators	**For the Reporting Period (Jan.—Jun.)**	For the corresponding period of last year	Increase/ decrease from the corresponding period of last year *(%)*
Basic earnings per share *(RMB/share)*	**-0.644**	-0.374	72.19%
Diluted earnings per share *(RMB/share)*	**-0.644**	-0.374	72.19%
Basic earnings per share after extraordinary gain and loss *(RMB/share)*	**-0.646**	-0.374	72.73%
Return on net assets (weighted average) *(%)*	**-30.86**	-17.28	Decreased by 13.58 percentage points
Return on net assets net of extraordinary gain and loss (weighted average) *(%)*	**-30.99**	-17.28	Decreased by 13.71 percentage points

II. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNTS

Unit: RMB'000

Extraordinary gain and loss item	Amount	Note (if applicable)
Gain or loss arising from disposal of non-current assets	173	
Tax refund or relief arising from unauthorized approval, without official approval or on an occasional basis	2,225	
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	2,639	
Other non-operating income and expenses except items above	-839	
Other gain or loss items falling into the definition of extraordinary gain or loss	1,573	
Effect of income tax	1,291	
Total	4,480	

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the overall situation of the steel industry remained bleak, with excessive overcapacity, sustained recession in the steel market, and increasingly fierce competition, which in turn left the Group under great pressure, with multiple difficulties in its production and operation. Facing such difficulties and pressure, the Group thoroughly followed the general requirement of "highly-efficient production, comprehensively reducing costs, tapping potential by benchmarking, structural adjustment" to ensure balance between production and sales, by sticking to the market-driven approach and proactively adapting to market demands. Meanwhile, by vigorously developing new products, enhancing product quality, consolidating resources and raising technical and economic indicators, the Group achieved products optimization and structural adjustment under the existing conditions, and maximized the effect of its efforts to maintain the current scale and control losses.

During the Reporting Period, the Group managed to comprehensively reduce costs by RMB287 million, by taking a series of effective cost-reduction measures covering purchase of raw and auxiliary materials, logistics costs, production procedure and period expenses. Through the campaign of tapping potential by benchmarking, among the 42 specified major technical and economic indicators, 28 improved significantly as compared with 2012, representing an improvement rate of 66.67%. Meanwhile, the self-generated power by the Group actually amounted to 219 million KWh, representing a year-on-year increase of 9.39%, which brought the Company RMB109 million in earnings. The ratio of self-generated power reached 79.38%, up 16.04 percentage points over the corresponding period of last year, which ranked at the top in the industry.

During the Reporting Period, the Group produced 2,900,000 tonnes of iron, 2,960,000 tonnes of steel and 2,680,000 tonnes of steel products, representing an increase of 7.52%, 5.64%, and 9.23% respectively as compared with the same period of last year, thus well completing the task of maintaining the current production scale. However, owing to the material adverse impact of the general conditions of the domestic steel industry, in the first half of 2013, the Group's sales revenue only came at RMB9,295,000,000, representing a year-on-year decrease of 9.60%; which left the Group in heavy losses and trapped in huge difficulties in production and operation.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(I) Analysis of principal operations

1. *Analysis table on relevant item changes in the financial statements*

Unit: RMB'000

Item	For the period	For the corresponding period of last year	Change *(%)*
Operating revenue	**9,294,698**	10,282,042	-9.60%
Operating costs	**9,394,978**	10,022,619	-6.26%
Selling and distribution expenses	**188,125**	191,924	-1.98%
General and administrative expenses	**450,092**	347,334	29.58%
Financial expenses	**376,021**	542,663	-30.71%
Net cash flow from operating activities	**-388,547**	1,859,238	-120.90%
Net cash flow from investing activities	**-748,971**	-393,632	90.27%
Net cash flow from financing activities	**-1,632,795**	-1,703,725	-4.16%
Research and development expenses	**263,040**	307,433	-14.44%

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. *Others*

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

In the first half of 2013, the Group's operating revenue amounted to RMB9,294,698,000 representing a year-on-year decrease of 9.6%; revenue from principal operations amounted to RMB9,273,255,000, representing a year-on-year decrease of 9.39%; total profit amounted to RMB-1,113,822,000, representing a year-on-year increase of loss of 71.88%, and net profit amounted to RMB-1,115,978,000, representing a year-on-year increase of loss of 72.21%, mainly due to the following reasons:

1 In the first half of 2013, the Group's revenue from the principal operation of steel products (billets) amounted to RMB8,718,528,000, representing a year-on-year decrease of 10.76%, mainly due to the sustained decline in the selling prices as a result of the continued slump in the steel market.

	Operating revenue for the first half of 2013		Operating revenue for the first half of 2012		Year-on-year increase/ decrease
Product	Amount	Percentage (%)	Amount	Percentage (%)	(%)
Steel plates	**4,243,486**	**45.76**	5,223,261	51.05	-18.76
Hot rolled coil	**4,266,358**	**46.01**	4,010,407	39.18	6.38
Cool rolled plates	**133,792**	**1.44**	148,414	1.45	-9.85
Steel sections	—	—	39,250	0.38	-100.00
Wire rods	—	—	22,951	0.22	-100.00
Steel billets	**74,892**	**0.81**	325,682	3.18	-77.00
Subtotal	**8,718,528**	**94.02**	9,769,965	95.46	-10.76
Others	**554,727**	**5.98**	464,843	4.54	19.34
Total	**9,273,255**	**100.00**	10,234,808	100.00	-9.39

The average selling price of the Group's steel products (billets) was RMB3,370 per tonne, representing a year-on-year drop of 10.25%, which reduced sales revenue by approximately RMB997,984,000; the Group sold 2,587,000 tonnes of steel products (billets), representing a year-on-year decrease of 0.58%, which reduced sales revenue by approximately RMB53,453,000.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. *Others* *(Continued)*

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

1 In the first half of 2013, the Group's revenue from the principal operation of steel products (billets) amounted to RMB8,718,528,000, representing a year-on-year decrease of 10.76%, mainly due to the sustained decline in the selling prices as a result of the continued slump in the steel market. *(Continued)*

Product	First half of 2013 (RMB/tonne)	First half of 2012 (RMB/tonne)	Year-on-year increase/ decrease (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	3,453	3,869	-10.75	-511,263
Hot rolled coil	3,289	3,639	-9.62	-453,950
Cool rolled plates	3,935	4,497	-12.50	-19,108
Steel sections	—	3,320	-100.00	0
Wire rods	—	3,739	-100.00	0
Steel billets	2,774	3,290	-15.68	-13,932
Total	3,370	3,755	-10.25	-998,254

Product	First half of 2013 (0'000 tonnes)	First half of 2012 (0'000 tonnes)	Year-on-year increase/ decrease (%)	Increase/ decrease in contribution to revenue (RMB'000)
Steel plates	122.90	135.00	-8.96	-468,149
Hot rolled coil	129.70	110.21	17.68	709,241
Cool rolled plates	3.40	3.30	3.03	4,497
Steel sections		1.18	-100.00	-39,176
Wire rods		0.61	-100.00	-22,808
Steel billets	2.70	9.90	-72.73	-236,880
Total	258.70	260.20	-0.58	-53,275

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. ***Others*** *(Continued)*

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

2 The cost of principal operations (steel billets) dropped by 6.26% 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 from principal operations for the current period saw a decline, which is the main reason for the increase of loss for the period.

3 The period expense incurred by the Group was RMB1,014,238,000, representing a decrease of RMB67,683,000 from last year, mainly due to (i) a year-on-year decrease of RMB166,642,000 in financial expenses, as the Group had relatively adequate capital at the beginning of the year and repaid certain borrowings upon expiry, which reduced interest expenses on borrowings and expenses of discounting bills in the period; Meanwhile, exchange rate changes in the period produced gains, as compared with losses in the same period of last year, which also led to a year-on-year decline in financial expenses; (ii)A year-on-year increase of RMB102,758,000 in general and administrative expenses, as the Group arranged overhaul in the first half of the year, which led to an increase in repair expenses.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. ***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 RMB8,682,000, representing a decrease of RMB157,173,000, mainly because the agreement in which Chongqing Iron & Steel Group Limited Company authorized the Group to use relevant assets for free expired on 31 March 2012 and there was no compensation for relocation in the period, while in the same period of last year, there was RMB162 million in compensation for the extra losses caused by environmental relocation.

(2) Analysis of financial position during the Reporting Period

1 As at 30 June 2013, the Group's total assets amounted to RMB30,503,785,000 and total liabilities amounted to RMB27,426,828,000, with a gearing ratio was 89.91%. Current assets amounted to RMB15,011,138,000; current liabilities amounted to RMB23,662,946,000; current ratio was 0.63.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. *Others* *(Continued)*

(2) Analysis of financial position during the Reporting Period *(Continued)*

2 In the first half of 2013, the steel industry remained sluggish, with significant declines in steel product prices since the second quarter which caused the Company to incur substantial operating losses, and the funds used for inventories increased. As a result, net cash flow from operating activities for the current period decreased by RMB388,547,000. Net cash flow from financing activities decreased by RMB1,632,795,000 due to repayment of liabilities under finance leases; the cost paid for the environmental relocation was RMB748,971,000; The net cash and cash equivalents of the Group for the current period decreased by RMB2,770,313,000.

3 Items of cash flow statement

Unit: RMB'000

Item	Jan-Jun 2013	Jan-Jun 2012	Main reasons for the changes
Net cash flow from operating activities	**-388,547**	1,859,238	Due to sustained losses of the Company, the increase in funds used for inventories and the use of time letter of credit for payment in the same period of last year, cash flow from operating activities decreased by RMB2.25 billion as compared with the corresponding period of last year.
Net cash flow from investing activities	**-748,971**	-393,632	Due to increase in the subsequent engineering expenses for the environmental relocation.
Net cash flow from financing activities	**-1,632,795**	-1,703,725	Net cash flow from financing activities decreased due to repayment of liabilities under finance leases.
Net increase in cash and cash equivalents	**-2,770,313**	-238,119	

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

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

2. ***Others*** *(Continued)*

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

The reorganisation plan between the Group and the Parent Company has been submitted to the CSRC, but relevant approval was yet to be obtained as at the end of the Reporting Period.

(4) Explanation for the progress of business plans

In face of a long-running crisis for the steel industry, all our management officers and employees have vigorously pressed ahead with relevant tasks, and worked out effective measures to actively tackle changing market conditions and endeavor to achieve the preset targets of all member companies. During the Reporting Period, the Group made unsparing efforts to reduce and control losses, and achieved certain results.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(II). Analysis of operation by industry, product or region

1. *Principal operations by industry and product*

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 the corresponding period of last year (%)	Increase/ decrease in operating costs from the corresponding period of last year (%)	Increase/ decrease in gross profit margin from the corresponding period of last year (%)
Iron and steel	9,233,857	9,348,697	-1.24	-9.52	-6.31	-3.46
Electronic services	15,144	12,253	19.09	106.04	110.32	-1.64
Transportation	24,254	19,828	18.25	7.68	-7.26	13.17

Principal operations by product						
By product	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)	8,718,528	8,932,005	-2.45	-10.76	-6.81	-4.35
By-products	515,329	416,692	19.14	18.47	5.75	9.73
Electronic engineering design, and installation	15,144	12,253	19.09	106.04	110.32	-1.64
Transportation	24,254	19,828	18.25	7.68	-7.26	13.17

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(II). Analysis of operation by industry, product or region *(Continued)*

2. *Principal operations by region*

Unit: RMB'000

Region	Revenue from principal operations	Increase/ decrease in revenue from principal operations from the corresponding period of last year *(%)*
Southwestern region	3,561,110	-34.23
Other regions	5,712,145	18.50
Total	9,273,255	-9.39

(III) 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.

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(III) Analysis of core competitiveness *(Continued)*

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.

The 16MnR steel plates, 20g steel plates, 20R steel plates, 16MnDR steel plates and HP345 steel plates produced by the Company, have been 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. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(IV) 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

Entrusted wealth management products

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. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(IV) Analysis of investments *(Continued)*

4. *Analysis of major subsidiaries and investees*

Unit: 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	86,315	57,564	4,354
Chongqing Iron & Steel Group Transportation Company Limited	Ordinary freight, hazardous goods transportation, chartered bus transportation, vehicle maintenance and repair	21,000	100	84,511	34,925	-10,967
San Feng Jingjiang Port Logistics Company Limited	Cargo handling, lighterage, storage agency, freight agency, loading distribution, ordinary freight, etc.	300,000	10	1,318,807	300,175	97
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	70,000	72.86	76,947	70,000	
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	252,485	54,558	2,089

I. DISCUSSION AND ANALYSIS OF DIRECTORS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

(IV) Analysis of investments *(Continued)*

5. *Projects financed by non-raised proceeds*

Unit: RMB'000

Name of project	Amount	Progress	Amount invested in the Reporting Period	Total amount actually invested	Earnings
Coking project	1,098,546	100%	56,584	838,548	N/A
Product mix adjustment project	3,764,322	95%	687,704	3,303,966	N/A
Waste heat power generation project	375,000	94%	86,507	352,480	N/A
Phase II low-temperature waste heat project in the New District (新區二期低溫餘熱)	37,290	52%	19,518	19,518	N/A
Limestone transport system	61,180	100%	2,488	66,048	N/A
Dabaopo project	44,906	100%	—	32,353	N/A
Jingxing Mine project	76,740	36%	—	27,954	N/A
Revamp project	428,705	100%	62,618	466,101	N/A
Others	—		48,094	93,330	N/A
Total	5,886,689	963,513	5,200,298		

II. OUTLOOK

The slump in the steel industry would persist in the second half of 2013. In the second half of this year, the Group will revolve around profitability and ensure the smooth production in the New District. Major efforts would be put into reducing costs and improving profits, with the aim of reducing and controlling the losses, the principal business. To achieve the goal of "reducing and controlling losses", the Company would draw on experience in a timely manner, master market principles and implement the fundamental production and operation guideline of "revolving around two centers and good performance of five tasks." That is, the Company would revolve around ironmaking to ensure the stable and smooth operation of furnaces, leading to effective and smooth operation throughout all the production processes and realization of proper economy of scale. Also, the Company will revolve around financial management through refined cost accounting and more rigorous cost control. The cost accounting for the operations would be carried out on an ongoing basis. Production would be neatly organized in a way that puts profitability first. The Company will strive to substantially reduce losses and try to ensure the losses in the second half of the year would be smaller than in the first half. The Company would take the following measures:

1. Meticulous organization to support the stable and smooth production. The Company's efforts would revolve around making breakthroughs in four key areas which include meeting standards for all functions of the production system, accidents control, reducing unplanned products and increasing the rate of contract fulfillment, thereby ensuring the production is stable and highly efficient.

2. To carry out cost saving in an all-round way. In addition to organizing efficient production, the Company will benchmark itself against the best producers in the industry and find out the gap in the performance. Cost saving efforts would be focused on the pre-production process and steelmaking process to ensure the costs of the work procedures are within effective control. Meanwhile, the Company will monitor any change in the market, optimize inventory structure and control the pace of purchasing to continue cutting general logistics costs and controlling expenses. All these efforts are designed to help the Company control and reduce losses.

3. Improving technical and economic indicators in an all-round way. The Company will focus on the four systems which include the levels of best-performing peers in the industry, average level in the industry, historical levels of own indicators and the designed level of indicators. The Company will unleash potential by means of benchmarking key technical and economic indicators to improve the technical and economic indicators.

II. OUTLOOK *(CONTINUED)*

4. Pressing ahead with adjusting the structure of product portfolio. The Company will make a careful analysis of product profitability, based on which the product portfolio and marketing efforts would be adjusted. The structure of the Company's offerings of medium-gauge shipbuilding plates would be adjusted in accordance with product performance and function and the work on producing shipbuilding steel products in series would be improved, making for a shift from the biggest producer to the best one (with high-grade, high-quality products and short lead time). The Company will expand the sales of marine steel, pipeline steel, vessel steel, bridge steel, automotive steel, structural steel etc. The Company will launch competitive hot-rolled products and further increase its market share in Chongqing and western China.

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

(I) The implementation and adjustment to the profit distribution plan for the Reporting Period

The Company held the annual general meeting on 13 June 2013 and considered and approved the profit distribution plan for 2012, pursuant to which the Company would neither pay dividends to distribute profit nor transfer the capital reserve to share capital. In accordance to relevant rules, such matters have been disclosed in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times and on the websites of Shhanghai Stock Exchange and the Stock Exchange of Hong Kong Limited.

The formulation and execuation of this plan complied with the articles of association of the Company and the resolution made at the general meeting. The relevant decision-making procedures and mechanism were complete where the independent directors performed their duties assiduously and duly played their roles.

(II) Preliminary proposal for profit distribution (interim dividend) or transfer of capital reserve to share capital for the half year

Considering the substantial losses the Group suffered for business operation in the first half of 2013 after non-recurring profit and loss and considerable capital needs in future periods, the Board proposed neither to distribute profit for the first half of 2013 nor to transfer the capital reserve to share capital. (That is, the Board does not recommend the payment of an interim dividend for the year 2013.)

IV. OTHER DISCLOSURES

(I) Warning or statement that the aggregate net profit from the beginning of the year to the end of next reporting period may be loss-making or record a substantial year-on-year change

The Group embarked on benchmarking to unleash potential and made adjustments to product portfolio to reduce costs and losses, which produced remarkable effects. Yet, as there has been no turnaround in the steel market, it is expected that the aggregate net profit till the end of next reporting period would still be loss-making.

(II) Explanation from the Board for the "Non-standard Audit Report" issued by the accountant firm

✓ N/A

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

In the Reporting Period, the Company had no material lawsuit, arbitration or matters questioned by the media.

II. BANKRUPTCY REORGANISATION RELATED MATTERS

The Company had no bankruptcy reorganisation related matters in the Reporting Period.

III. ASSETS TRADING AND BUSINESS COMBINATION

✓ N/A

IV. SHARE OPTION INCENTIVE AND ITS IMPACT

✓ N/A

V. MATERIAL RELATED PARTY TRANSACTION

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

(1) 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).

1> 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).

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

1) Service and Supply Agreement *(Continued)*

2> 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.

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

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

1) Service and Supply Agreement *(Continued)*

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

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

2) 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 24 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.

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

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

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

As at 30 June 2013, 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.

3) Procurement Agreement

On 26 July 2011, the Company and Chongqing Iron & Steel Hong Kong, a wholly-owned subsidiary of the Parent Company, entered into a Procurement Agreement (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 5,000,000 tons of iron ore and approximately 500,000 tons of coking coal in each of 2012 and 2013 for the Company's own production use.

V. MATERIAL RELATED PARTY TRANSACTION *(Continued)*

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

(2). Matters undisclosed in extraordinary announcements

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 Mining Company Limite	Under common control of Chongqing Iron & Steel Group	Related purchase	Ore and accessories	By reference to market price		810,748	9.92%			
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy	By reference to market price		267,265	94.91%			
Chongqing Wuxia Mining Industry Incorporated Company	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Coal	By reference to market price		96,538	3.05%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Fixed assets and scrap steel	By reference to market price		50,114	5.78%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Accessories and energy, scrap steel	By reference to market price		19,465	1.52%			
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Fixed assets and accessories	By reference to market price		8,751	1.03%			
Chongqing Iron & Steel Research Institute	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Alloy	By reference to market price		4,361	0.99%			
Chongqing Iron & Steel Group Design and Research Institute	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Fixed assets	By reference to market price		32,518	10.46			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Energy and accessories	By reference to market price		2,467	0.88%			
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under common control of Chongqing Iron & Steel Group	Purchase of goods	Refractory materials	By reference to market price		932	0.64%			
Others		Purchase of goods				2,177				
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Energy and accessories	By reference to market price		170,646	73.58%			
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Energy and accessories	By reference to market price		44,555	19.21%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Steel and accessories	By reference to market price		18,485	0.21%			
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Steel	By reference to market price		10,419	0.12%			
Chongqing Iron & Steel Group	Under common control of Chongqing Iron & Steel Group	Sales of goods	accessories	By reference to market price		3,611	0.04			
Chongqing San Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Steel	By reference to market price		2,623	0.03%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Sales of goods	Steel and accessories	By reference to market price		7,797	0.09%			
Others		Sales of goods				4,292				

VI. MATERIAL CONTRACTS AND EXECUTION THEREOF

(I) 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	5,768	1 January 2013	30 June 2013	336.35	Lease agreement	It formed part of other operating income	No	Other

(II) Guarantee

Unit: RMB'000

Guarantees provided by the Company for subsidiaries	
Total amount of guarantees for subsidiaries during the Reporting Period	
Total balance of guarantees for subsidiaries at the end of the Reporting Period	760,000
Total amount of guarantees provided by the Company (including those for subsidiaries)	
Total amount of guarantees	760,000

In January to June 2013, the Company did not offer external guarantees but provided a RMB700 million guarantee for its former controlled subsidiary San Feng Jingjiang Port Logistics Company Limited, and 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 RMB60 million 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 RMB760 million.

VI. MATERIAL CONTRACTS AND EXECUTION THEREOF *(Continued)*

(III) Other material contracts or transaction

The Company had no other material contracts for the year.

VII. 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 30 June 2013, there was no change in the commitments and fulfillment thereof.

VIII. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

On 13 June 2013, the Proposal for Re-appointment of KPMG Huazhen (Special General Partnership) as the Auditor and Internal Control Auditor of the Company for the Year 2013 was passed at the 2012 Annual General Meeting of the Company.

IX. 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

During the Reporting Period, 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.

X. CORPORATE GOVERNANCE

The Company operates strictly in accordance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Listing Rules of the Stock Exchange and has established a sound corporate governance system and effective internal control system.

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

(I) Others

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

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

(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. PARTICULARS OF SHAREHOLDERS

(I) Number of shareholders and their shareholding

Unit: share

Total number of shareholders at the end of the Reporting Period	94,694, including 94,387 holders of A Shares and 307 holders of H Shares

II. PARTICULARS OF SHAREHOLDERS *(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	800,800,000	0	0	Nil 0
HKSCC NOMINEES LIMITED	Foreign legal person	30.4	526,913,870	-18,400	0	Unknown
Guotai Junan Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (國泰君安證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.15	2,651,900	1,673,200	0	Unknown
Bai Jiping (白計平)	Domestic natural person	0.13	2,310,000	0	0	Unknown
Client Credit Trading Guarantee Securities Account of China Securities Co., Ltd. (中信建投證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.11	1,832,589	1,832,589	0	Unknown
Client Credit Trading Guarantee Securities Account of Shanxi Securities Co., Ltd. (山西證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.1	1,738,552	1,738,552	0	Unknown
Zhou Yong (周勇)	Domestic natural person	0.09	1,600,000	0	0	Unknown
Chen Taidu (陳泰杜)	Domestic natural person	0.07	1,166,100	1,166,100	0	Unknown
Shen Sasa (申颯颯)	Domestic natural person	0.06	1,105,700	1,105,700	0	Unknown
Xin Yu (辛渝)	Domestic natural person	0.06	1,073,600	0	0	Unknown

II. PARTICULARS OF SHAREHOLDERS *(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.	800,800,000	RMB-denominated ordinary shares	800,800,000
HKSCC NOMINEES LIMITED	526,913,870	Overseas listed foreign shares	526,913,870
Guotai Junan Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (國泰君安證券股份有限公司客戶信用交易擔保證券賬戶)	2,651,900	RMB-denominated ordinary shares	2,651,900
Bai Jiping (白計平)	2,310,000	RMB-denominated ordinary shares	2,310,000
Client Credit Trading Guarantee Securities Account of China Securities Co., Ltd. (中信建投證券股份有限公司客戶信用交易擔保證券賬戶)	1,832,589	RMB-denominated ordinary shares	1,832,589
Client Credit Trading Guarantee Securities Account of Shanxi Securities Co., Ltd. (山西證券股份有限公司客戶信用交易擔保證券賬戶)	1,738,552	RMB-denominated ordinary shares	1,738,552
Zhou Yong (周勇)	1,600,000	RMB-denominated ordinary shares	1,600,000
Chen Taidu (陳泰杜)	1,166,100	RMB-denominated ordinary shares	1,166,100
Shen Sasa (申颯颯)	1,105,700	RMB-denominated ordinary shares	1,105,700
Xin Yu (辛渝)	1,073,600	RMB-denominated ordinary shares	1,073,600

II. PARTICULARS OF SHAREHOLDERS *(Continued)*

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

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.

III. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

There was no change in the controlling shareholder or de facto controller of the Company during the Reporting Period.

I CHANGES IN SHAREHOLDINGS

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

There was no change in shareholding of directors, supervisors and senior management of the Company during the Reporting Period.

II CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change	Reason for change
Guan Zhaohui	Director	**Elected**	Election at the 2012 annual general meeting
Xia Tong	Supervisor	**Elected**	Election at the 2012 annual general meeting
Zhu Jianpai	Supervisor	**Retired**	Adjustment due to business affairs
Xia Tong	Director	**Retired**	Adjustment due to business affairs

Note: Mr. Sun Yijie, a director of the Company, resigned as a director and a member of the Strategy Committee of the Company on 11 July 2013 due to adjustment to business affairs.

Consolidated balance sheet

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	Closing balance	Opening balance
Current assets			
Cash at bank and on hand	V.1	**1,000,802**	3,800,917
Bills receivable	V.2	**669,958**	779,131
Accounts receivable	V.3	**933,021**	1,057,179
Prepayments	V.4	**203,866**	880,823
Other receivables	V.5	**1,585,552**	1,802,681
Inventories	V.6	**9,815,925**	7,196,682
Other current assets	V.7	**802,014**	473,185
Total current assets		**15,011,138**	15,990,598
Non-current assets			
Long-term equity investments	V.8	**109,739**	109,739
Fixed assets	V.9	**8,092,112**	8,282,293
Construction in progress	V.10	**5,200,298**	4,236,785
Construction materials	V.11	**948,594**	1,190,982
Fixed assets to be disposed of	V.12	**170,452**	320,732
Intangible assets	V.13	**880,610**	350,789
Deferred tax assets	V.14	**17,892**	17,892
Other non-current assets	V.15	**72,950**	606,589
Total non-current assets		**15,492,647**	15,115,801
Total assets		**30,503,785**	31,106,399

The notes on pages 52 to 171 form part of these financial statements.

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	Closing balance	Opening balance
Current liabilities			
Short-term loans	V.18	**5,611,490**	5,620,216
Financial liabilities held for trading	V.19	**1,556**	1,556
Bills payable	V.20	**1,000,744**	861,000
Accounts payable	V.21	**9,620,076**	7,486,179
Advances from customers	V.22	**3,248,484**	3,646,951
Employee benefits payable	V.23	**160,363**	157,904
Taxes payable	V.24	**3,640**	5,618
Interest payable	V.25	**78,363**	22,173
Other payables	V.26	**589,854**	708,640
Non-current liabilities due within one year	V.27	**3,340,664**	3,862,674
Other current liabilities		**7,712**	7,712
Total current liabilities		**23,662,946**	22,380,623
Non-current liabilities			
Long-term loans	V.28	**451,045**	799,408
Debentures payable	V.29	**1,974,144**	1,971,617
Long-term payables	V.30	**1,214,190**	1,635,025
Other non-current liabilities	V.31	**124,503**	126,750
Total non-current liabilities		**3,763,882**	4,532,800
Total liabilities		**27,426,828**	26,913,423

The notes on pages 52 to 171 form part of these financial statements.

Consolidated balance sheet (Continued)

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	**Closing balance**	Opening balance
Shareholders' equity			
Share capital	V.32	**1,733,127**	1,733,127
Capital reserve	V.33	**1,109,163**	1,109,163
Specific reserve	V.34	**1,574**	1,615
Surplus reserve	V.35	**606,991**	606,991
Retained earnings	V.36	**(392,898)**	723,080
Total equity attributable to shareholders of the Company		**3,057,957**	4,173,976
Minority interests		**19,000**	19,000
Total shareholders' equity		**3,076,957**	4,192,976
Total liabilities and shareholders' equity		**30,503,785**	31,106,399

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative *(Signature and stamp)*	*The person in charge of accounting affairs* *(Signature and stamp)*	*The head of the accounting department* *(Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Balance sheet

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	Closing balance	Opening balance
Current assets			
Cash at bank and on hand		**983,272**	3,771,189
Bills receivable		**658,459**	769,881
Accounts receivable	IX.1	**710,524**	931,263
Prepayments		**91,209**	304,375
Other receivables	IX.2	**1,576,669**	1,794,099
Inventories		**9,799,866**	7,184,212
Other current assets		**800,621**	470,533
Total current assets		**14,620,620**	15,225,552
Non-current assets			
Long-term equity investments	IX.3	**224,597**	224,597
Fixed assets		**8,046,595**	8,232,887
Construction in progress		**5,198,481**	4,233,224
Construction materials		**948,594**	1,190,982
Fixed assets to be disposed of		**166,196**	316,476
Intangible assets		**876,533**	346,662
Deferred tax assets		**17,116**	17,116
Other non-current assets		**72,950**	606,589
Total non-current assets		**15,551,062**	15,168,533
Total assets		**30,171,682**	30,394,085

The notes on pages 52 to 171 form part of these financial statements.

Balance sheet (Continued)

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	*Note*	**Closing balance**	Opening balance
Current liabilities			
Short-term loans		**5,551,489**	5,555,216
Financial liabilities held for trading		**1,556**	1,556
Bills payable		**1,000,744**	861,000
Accounts payable		**9,567,415**	7,445,606
Advances from customers		**3,096,658**	3,124,969
Employee benefits payable		**156,666**	154,204
Taxes payable		**2,775**	2,791
Interest payable		**78,363**	22,173
Other payables		**630,580**	744,930
Non-current liabilities due within one year		**3,340,664**	3,862,674
Other current liabilities		**7,712**	7,712
Total current liabilities		**23,434,622**	21,782,831
Non-current liabilities			
Long-term loans		**451,045**	799,408
Debentures payable		**1,974,144**	1,971,617
Long-term payables		**1,214,190**	1,635,025
Other non-current liabilities		**122,909**	126,750
Total non-current liabilities		**3,762,288**	4,532,800
Total liabilities		**27,196,910**	26,315,631

The notes on pages 52 to 171 form part of these financial statements.

as at 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	Closing balance	Opening balance
Shareholders' equity			
Share capital		**1,733,127**	1,733,127
Capital reserve		**1,140,611**	1,140,611
Surplus reserve		**577,012**	577,012
Retained earnings		**(475,978)**	627,704
Total shareholders' equity		**2,974,772**	4,078,454
Total liabilities and shareholders' equity		**30,171,682**	30,394,085

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Consolidated income statement

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Note	Jan-Jun 2013	Jan-Jun 2012
I.	**Operating income**	V.37	**9,294,698**	10,282,042
II.	**Less: Operating costs**	V.37	**9,394,978**	10,022,619
	Business taxes and surcharges		**5,075**	5,675
	Selling and distribution expenses		**188,125**	191,924
	General and administrative expenses		**450,092**	347,334
	Financial expenses		**376,021**	542,663
	Add: Investment income ("( )" for losses)		**—**	16,305
III.	**Operating profit ("( )" for losses)**		**(1,119,593)**	(811,868)
	Add: Non-operating income	V.38	**8,682**	165,855
	Less: Non-operating expenses	V.39	**2,911**	2,017
	Including: Losses from disposal of non-current assets		**3**	1,769
IV.	**Profit before income tax ("( )" for losses)**		**(1,113,822)**	(648,030)
	Less: Income tax expense	V.40	**2,156**	6
V.	**Net profit for the period ("( )" for net losses)**		**(1,115,978)**	(648,036)
	Attributable to:			
	Shareholders of the Company		**(1,115,978)**	(648,046)
	Minority interests		**—**	10
VI.	**Earnings per share**			
	Basic earnings per share *(RMB)* ("( )" for net losses)	V.41	**(0.644)**	(0.374)
	Diluted earnings per share *(RMB)* ("( )" for net losses)	V.41	**(0.644)**	(0.374)
VII.	**Other comprehensive income for the period**		**—**	—
VIII.	**Total comprehensive income for the period**		**(1,115,978)**	(648,036)
	Attributable to:			
	Shareholders of the Company		**(1,115,978)**	(648,046)
	Minority interests		**—**	10

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Note	Jan-Jun 2013	Jan-Jun 2012
I.	**Operating income**	IX.4	**9,245,198**	10,252,429
	Less: Operating costs	IX.4	**9,369,560**	10,021,102
	Business taxes and surcharges		**441**	1,118
	Selling and distribution expenses		**186,445**	191,924
	General and administrative expenses		**428,716**	333,259
	Financial expenses		**373,881**	541,241
	Add: Investment income ("( )" for losses)		**7,770**	16,305
II.	**Operating profit ("( )" for losses)**		**(1,106,075)**	(819,910)
	Add: Non-operating income		**5,304**	165,454
	Less: Non-operating expenses		**2,911**	552
	Including: Losses from disposal of non-current assets		**3**	312
III.	**Profit before income tax ("( )" for losses)**		**(1,103,682)**	(655,008)
	Less: Income tax expense		**—**	—
IV.	**Net profit for the period ("( )" for losses)**		**(1,103,682)**	(655,008)
V.	**Other comprehensive income for the period**		**—**	—
VI.	**Total comprehensive income for the period**		**(1,103,682)**	(655,008)

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Consolidated cash flow statement

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**Jan-Jun 2013**	Jan-Jun 2012
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**11,300,755**	11,758,282
Cash received relating to other operating activities		**9,325**	2,671
Sub-total of cash inflows		**11,310,080**	11,760,953
Cash paid for goods and services		**11,053,534**	9,377,171
Cash paid to and for employees		**605,284**	495,589
Cash paid for all types of taxes		**27,485**	26,952
Cash paid relating to other operating activities		**12,324**	2,003
Sub-total of cash outflows		**11,698,627**	9,901,715
Net cash (outflow)/inflow from operating activities	V.42(1)	**(388,547)**	1,859,238
II. Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**536**	79,099
Cash received relating to other investing activities		**9,859**	21,810
Sub-total of cash inflows		**10,395**	100,909
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**759,366**	494,541
Sub-total of cash outflows		**759,366**	494,541
Net cash outflow from investing activities		**(748,971)**	(393,632)

The notes on pages 52 to 171 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2013	Jan-Jun 2012
III. Cash flows from financing activities:			
Cash received from borrowings		**3,009,208**	3,207,882
Cash received from finance leases		**—**	200,000
Sub-total of cash inflows		**3,009,208**	3,407,882
Cash repayments of borrowings		**3,283,758**	4,233,829
Cash paid for dividends, profit distributions or interest		**295,474**	230,840
Cash paid relating to other financing activities	V.42(3)	**1,062,771**	646,938
Sub-total of cash outflows		**4,642,003**	5,111,607
Net cash outflow from financing activities		**(1,632,795)**	(1,703,725)
IV. Net increase in cash and cash equivalents ("( )" for decreases)	V.42(1)	**(2,770,313)**	(238,119)
Add: Cash and cash equivalents at the beginning of the period		**3,394,564**	1,301,423
V. Cash and cash equivalents at the end of the period	V.42(2)	**624,251**	1,063,304

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Cash flow statement

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2013	Jan-Jun 2012
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**11,044,854**	11,673,223
Cash received relating to other operating activities		**5,304**	2,270
Sub-total of cash inflows		**11,050,158**	11,675,493
Cash paid for goods and services		**10,867,448**	9,336,723
Cash paid to and for employees		**551,001**	444,898
Cash paid for all types of taxes		**15,142**	20,124
Cash paid relating to other operating activities		**11,556**	1,985
Sub-total of cash outflows		**11,445,147**	9,803,730
Net cash (outflow)/ inflow from operating activities	IX.5	**(394,989)**	1,871,763
II. Cash flows from investing activities:			
Cash received from return on investments		**7,770**	11,546
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**—**	78,738
Cash received relating to other investing activities		**9,859**	21,788
Sub-total of cash inflows		**17,629**	112,072
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**755,101**	262,977
Sub-total of cash outflows		**755,101**	262,977
Net cash outflow from investing activities		**(737,472)**	(150,905)

The notes on pages 52 to 171 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	Jan-Jun 2013	Jan-Jun 2012
III. Cash flows from financing activities			
Cash received from borrowings		**3,009,208**	3,062,147
Sub-total of cash inflows		**3,009,208**	3,062,147
Cash repayments of borrowings		**3,278,758**	4,155,829
Cash paid for dividends, profit distributions or interest		**293,333**	230,671
Cash paid relating to other financing activities		**1,062,771**	646,938
Sub-total of cash outflows		**4,634,862**	5,033,438
Net cash outflow from financing activities		**(1,625,654)**	(1,971,291)
IV. Net increase in cash and cash equivalents ("( )" for decreases)	IX.5	**(2,758,115)**	(250,433)
Add: cash and cash equivalents at the beginning of the period		**3,364,836**	1,181,593
V. Cash and cash equivalents at the end of the period		**606,721**	931,160

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Consolidated statement of changes in shareholder's equity

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Jan-Jun 2013							Jan-Jun 2012						
		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 period		**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
Add: adjustment for business combination under common control		–	–	–	–	–	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of the period		**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
III. Changes in equity for the period ("( )" for decreases)															
1. Net profit for the period		–	–	–	–	**(1,115,978)**	–	**(1,115,978)**	–	–	–	–	(648,046)	10	(648,036)
2. Other comprehensive income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–		
Sub-total of 1 & 2		–	–	–	–	**(1,115,978)**	–	**(1,115,978)**	–	–	–	–	(648,046)	10	(648,036)
3. Appropriate of profits															
– Appropriation for surplus reserve		–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Distributions to shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Specific reserve															
– Accrued		–	–	**5,615**	–	–	–	**5,615**	–	–	71	–	–	–	71
– Utilised		–	–	**(5,656)**	–	–	–	**(5,656)**	–	–	(331)	–	–	–	(331)
5. Adjustment of capital reserve For business combination under common control		–	–	–	–	–	–	–	–	–	–	–	–	–	–
6. Purchase of minority interest		–	–	–	–	–	–	–	–	–	–	–	–	–	–
7. Investment in subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	–
8. Others		–	–	–	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of the period		**1,733,127**	**1,109,163**	**1,574**	**606,991**	**-392,898**	**19,000**	**3,076,957**	1,733,127	1,109,163	1,300	605,633	(22,421)	166,017	3,592,819

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 form part of these financial statements.

Statement of changes in shareholder's equity

for the six months ended 30 June 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		Jan-Jun 2013						Jan-Jun 2012				
	Note	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
I. Balance at the end of the previous period/ the beginning of the period		1,733,127	1,140,611	—	577,012	627,704	4,064,876	1,733,127	1,140,611	575,654	615,484	4,064,876
II. Changes in equity for the period												
1. Net profit for the period ("( )" for decrease)		—	—	—	—	(1,103,682)	(1,103,682)	—	—	—	(655,008)	(655,008)
2. Other comprehensive income		—	—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	—	(1,103,682)	(1,103,682)	—	—	—	(655,008)	(655,008)
3. Appropriate of profits												
— Appropriation for surplus reserve		—	—	—	—	—	—	—	—	—	—	—
— Distributions to shareholders		—	—	—	—	—	—	—	—	—	—	—
4. Adjustment of capital reserve for business combination under common control		—	—	—	—	—	—	—	—	—	—	—
5. Specific reserves												
— Accrued		—	—	4,889	—	—	—	—	—	—	—	—
— Utilized		—	—	(4,889)	—	—	—	—	—	—	—	—
III. Balance at the end of the period		1,733,127	1,140,611	—	577,012	-475,978	2,974,772	1,733,127	1,140,611	575,654	(39,524)	3,409,868

These financial statements were approved by the Board of Directors of the Company on 29 August 2013.

Deng Qiang	**Gong Jun**	**Gong Jun**	
Legal Representative (Signature and stamp)	*The person in charge of accounting affairs (Signature and stamp)*	*The head of the accounting department (Signature and stamp)*	(Company stamp)

The notes on pages 52 to 171 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

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 billiion 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 entioned 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.

2 Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises - Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 30 June 2013, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company period from 1 January to 30 June 2013.

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. 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.

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

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.

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.

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)

— Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method.

— Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method.

— 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.

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

10 Impairment of receivables *(continued)*

(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.

(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.

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:

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

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.

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

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.

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.

(2) Cost of inventories transferred out

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

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.

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

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

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 (continued)

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.

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.

(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)*

(1) Recognition of fixed assets (continued)

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.

(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

— 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.

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.

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

20 Employee benefits *(continued)*

(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.

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 period, 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.

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

22 Income tax *(continued)*

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.

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.

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

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.

(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.

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 (continued)

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.

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

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

25 Related parties *(continued)*

(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.

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

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

25 Related parties *(continued)*

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

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

(q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

26 Segment reporting

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

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

26 Segment reporting *(continued)*

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.

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.

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

27 Significant accounting estimates and judgments *(continued)*

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.

(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.

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 (continued)

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/m2

The income tax rate applicable to the Company for the period is 15% (2012: 15%).

The income tax rates for the subsidiaries are as follows:

	2013	2012
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%**	25%

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.

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	Period 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 period 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	70,000	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	–	72.86%	72.86%	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

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Period 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 period 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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

	Closing balance			Opening balance		
Item	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand						
RMB	—	—	352	—	—	693
Deposits with banks						
RMB	—	—	611,566	—	—	2,435,151
US Dollars	1,986	6.1787	12,271	152,470	6.2855	958,350
HK Dollars	78	0.7965	62	70	0.8108	57
Sub-total			623,899			3,393,558
Other monetary funds						
RMB	—	—	376,316	—	—	406,427
US Dollars	38	6.1787	235	38	6.2855	239
Sub-total			376,551			406,666
Total			1,000,802			3,800,917

Other cash and cash equivalents include:

	Closing balance			Opening balance		
Item	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Restricted						
— Guarantees for letter of credit:						
RMB	—	—	376,316	—	—	406,114
US Dollars	38	6.1787	235	38	6.2855	239
Sub-total			376,551			406,353
Unrestricted						
— Cash in transit						
RMB	—	—	—	—	—	313
Total			376,551			406,666

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Bills receivable

(1) At the end of the period, 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) The top five pledged bills receivable of the Group at the end of the period:

Issuer	Issuing date	Due date	Amount	Note
1. Sichuan Kunyu Co., Ltd	2013.06.14	2013.12.14	30,000	Bank acceptances bills
2. Sichuan Tianhao Metallurgical Industry Co., Ltd	2013.06.14	2013.12.14	10,000	Bank acceptances bills
3. Shanghai Keyu International Trade Co., Ltd	2013.06.20	2013.12.20	10,000	Bank acceptances bills
4. Shanghai Keyu International Trade Co., Ltd	2013.06.20	2013.12.20	10,000	Bank acceptances bills
5. Sichuan Xihua International Trade Co., Ltd	2013.06.08	2013.12.08	5,760	Bank acceptances bills
Total			65,760	

(4) As at 30 June 2013, bank acceptances bills receivable pledged as security by the Group amounted to RMB 125,698,000 (2012: Nil). These bills receivable will be due before 25 December 2013.

(5) At the end of the period, 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*	**Closing balance**	Opening balance
Third party		**619,332**	777,385
Related party	VI.7(2)	**470,126**	436,231
Sub-total		**1,089,458**	1,213,616
Less: Provision for bad and doubtful debts		**156,437**	156,437
Total		**933,021**	1,057,179

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

	Closing balance		Opening balance	
Debtor	**Carrying amount**	**Provision for bad and doubtful debt**	Carrying amount	Provision for bad and doubtful debt
Parent Group	**5,346**	**—**	9,750	—

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

Ageing	**Closing balance**	Opening balance
Within 1 year (inclusive)	**557,758**	833,714
Over1 year but within 2 years (inclusive)	**352,480**	222,618
Over 2 year but within 3 years (inclusive)	**21,948**	3,571
Over 3 years	**157,272**	153,713
Sub-total	**1,089,458**	1,213,616
Less: Provisions for bad and doubtful debt	**156,437**	156,437
Total	**933,021**	1,057,179

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:

		Closing balance				Opening balance			
				Provision for bad and doubtful debts				Provision for bad and doubtful debts	
		Carrying amount				Carrying amount			
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%	2,756	0%	2,756	2%
Collectively assessed for impairment (*)									
Group 1	(6)	619,332	57%	153,681	98%	777,385	64%	153,681	98%
Group 2		467,370	43%	—	—	433,475	36%	—	—
Sub-total		1,086,702	100%	153,681	98%	1,210,860	100%	153,681	98%
Total		1,089,458	100%	156,437	100%	1,213,616	100%	156,437	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 30 June 2013, 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:

	Closing balance			Opening balance		
	Carrying amount		Provision for bad and doubtful debts	Carrying amount		Provision for bad and doubtful debts
Aging	Amount	Percentage (%)		Amount	Percentage (%)	
Within 3 months	**356,613**	**58%**	**—**	550,470	71%	—
4 to 12 months	**89,742**	**14%**	**3,613**	72,260	9%	3,613
Sub-total	**446,355**	**72%**	**3,613**	622,730	80%	3,613
1 and 2 years(inclusive)	**23,605**	**4%**	**981**	3,924	1%	981
2 and 3 years(inclusive)	**1,351**	**0%**	**1,645**	3,289	0%	1,645
Over 3 years	**148,021**	**24%**	**147,442**	147,442	19%	147,442
Total	**619,332**	**100%**	**153,681**	777,385	100%	153,681

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(Continued)*

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

Debtor	Relationship with the Company	Amount	Aging	Percentage of total accounts receivable (%)
1. Chongqing Si Gang Steel Co., Ltd	Related party	154,577	within 3 years	14%
2. Shanghai Chonggang Trade Co., Ltd	Third party	99,673	within 3 months	9%
3. Chongqing San Gang Steel Co., Ltd	Related party	94,380	within 2 years	9%
4. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third Party	89,657	within 2 years	8%
5. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	71,831	within 2 years	7%
Total		510,118		47%

4 Prepayment

(1) The prepayments by category:

Item	Closing balance	Opening balance
Material prepayments	**203,347**	879,459
Prepayments for construction and equipment	**519**	1,364
Total	**203,347**	880,823

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)*

(2) Prepayments by ageing:

Aging	Closing balance Amount	Closing balance Percentage (%)	Opening balance Amount	Opening balance Percentage (%)
Within 1 year (inclusive)	**153,996**	**76%**	867,067	99%
Over 1 but within 2 years (inclusive)	**36,698**	**18%**	2,271	0%
Over 2 but within 3 years (inclusive)	**1,865**	**1%**	11,008	1%
Over 3 years	**11,307**	**5%**	477	0%
Total	**203,866**	**100%**	880,823	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).

5 Other receivables

(1) Other receivables by customer type:

Customer type	*Note*	Closing balance	Opening balance
The third parties		**92,575**	116,254
Related parties	VI.7(3)	**1,509,935**	1,703,385
Sub-total		**1,602,510**	1,819,639
Less: Provision for bad and doubtful debts		**16,958**	16,958
Total		**1,585,552**	1,802,681

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables *(Continued)*

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

Debtor	Closing balance Carrying amount	Closing balance Provision for bad and doubtful debt	Opening balance Carrying amount	Opening balance Provision for bad and doubtful debt
Patent Group	**1,509,935**	**—**	1,703,385	—

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	**1,567,027**	1,779,852
Over 1 but within 2 years (inclusive)	**8,340**	13,625
Over 2 but within 3 years (inclusive)	**2,897**	2,242
Over 3 years	**24,246**	23,920
Sub-total	**1,602,510**	1,819,639
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,585,552**	1,802,681

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Other receivables *(Continued)*

(4) Other receivables by category:

	Closing balance				Opening balance			
	Carrying amount		Provision for bad and doubtful debt		Carrying amount		Provision for bad and doubtful debt	
Category	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and assessed individually for impairment	1,549,720	97%	15,827	93%	1,770,615	97%	15,827	93%
Individually insignificant but assessed individually for impairment	52,790	3%	1,131	7%	49,024	3%	1,131	7%
Total	1,602,510	100%	16,958	100%	1,819,639	100%	16,958	100%

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

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories

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

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Raw materials	**5,628,130**	**10,795,984**	9,448,310	6,975,804
Work in progress	**1,029,818**	**20,426,158**	20,068,746	1,387,230
Finished goods	**344,336**	**10,453,463**	9,989,494	808,305
Consumables	**575,186**	**483,181**	390,051	668,316
Sub-total	**7,577,470**	**42,158,786**	39,896,601	9,839,655
Less: Provision for diminution in value of inventories	**380,788**	**—**	357,058	23,730
Total	**7,196,682**	**42,158,786**	39,539,543	9,815,925

(2) Provision for diminution in value of inventories

Item	Balance at the beginning of the period	Provision made for the period	Written back during the period		Balance at the end of the period
			Reversal	Write-off	
Raw materials	252,072	—	—	252,072	—
Work in progress	91,620	—	—	91,620	—
Finished goods	14,328	—	—	13,366	962
Consumables	22,768	—	—	—	22,768
Total	380,788	—	—	357,058	23,730

The written down provision during the period 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	Closing balance	Opening balance
Deductible input VAT	**801,595**	458,950
Prepaid corporate income tax	**419**	—
Others	**—**	14,235
Total	**802,014**	473,185

8 Long-term equity investments

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Investments in associates	**104,739**	104,739
Other long-term equity investments	**5,500**	5,500
Sub-total	**110,239**	110,239
Less: Provision for impairment	**500**	500
Total	**109,739**	109,739

(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 period are as follows:*

Investee	Investment cost	Balance at the beginning of the period	Increase/ decrease	Balance at the end of the period	Share-holding percentage	Voting rights percentage (%)	Provision for impairment	Provision made during the period	Cash dividend for the period
Equity method-associates									
San Feng Jingjiang Logistics Co., Ltd (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	110,239	—	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 period	Total liabilities at the end of the period	Net assets at the end of the period	Total operating income for the period	Net profit for the period
San Feng Logistics	1,318,807	1,018,632	300,175	209,969	97

The Company's significant influence was established as a result of 10% voting rights and are representitive 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 period	2,689,308	6,298,951	104,793	9,093,052
Additions during the period	—	—	—	—
Transfer from construction in progress	—	—	—	—
Disposal during the period	360	—	102	462
Balance at the end of the period	2,688,948	6,298,951	104,691	9,092,590
Accumulated depreciation				
Balance at the beginning of the period	146,166	597,241	65,016	808,423
Charge for the period	33,192	152,711	3,915	189,818
Written off during the period	—	—	99	99
Balance at the end of the period	179,358	749,952	68,832	998,142
Provision for impairment				
Balance at the beginning of the period	—	286	2,050	2,336
Charge for the period	—	—	—	—
Written off on disposal	—	—	—	—
Balance at the end of the period	—	286	2,050	2,336
Carrying amounts				
At the end of the period	2,509,590	5,548,713	33,809	8,092,112
At the beginning of the period	2,543,142	5,701,424	37,727	8,282,293

(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*

Item	Closing balance Cost	Closing balance Accumulated depreciation	Closing balance Provision for impairment	Closing balance Net book value	Opening balance Cost	Opening balance Accumulated depreciation	Opening balance Provision for impair-ment	Opening balance Net book value
Machinery and equipment:								
— Sale leaseback	**3,100,827**	**677,204**	**—**	**2,423,623**	3,100,827	602,009	—	2,498,818
— Direct lease	**931,000**	**57,048**	**—**	**873,952**	931,000	34,471	—	896,529
Total	**4,031,827**	**734,252**	**—**	**3,297,575**	4,031,827	636,480	—	3,395,347

(3) *Fixed assets leased out under operating leases*

Item	Closing balance	Opening balance
Plant and buildings	**5,768**	1,782

(4) *Fixed assets with pending certificates of ownership*

As at 30 June 2013, the Company 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 804,949,000 (2012: cost of RMB 848,556,000 and carrying amount of RMB 816,101,000).

(5) *Plant and buildings used as mortgage for bank loans by the Group as at 30 June 2013, 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

	Closing balance			Opening balance		
Project	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Coke oven project	**838,548**	**—**	**838,548**	781,964	—	781,964
Product restructuring project	**3,303,966**	**—**	**3,303,966**	2,616,262	—	2,616,262
Recycle heat power station	**352,480**	**—**	**352,480**	265,973	—	265,973
Recycle heat power station phase 2	**19,518**	**—**	**19,518**	—	—	—
Limestone transportation system	**66,048**	**—**	**66,048**	63,560	—	63,560
Dabaopo project	**32,353**	**—**	**32,353**	32,353	—	32,353
Jingxing mine project	**27,954**	**—**	**27,954**	27,954	—	27,954
Equipment upgrade project	**466,101**	**—**	**466,101**	403,483	—	403,483
Others	**93,330**	**—**	**93,330**	45,236	—	45,236
Total	**5,200,298**	**—**	**5,200,298**	4,236,785	—	4,236,785

The book value of construction in progress at the end of period included capitalised borrowing costs of RMB268, 148,000 (2012: RMB 184,911,000).

(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 30 June 2013

Project	Note	Budget	Balance at the beginning of the period	Additions during the period	Transfer to fixed assets	Transfer to others	Balance at the end of the period	Percentage of actual cost to budget	Project progress	Accumulated capitalised interest	Including: interest capitalised in 2013	Interest rate for capitali-sation in 2013	Sources of funds
Coke oven project		1,098,546	781,964	56,584	—	—	838,548	128%	100%	48,883	14,321	5.78%~11.45%	Bank loans/ self-financing
Product restructuring project		3,764,322	2,616,262	687,704	—	—	3,303,966	88%	95%	171,748	43,255	5.78%~11.45%	Bank loans/ self-financing
Recycle heat power station		375,000	265,973	86,507	—	—	352,480	94%	94%	17,778	8,536	6.00%	Bank loans/ self-financing
Recycle heat power station phase 2		37,290	—	19,518	—	—	19,518	52%	52%	—	—	—	Bank loans/ self-financing
Limestone transportation system		61,180	63,560	2,488	—	—	66,048	108%	100%	8,408	2,488	6.00%	Bank loans/ self-financing
Dabaopo project		44,906	32,353	—	—	—	32,353	72%	100%	—	—	—	Bank loans/ self-financing
Jingxing mine project		76,740	27,954	—	—	—	27,954	36%	36%	—	—	—	Bank loans/ self-financing
Equipment upgrade project		428,705	403,483	62,618	—	—	466,101	109%	100%	21,309	14,615	6.00%	Bank loans/ self-financing
Others		—	45,236	48,094	—	—	93,330	—	—	22	22	6.00%	
Total		5,886,689	4,236,785	963,513	—	—	5,200,298			268,148	83,237		

(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 30 June 2013 (continued)

Project	Progress	Note
Coke oven project	**100%**	Equipment installation completed, under trial operation
Product restructuring project	**95%**	Equipment under installation
Recycle heat power station	**94%**	Equipment under installation
Recycle heat power station phase 2	**52%**	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	**100%**	Equipment under installation

(3) Construction in progress under finance lease

Item	Closing balance	Opening balance
Machinery and equipment	**1,118,151**	870,151

(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 period	Additions during the period	Decrease during the period	Balance at the end of the period
Construction materials for large equipment	826,873	16,704	269,250	574,327
Construction materials for special equipment	364,109	10,852	694	374,267
Total	1,190,982	27,556	269,944	948,594

(2) Construction materials under financial leases

Item	Closing balance	Opening balance
Machinery and equipment	**553,550**	801,550

12 Fixed assets to be disposed of

Item	Closing balance	Opening balance	Reason for disposal
Plant and buildings	**23,340**	143,502	Environmental relocation
Machinery and equipment	**147,112**	177,230	Environmental relocation
Total	**170,452**	320,732	

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 30 June 2013, 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.

(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)*

(1) Fixed assets disposed of during the period due to relocation is as follows:

Item	Closing balance	Opening balance
Disposal income	**12,305**	341,342
Less: disposal cost	**25,689**	165,624
Net proceeds on disposal	**(13,384)**	175,718
Less: book value of the disposed assets	**142,396**	2,216,544
Net loss	**(155,780)**	(2,040,826)

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 30 June 2013, the net loss arising from the relocation to be compensated by the Parent Group amounted to RMB 2,332,210,000 (Note VI.7 (3)) (2012: RMB 2,176,430,000).

(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 period	384,183	6,478	390,661
Additions during the period	537,271	—	537,271
Reductions during the period	—	—	—
Balance at the end of the period	921,454	6,478	927,932
Accumulated amortisation			
Balance at the beginning of the period	33,394	6,478	39,872
Additions during the period	7,450	—	7,450
Reductions during the period	—	—	—
Balance at the end of the period	40,844	6,478	47,322
Net book value			
Balance at the end of the period	880,610	—	880,610
Balance at the beginning of the period	350,789	—	350,789

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 30 June 2013, the Company was in the process of obtaining ownership certificates of certain land use rights with carrying amount of RMB 94,461,000 (2012: RMB 94,461,000).

The land use right used as mortgage for bank loans by the Group as at 30 June 2013, 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

Item	Closing balance Deductible or taxable temporary differences ("( )" for taxable temporary difference)	Closing balance Deferred tax assets/ liabilities ("( )" for liabilities)	Opening balance Deductible or taxable temporary differences ("( )" for taxable temporary difference)	Opening balance Deferred tax assets/ liabilities ("( )" for liabilities)
Deferred tax assets:				
Provision for impairment against assets	**5,175**	**776**	5,175	776
Deductible tax losses	**515,129**	**77,269**	515,129	77,269
Sub-total	**520,304**	**78,045**	520,304	78,045
Amount of offsetting	**—**	**(60,153)**	—	(60,153)
Balance after offsetting	**—**	**17,892**	—	17,892
Deferred tax liabilities:				
Capitalized realised gain or loss arising from try run	**(401,020)**	**(60,153)**	(401,020)	(60,153)
Sub-total	**(401,020)**	**(60,153)**	(401,020)	(60,153)
Amount of offsetting	**—**	**60,153**	—	60,153
Balance after offsetting	**—**	**—**	—	—

As at 30 June 2013, 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.

The carrying amount of deferred tax asset is reviewed at each balance sheet date. The Group unrecognized the deferred tax asset occurred in this period, as it is no longer probable that sufficient taxable profit in the future would be available to allow the benefit of deferred tax asset to be utilized

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

15 Other non-current assets

	Closing balance	Opening balance
Prepayments for purchase of raw materials	**17,250**	21,150
Prepaid land use right premiums	**—**	522,089
Guarantee monies for finance lease	**55,700**	63,350
Total	**72,950**	606,589

Prepayments for the purchase of raw materials will be settled between 2009 and 2015. Prepaid land use right premiums represents the cost of industrial lands and related expenses paid to the the Bureau of Land Resources of Changshou District, Chongqing. The group obtained the ownership certificates of the land use rights in March 2013 and recognized as intangible assets (Note V.13). 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

As at 30 June 2013 the assets provisions for impairment of the Group were as follows:

Item	*Note*	Balance of the beginning of the period	Charge for the period	Decrease during the period		Balance at the end of the period
				Reversal	Written-off	
Accounts receivable	V.3	156,437	—	—	—	156,437
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	380,788	—	—	357,058	23,730
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.9	2,336	—	—	—	2,336
Total		557,019	962	—	358,020	199,961

The reasons for the recognition of impairment losses are set out in the notes of respective assets.

17 Restricted assets

As at 30 June 2013 the assets with restrictions placed on their ownership were as follows:

Item	*Note*	Balance at the beginning of the period	Additions during the period	Decrease during the period	Balance at the end of the period
Assets pledged as collateral					
Cash at bank and on hand	V.1	406,353	—	29,802	376,551
Bills receivable - pledged bank acceptance	V.2	—	125,698	—	125,698
Assets secured as mortgage					
Plant and building		48,833	—	764	48,069
Land use rights	V.13	230,214	—	2,604	227,610
Finance leases					
Fixed assets	V.9(2)	3,395,347	—	97,772	3,297,575
Construction in progress	V.10(3)	870,151	248,000	—	1,118,151
Construction materials	V.11(2)	801,550	—	248,000	553,550
Total		5,752,448	373,698	378,942	5,747,204

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

18 Short-term loans

Item	Closing balance	Opening balance
Loans with pledge	**604,720**	56,586
Loans with mortgage	**278,042**	286,000
Loans with guarantee	**4,028,728**	5,027,630
Loans on credit	**700,000**	250,000
Total	**5,611,490**	5,620,216

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 and bills payable provided by the Group (Notes V.1 and Note V.2 (4)).

The mortgages for the loans with mortgage are the plants and land use right of the Group (Notes V.9(5) and Note V.13).

19 Financial liabilities held for trading

Item	Closing balance	Opening balance
Interest rate derivatives	**1,556**	1,556
Total	**1,556**	1,556

As at 30 June 2013, 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

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).

22 Advances from customers

(1) Advances are payments prepaid by customers of the Company. As at 30 June 2013. 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.31).

(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 period	Accrued during the period	Paid during the period	Balance at the end of the period
I. Salaries, bonus, allowances	**4,002**	**367,922**	358,416	13,508
II. Staff welfare fees	**14,415**	**32,244**	33,773	12,886
III. Social insurances				
Including:				
1. Medical insurance premium	**—**	**51,421**	51,421	—
2. Pension insurance premium	**120,937**	**89,740**	97,967	112,710
3. Unemployment insurance premium	**1,549**	**3,997**	4,321	1,225
4. Work injury insurance premium	**—**	**2,347**	2,347	—
5. Maternity insurance premium	**—**	**2,031**	2,031	—
IV. Housing fund	**—**	**33,407**	33,407	—
V. Termination benefits (including early retirement cost)*	**14,552**	**5,117**	5,117	14,552
VI. Others	**2,449**	**19,517**	16,484	5,482
Including: union fund and employee education fund	**2,448**	**12,921**	9,887	5,482
Total	**157,904**	**607,743**	605,284	160,363

* As at 30 June 2013, 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	Closing balance	Opening balance
Value added tax	**109**	714
Business tax	**706**	2,181
Corporate income tax	**—**	181
Urban maintenance and construction tax	**71**	170
Others	**2,754**	2,372
Total	**3,640**	5,618

25 Interests payable

Item	Closing balance	Opening balance
Interest payable for long-term loans with interest paid in installments and principal repaid on maturity	**6,030**	11,840
Interest payable for debentures	**72,333**	10,333
Total	**78,363**	22,173

26 Other payables

Other payables due from shareholders holding 5% or more of the voting rights of the Company:

Debtor	Closing balance	Opening balance
The Parent Group	**314,722**	224,498

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

27 Non-current liabilities due within one year

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

Item	*Note*	**Closing balance**	Opening balance
Long-term loans due within one year	(2)	**1,580,405**	1,591,933
Long-term payables due within one year	(3)	**1,760,259**	2,270,741
Total		**3,340,664**	3,862,674

(2) Long-term loans due within one year

Item	**Closing balance**	Opening balance
Guaranteed loans	**1,520,405**	1,506,933
Credit loans	**60,000**	85,000
Total	**1,580,405**	1,591,933

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.

(3) Long-term payables due within one year

As at 30 June 2013, long-term payables due within one year included net obligations under finance leases of RMB 1,760,259,000 (gross amount of RMB 1,858,782,000 net of unrecognised finance charges of RMB 98,523,000). 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 30 June 2013, 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 981,194,000 and RMB 278,439,000 respectively.

As at 30 June 2013, the Group reclassified an amount of RMB 82,033,000 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 Long-term loans

(1) Long-term loans by category

Item	Closing balance	Opening balance
Loan with guarantee	**451,045**	784,408
Loan on credit	**—**	15,000
Total	**451,045**	799,408

Loan with guarantee were guaranteed by the Parent Group (Note VI.6 (3)).

29 Debentures payable

Item	Balance at the beginning of the period	Additions during the period	Decreases during the period	Balance at the end of the period
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,971,617	2,527	—	1,974,144

The analysis of debentures payable is set out as follows:

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable at the beginning of the period	Interest accrued during the period	Interest paid during the period	Interests payable at the end of the period	Balance at the end of the period
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 December 2010	7 year	2,000,000	10,333	62,000	—	72,333	1,974,144

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 Long-term payables

Item	Closing balance	Opening balance
Obligations under finance leases	**2,974,449**	3,905,766
Less: Obligations under finance leases due within a year	**1,760,259**	2,270,741
Total	**1,214,190**	1,635,025

(1) As at 30 June 2013, the five largest long-term payables are as follows:

Lender	Amount	Unrecognised finance charge	Closing balance Less: amounts within a year	Ending balance	Interest rate	Borrowing terms
Kun Lun Financial Leasing Co., Ltd	688,300	37,372	278,439	372,489	6.52%	Guarantee
Unismart International Leasing Co., Ltd	495,318	43,954	158,305	293,059	5.78%	
Unismart International Leasing Co., Ltd	423,695	33,545	135,967	254,183	5.21%	
Hua Rong Leasing Co., Ltd	430,525	62,567	166,466	201,492	11.45%	Guarantee
Min Sheng Financial Leasing	109,897	9,302	49,564	51,031	7.87%	
Total	2,147,735	186,740	788,741	1,172,254		

The long-term payables are amortised using effective interest rate.

As at 30 June 2013, the amounts of long-term payables 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 1,224,621,000 and RMB 650,928,000 respectively.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 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 30 June 2013 are as follows:

Minimum lease payments	Closing balance	Opening balance
Within 1 year (inclusive)	**1,858,782**	2,455,475
Over 1 year but within 2 years (inclusive)	**820,854**	915,175
Over 2 year but within 3 years (inclusive)	**545,698**	783,978
Over 3 years	**5,096**	172,158
Sub-total	**3,230,430**	4,326,786
Less: Unrecognised finance charges	**255,981**	421,020
Total	**2,974,449**	3,905,766

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)*

31 Other non-current liabilities

Item	Closing balance	Opening balance
Other financial liabilities	**413,023**	410,122
Less: part expected to be realised in one year	**413,023**	410,122
Sub-total	**—**	—
Deferred income - government grants	**18,997**	17,848
Deferred income - unrealised income of sale and leaseback transactions	**113,218**	116,614
Less: expected to realised in one year	**7,712**	7,712
Sub-total	**124,503**	126,750
Total	**124,503**	126,750

32 Share capital

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
RMB - denominated ordinary share - domestically listed A shares	1,195,000	—	—	1,195,000
Overseas listed foreign shares - Hong Kong listed H shares	538,127	—	—	538,127
Total	1,733,127	—	—	1,733,127

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

33 Capital reserve

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

34 Specific reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Specific reserve	1,615	5,615	5,656	1,574

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

35 Surplus reserve

Item	Balance at the beginning of the period	Additions during the period	Reductions during the period	Balance at the end of the period
Statutory surplus reserve	606,991	—	—	606,991

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

36 Retained earnings

Item	Amount
Retained earnings at the beginning of the period	723,080
Add: net profits for the period attributable to shareholders of the Company	(1,115,978)
Less: statutory surplus reserve	—
Retained earnings at the end of the period	(392,898)

37 Operating income and operating costs

(1) Operating income and operating costs

Item	Jan–Jun 2013	Jan–Jun 2012
Operating income from principal activities	**9,273,255**	10,234,808
Other operating income	**21,443**	47,234
Operating income	**9,294,698**	10,282,042
Operating costs from principal activities	**9,380,778**	10,005,886
Other operating costs	**14,200**	16,733
Operating costs	**9,394,978**	10,022,619

(2) Principal activities (by industry)

Industry	Jan-Jun 2013		Jan-Jun 2012	
	Operating income from principal activities	Operating costs from principal activities	Operating income from principal activities	Operating costs from principal activities
Iron and steel	**9,233,857**	**9,348,697**	10,204,934	9,978,680
Electronic engineering design, construction and installation	**15,144**	**12,253**	7,350	5,826
Transportation	**24,254**	**19,828**	22,524	21,380
Total	**9,273,255**	**9,380,778**	10,234,808	10,005,886

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

37 Operating income, operating costs *(continued)*

(3) Principal activities (by product)

Product	Jan-Jun 2013		Jan-Jun 2012	
	Operating income from principal activities	Operating costs from principal activities	Operating income from principal activities	Operating costs from principal activities
Steel plates	**4,243,486**	**4,399,227**	5,223,261	5,145,363
Hot-rolled coil	**4,266,358**	**4,310,288**	4,010,407	3,874,860
Steel billets	**74,892**	**78,083**	325,682	336,271
Steel sections	**—**	**—**	39,250	43,347
Wire rods	**—**	**—**	22,951	24,325
Cool-rolled sheets	**133,792**	**144,407**	148,414	160,481
By-product	**515,329**	**416,692**	434,969	394,033
Others	**39,398**	**32,081**	29,874	27,206
Total	**9,273,255**	**9,380,778**	10,234,808	10,005,886

(4) The Company's operating income from the top five customers during the period

Name of customer	Operating income	Percentage total operating income *(%)*
China Shipping Logistics Co., Ltd	**3,400,429**	37%
Chongqing Energy Investment Group Material Co. Ltd	**922,025**	10%
Shanghai Chonggang Trade Co. Ltd	**904,913**	10%
Jiangyin Hengchi Metal Material Co Ltd	**767,753**	8%
Chongqing Jiangnan Metal Material Co., Ltd	**609,202**	6%
Total	**6,604,322**	71%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Non-operating income

Item	Note	Jan.-Jun 2013	Jan.-Jun 2012
Gains on disposal of fixed assets		**176**	—
Received tax return		**2,225**	—
Relocation compensation	VI.6(5)	**—**	162,739
Others		**6,281**	3,116
Total		**8,682**	165,855

39 Non-operating expenses

Item	Jan.-Jun 2013	Jan.-Jun 2012
Losses on disposal of fixed assets	**3**	1,769
Donations provided	**2,508**	—
Others	**400**	248
Total	**2,911**	2,017

40 Income tax expenses

Item	Jan.-Jun 2013	Jan.-Jun 2012
Current tax expense for the period based on tax law and corresponding regulations	**2,156**	6
Changes in deferred tax	**—**	—
Total	**2,156**	6

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

41 Basic earnings per share and diluted earnings per share

(1) Basic earnings per share

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

	Jan.-Jun 2013	Jan.-Jun 2012
Consolidated net profit of the Company attributable to ordinary shareholders ("( )" for losses)	**(1,115,978)**	(648,046)
Weighted average number of ordinary shares outstanding ('000 shares)	**1,733,127**	1,733,127
Basic earnings per share ("( )" for losses)	**(0.644)**	(0.374)

(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. From 1 January to 30 June 2013, there were no issuance of dilutive potential ordinary shares (1 January to 30 June 2012: Nil), the weighted average (diluted) ordinary shares equal to weighted average ordinary shares.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

42 Supplement to cash flow statement

(1) Supplement to cash flow statement

(a) Reconciliation of net profit to cash flow from operating activities:

Item	Jan.-Jun 2013	Jan.-Jun 2012
Net profit ("( )" for losses)	**(1,115,978)**	(648,036)
Add: Depreciation of fixed assets	**189,818**	178,075
Amortization of intangible assets	**7,450**	4,340
Losses on disposal of fixed assets (gains denoted with "( )")	**(173)**	1,769
Financial expenses (income denoted with "( )")	**363,344**	438,256
Investment losses (gain denoted with "( )")	**—**	(16,305)
Increase in safety production fee (decrease denoted with "( )")	**(41)**	(260)
Decrease in gross inventories (increase denoted with "( )")	**(2,619,243)**	(1,487,994)
Decrease in operating receivables (increase denoted with "( )")	**953,764**	366,075
Increase in operating payables (decrease denoted with "( )")	**1,859,921**	3,247,869
Decrease in restricted cash (increase denoted with "( )")	**(27,409)**	(224,551)
Net cash flow from operating activities	**(388,547)**	1,859,238

(b) Investing and financing activities not requiring the use of cash or cash equivalents:

Item	Jan.-Jun 2013	Jan.-Jun 2012
Acquisition of construction materials under finance leases	**—**	581,000

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

42 Supplement to cash flow statement *(continued)*

(1) Supplement to cash flow statement (continued)

(c) Change in cash and cash equivalents:

Item	Jan.-Jun 2013	Jan.-Jun 2012
Cash at the end of the year	**624,251**	1,063,304
Less: Cash at the beginning of the year	**(3,394,564)**	1,301,423
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 "( )")	**(2,770,313)**	(238,119)

(2) Cash and cash equivalents

Item	Jan-Jun 2013	Jan-Jun 2012
I. Cash and cash equivalents	**624,251**	1,063,304
Including: Cash on hand	**352**	366
Bank deposits available on demand	**623,899**	1,062,638
Other monetary fund available on demand	**—**	300
II. Cash equivalents	**—**	—
III. Closing balance of cash and cash equivalents	**624,251**	1,063,304

Note: Cash and cash equivalents disclosed above exclude cash with restricted usage and amount of investments with short maturity period

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

42 Supplement to cash flow statement *(continued)*

(3) Cash paid relating to other financing activities

Item	Amount
Rent for finance leases	**1,062,771**

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 rights *(%)*	Ultimate controlling party of the company	Organisation code
Chongqing Iron & Steel Group Limited Company	The parent	Company Limited	Chongqing	Liu jia cai	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

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.

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

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

4 Transactions with its key management personnel

Remuneration of key management personnel	Jan-Jun 2013	Jan-Jun 2012
Key management personnel	**1,265**	1,287

(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 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 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 (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 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 Environment Industry Group Company Limited	69925005-3	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)*

5 Related parties in which the Company has no control *(continued)*

Name of related party	Organization code	Related party
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
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	66359560-7	Under the same parent company in the preceding 12 months
Chongqing Sanfeng Covanta Environment Industrial Company Limited	20298197-8	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

	Purchase of products	Jan-Jun. 2013 Transaction amount	Jan-Jun. 2013 Percentage in the total amount of similar transactions (%)	Jan-Jun. 2012 Transaction amount	Jan-Jun. 2012 Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**810,748**	**9.92%**	707,662	16.34%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**267,265**	**94.91%**	231,795	93.10%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**96,538**	**3.05%**	88,343	3.21%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**50,114**	**5.78%**	29,828	1.81%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**32,518**	**10.46%**	—	—
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Spare parts and accessories	**8,751**	**1.03%**	17,064	1.30%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts , energy and scrap steel	**19,465**	**1.52%**	14,548	2.78%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**—**	**—**	10,917	1.46%
Chongqing Si Gang Steel Co., Ltd	Scrap steel	**—**	**—**	5,142	0.69%
Chongqing Iron &Steel Research Institute	Spare parts	**4,361**	**0.99%**	4,127	0.92%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**932**	**0.64%**	2,945	2.49%
Chongqing Iron & Steel Group Industrial Company Limited	Spare parts Energy and Scrap steel	**2,467**	**0.88%**	2,821	1.13%
Others		**2,177**		4,998	
Total		**1,295,336**		1,120,190	

(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

	Purchase of products	Jan-Jun. 2013 Transaction amount	Jan-Jun. 2013 Percentage in the total amount of similar transactions (%)	Jan-Jun. 2012 Transaction amount	Jan-Jun. 2012 Percentage in the total amount of similar transactions (%)
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**810,748**	**9.92%**	707,662	16.34%
San Feng Logistics	Ore and coal	**3,444**	**0.43%**	241,782	6.17%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**267,259**	**94.90%**	231,784	93.09%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**96,538**	**3.05%**	88,343	3.21%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**50,114**	**5.78%**	29,828	1.81%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Spare parts and accessories	**8,751**	**1.03%**	16,888	1.29%
Chongqing Electronics	Spare parts	**8,304**	**1.89%**	16,816	6.13%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts , energy and scrap steel	**19,410**	**1.52%**	14,527	2.78%
Chongqing Donghua Special Steel Company Limited	Spare parts	**—**	**—**	10,917	1.46%
Chongqing Transportation	Scrap steels and accessories	**965**	**0.24%**	8,113	1.08%
Chongqing Si Gang Steel Co., Ltd	Scrap steel	**—**	**—**	5,142	0.69%
Chongqing Iron &Steel Research Institute	Accessories	**4,361**	**0.99%**	4,127	0.92%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**932**	**0.64%**	2,945	2.49%
Chongqing Iron & Steel Group Industrial Company Limited	Spare parts , energy and scrap steel	**2,387**	**0.85%**	2,795	1.12%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**32,518**	**10.46%**	—	—
Others		**2,097**		4,933	
Total		**1,304,384**		1,386,602	

(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

		Jan-Jun. 2013		Jan-Jun. 2012	
	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	**170,646**	**73.58%**	160,484	70.79%
Chongqing Iron & Steel Group Mining Company Limited	Energy and spare parts	**44,555**	**19.21%**	46,430	20.48%
Chongqing Si Gang Steel Company Limited	Steel products	**—**	**—**	43,401	0.44%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**18,485**	**0.21%**	17,774	0.18%
Chongqing San Gang Steel Company Limited	Steel products	**2,623**	**0.03%**	17,226	0.18%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**10,419**	**0.12%**	16,310	0.17%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products	**7,797**	**0.09%**	5,773	0.06%
Parent Group	Accessories	**3,611**	**0.04%**	1,955	0.02%
Others		**4,292**		2,934	
Total		**262,428**		312,287	

(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

		Jan-Jun. 2013		Jan-Jun. 2012	
	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	**170,594**	**73.56%**	160,452	70.77%
Chongqing Iron & Steel Group Mining Company Limited	Energy and Spare parts	**44,322**	**19.11%**	46,250	20.40%
Chongqing Si Gang Steel Company Limited	Steel products	**—**	**—**	43,401	0.44%
Chongqing San Gang Steel Company Limited	Steel products	**2,623**	**0.03%**	17,226	0.18%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**10,419**	**0.12%**	16,310	0.17%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products	**13,760**	**0.16%**	13,666	0.14%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products	**7,278**	**0.08%**	5,594	0.06%
Others	Steel products	**5,023**		3,751	
Total		**254,019**		306,650	

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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Related-party transactions *(continued)*

(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		San Feng Logistics	700,000	2012-04-17	2022-08-30	N
Guaranty secured						
The Parent Group	(b)	The Company	7,424,682	2010-01-11	2016-08-11	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		East China Trading	60,000	2012-08-29	2013-08-28	N
Total	(a)		760,000			
Guaranty secured						
The Parent Group	(b)	The Company	7,424,682	2010-01-11	2016-08-11	N

(a) As at 30 June 2013, bank loans and finance lease of San Feng Logistics and East China Trading amounted to RMB 760,000,000 were guaranteed by the Company (2012: RMB 765,000,000).

(a) As at 30 June 2013, 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 4,028,728,000 and RMB 1,520,405,000 (2012: RMB 4,962,630,000 and RMB 2,291,341,000) respectively were guaranteed by the Parent Group.

All liabilities under the lease agreement between the Company and several Financial Leasing companies (Note V.30 (1)) are guaranteed by the Parent Group. The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

The Parent Group 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

	Note	**Jan-Jun. 2013** **Transaction amount**	**Jan-Jun. 2013** **Percentage in the total amount of similar transactions *(%)***	Jan-Jun. 2012 Transaction amount	Jan-Jun. 2012 Percentage in the total amount of similar transactions *(%)*
Social welfare expenses paid by the Parent Group	(i)	**56,627**	**36%**	52,288	38%
Fees paid for supporting services	(ii)	**279,184**	**35%**	285,630	38%
Rental expenses	(iii)	**—**	**—**	18	100%
Fees received for supporting	(iv)	**10,420**	**62%**	10,270	50%
Fees paid for purchasing ore	(v)	**8,839**	**100%**	3,724	100%

(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 (continued):

(b) The Company

	Note	Jan-Jun. 2013 Transaction amount	Jan-Jun. 2013 Percentage in the total amount of similar transactions (%)	Jan-Jun. 2012 Transaction amount	Jan-Jun. 2012 Percentage in the total amount of similar transactions (%)
Social welfare expenses paid by the Parent Group	(i)	**56,627**	**36%**	52,288	38%
Fees paid for supporting services	(ii)	**278,889**	**35%**	285,630	38%
Rental expenses	(iii)	**—**	**—**	18	100%
Fees paid for purchasing ore	(vi)	**8,839**	**100%**	3,724	100%

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

(i) Prepayments paid by the Parent Group mainly represent pensions and social welfare expenses which were independent from the overall society security contributions. No handling fee was charged by the Parent Group.

(ii) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import and export agency services provided by Parent Group and its subsidiaries. The services were charged at prices determined by reference to market price of such services or a profit mark-up above the cost of providing such services as agreed in accordance with, or price provided by relevant authorities of Chongqing Municipal Government.

(iii) Rental expenses payable to the Parent Group are in accordance with the lease agreements entered into between the Company and the Parent Group.

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

6 Related-party transactions *(continued)*

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

(b) The Company ***(continued)***

(iv) Fees received for supporting services mainly represent fees charged to Parent Group and its subsidiaries for internal transportation services at prices determined by reference to a profit mark-up above the cost of providing such services as agreed between the Company and the Parent Group.

(v) As at 30 June 2013, Chonggang HK procured RMB 3,056,008,000 (2012: RMB 1,620,318,000) worth of iron ore and coal for the Company for an agency fee of RMB 8,839,000 (2012: RMB 3,724,000). As at 30 June 2013, the amount of purchasing iron ore and coal payable to Chonggang HK by the Company was RMB 992,631,000 (2011: RMB 346,566,000).

(5) Authorized use of assets by the Parent Group and Environmental relocation

As mentioned in Note I, as at 31 March 2013, the agreement that 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, has expired. During the period from January to June of 2013, the Company have no additional expenses incurred due to the environment relocation (From 1 January to 31 December 2012: RMB 163,793,000), and the Company have no fees for the use of these assets as compensation for the environmental relocation (From 1 January to 31 December 2012: RMB 162,739,000).

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. As at 30 June 2013, the usage fee accrued during the Transitional Period was RMB 873,672,000 (2012: RMB524,203,000).

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	Closing balance	Opening balance
Chongqing Iron & Steel Group Steel Pipe Company Limited	**—**	2,403
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**3,242**	50
Chongqing San Gang Steel Company Limited	**970**	—
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	**550**	—
Total	**4,762**	2,453

(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

(a) The Group

Related Party	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	**154,577**	156,285
Chongqing San Gang Steel Company Limited	**94,380**	95,133
San Feng Logistics	**125,500**	88,500
Chongqing Iron & Steel Group Steel Pipe Company Limited	**71,831**	70,571
Parent Group	**5,346**	9,750
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**5,690**	4,961
Chongqing Iron & Steel Group Mining Company Limited	**2,813**	3,836
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	2,756
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**3,430**	1,251
Others	**3,803**	3,188
Sub-total	**470,126**	436,231
Less: Provision for bad and doubtful debts	**2,756**	2,756
Total	**467,370**	433,475

(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	Closing balance	Opening balance
Chongqing Si Gang Steel Company Limited	**153,935**	155,643
Chongqing San Gang Steel Company Limited	**94,380**	95,133
Chongqing Iron & Steel Group Steel Pipe Company Limited	**71,831**	70,571
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**5,690**	4,682
Chongqing Iron & Steel Group Mining Company Limited	**2,775**	3,498
Others	**2,878**	3,130
Sub-total	**331,489**	332,657
Less: Provision for bad and doubtful debts	**2,756**	2,756
Total	**328,733**	329,901

(3) Other receivables

(a) The Group and the Company

Related Party	Closing balance	Opening balance
Parent Group	**1,509,935**	1,703,385

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 2,383,607,000, comprising loss from unusable assets in Da Du Kou District of RMB 2,332,210,000 (Note V.12), loss of scrapped constructions in progress of RMB 7,375,000, and loss of scrapped spare parts of RMB 44,022,000 (2012: RMB 2,227,588,000) from the Parent Group.

(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)*

(4) Accounts payables

(a) The Group and the Company

Related party	*Note*	Closing balance	Opening balance
Chonggang HK	Note VI.6(4)(v)	**992,631**	346,566

(5) Other payables

(a) The Group

Related Party	Closing balance	Opening balance
Parent Group	**314,722**	224,498
Chongqing Iron & Steel Group Industrial Company Limited	**21,885**	142,111
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**51,322**	129,983
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**24,074**	28,850
Chongqing Donghua Special Steel Company Limited	**20,658**	20,673
San Feng Logistics	**1,248**	20,794
Chongqing Xin Gang Chang Long Logistics Company Limited	**—**	11,574
Chongqing Iron & Steel Group Design and Research Institute	**29,690**	6,854
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**7,236**	2,697
Others	**2,985**	2,156
Total	**473,820**	590,190

(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 Party	Closing balance	Opening balance
Parent Group	**314,722**	224,498
Chongqing Iron & Steel Group Industrial Company Limited	**21,715**	141,941
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**51,322**	129,983
Chongqing Electronics	**24,592**	33,389
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**23,770**	28,850
Chongqing Donghua Special Steel Company Limited	**20,658**	20,673
San Feng Logistics	**1,248**	20,393
Chongqing Transportation	**27,007**	18,216
Chongqing Xin Gang Chang Long Logistics Company Limited	**—**	11,574
Chongqing Iron & Steel Group Design and Research Institute	**29,690**	—
Others	**9,970**	9,635
Total	**524,694**	639,152

(6) The Group and Company has no collaterals, guarantees for the inter-company balances with related parties, and no fixed period for repayment.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VII. COMMITMENTS

1 Capital commitments

Item	*Note*	Closing balance	Opening balance
Significant construction contracts entered into under performance or preparation of performance		**3,157,889**	3,720,393
Finance leases contracts entered into under performance or preparation of performance		**3,230,430**	4,326,786
Total		**6,388,319**	8,047,179

2 Operating lease commitments

As at 30 June 2013, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Item	Closing balance	Opening balance
Within 1 year (inclusive)	**25**	25
After 1 year but within 2 years (inclusive)	**25**	25
After 2 years but within 3 years (inclusive)	**25**	25
After 3 years	**881**	893
Total	**956**	968

VIII. OTHER MATERIAL EVENTS

1 Leases

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

(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)

VIII. OTHER MATERIAL EVENTS *(CONTINUED)*

2 Segment reporting *(continued)*

Reportable information on the Group's reporting segments during the period is set out as follows:

Item	Iron and steel		Electronic construction and installation		Logistics		Elimination among segments		Total	
	Jan.-Jun 2013	Jan.-Jun. 2012	**Jan.-Jun 2013**	Jan.-Jun. 2012	**Jan.-Jun 2013**	Jan.-Jun. 2012	**Jan.-Jun 2013**	Jan.-Jun. 2012	**Jan.-Jun 2013**	Jan.-Jun. 2012
Operating income from external customers	**9,255,100**	10,251,642	**15,144**	7,350	**24,454**	23,050	**—**	—	**9,294,698**	10,282,042
Inter-segment operating income	**759**	787	**56,797**	61,312	**58,618**	316,687	**(116,174)**	(378,786)	**—**	—
Depreciation and amortization	**193,708**	177,858	**452**	414	**3,108**	4,143	**—**	—	**197,268**	182,415
Interest income from bank deposits	**9,853**	21,788	**4**	12	**3**	10	**—**	—	**9,860**	21,810
Interest expense	**354,420**	441,502	**—**	—	**158**	169	**—**	—	**354,578**	441,671
Profit before income tax ("( )" for losses)	**(1,099,473)**	(655,008)	**4,367**	5,129	**(10,946)**	1,849	**(7,770)**	—	**(1,113,822)**	(648,030)
Income tax expense	**2,122**	—	**13**	—	**21**	6	**—**	—	**2,156**	6
Net profit ("( )" for losses)	**(1,101,595)**	(655,008)	**4,354**	5,129	**(10,967)**	1,843	**(7,770)**	—	**(1,115,978)**	(648,036)
Total assets	**30,501,035**	27,680,525	**86,315**	82,216	**84,511**	1,088,309	**(168,076)**	(362,587)	**30,503,785**	28,488,463
Total liabilities	**27,401,707**	24,270,657	**28,751**	35,905	**49,587**	670,626	**(53,217)**	(81,544)	**27,426,828**	24,895,644

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable

(1) Accounts receivable by customer type:

Type	*Note*	Closing balance	Opening balance
Third party		**533,077**	752,648
Related party	VI. 7(2)	**331,489**	332,657
Sub-total		**864,566**	1,085,305
Less: Provision for bad and doubtful debts		**154,042**	154,042
Total		**710,524**	931,263

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

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	**388,865**	720,079
Over 1 year but within 2 years (inclusive)	**307,488**	217,158
Over 2 years but within 3 years (inclusive)	**20,269**	2,308
Over 3 years	**147,944**	145,760
Sub-total	**864,566**	1,085,305
Less: Provisions for bad and doubtful debt	**154,042**	154,042
Total	**710,524**	931,263

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

(3) *Accounts receivable by category:*

		Closing balance				Opening balance			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
Category	Note	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually 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)	533,077	62%	151,286	98%	752,648	69%	151,286	98%
Group 2		328,733	38%	—	—	329,901	31%	—	—
Sub- total		861,810	100%	151,286	98%	1,082,549	100%	151,286	98%
Total		864,566	100%	154,042	100%	1,085,305	100%	154,042	100%

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

The Company does not hold any collateral over the above accounts receivable which provision for bad and doubtful debts have been made.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

(4) Provision for bad and doubtful debts for accounts receivable which are individually significant and assessed for impairment individually:

Content	Carrying amount	Bad debt provision	Percentage
Accounts receivable from related parties	2,756	2,756	100%

As at 30 June 2013, 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 RMB 2,756,000 was therefore made for the debts.

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

	Closing balance			Opening balance		
Ageing	**Amount**	**Percent-age**	**Bad debt provision**	Amount	Percent-age	Bad debt provision
Within 1 year						
Within 3 months	**275,100**	**52%**	**—**	529,197	70%	—
Within 4 to 12 months	**88,837**	**17%**	**3,613**	72,260	10%	3,613
Sub-total of within 1 year	**363,937**	**69%**	**3,613**	601,457	80%	3,613
Over 1 year but within 2 years (inclusive)	**23,166**	**4%**	**788**	3,152	1%	788
Over 2 year but within 3 years (inclusive)	**107**	**0%**	**1,154**	2,308	0%	1,154
Above 3 years	**145,867**	**27%**	**145,731**	145,731	19%	145,731
Total	**533,077**	**100%**	**151,286**	752,648	100%	151,286

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

(6) Accounts receivable due from the top five debtors of the Company:

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable *(%)*
1. Chongqing Si Gang Steel Co., Ltd	Related party	153,935	within 2 years	18%
2. Shanghai Chonggang Trade Co., Ltd	Third parry	99,673	within 3 months	12%
3. Chongqing San Gang Steel Co., Ltd	Related party	94,380	within 2 years	11%
4. Chongqing Yangkunyan Metallurgy Auxiliary Materials Co., Ltd	Third party	89,657	within 2 years	10%
5. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	71,831	within 2 years	8%
Total		509,476		59%

(7) 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)

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

2 Other receivables

(1) Other receivables by customer type:

Type	*Note*	**Closing balance**	Opening balance
Related parties	VI.7(3)	1,509,935	1,703,385
The third parties		83,692	107,672
Sub-total		1,593,627	1,811,057
Less: Provision for bad and doubtful debts		16,958	16,958
Total		1,576,669	1,794,099

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

Ageing	**Closing balance**	Opening balance
Within 1 year (inclusive)	**1,558,331**	1,771,405
1 to 2 years (inclusive)	**8,263**	13,583
2 to 3 years (inclusive)	**2,814**	2,179
Above 3 years	**24,219**	23,890
Sub-total	**1,593,627**	1,811,057
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**1,576,669**	1,794,099

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(continued)*

(3) Other receivables by category:

Category	Closing balance			
	Carrying amount		Provision for bad and doubtful debts	
	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and assessed individually for impairment	**1,549,720**	**97%**	**15,827**	**93%**
Individually insignificant but assessed individually for impairment	**43,907**	**3%**	**1,131**	**7%**
Total	**1,593,627**	**100%**	**16,958**	**100%**

Category	Opening balance			
	Carrying amount		Provision for bad and doubtful debts	
	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and assessed individually for impairment	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%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(continued)*

(4) The amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of other receivables:

Debtor	Closing balance Carrying amount	Closing balance Provision for bad and doubtful debt (%)	Opening balance Carrying amount	Opening balance Provision for bad and doubtful debt (%)
Parent Group	**1,509,935**	**—**	1,703,385	—

Other receivables due from other related parties see Note VI.7 (3).

3 Long-term equity investment

(1) Long-term equity investments by category:

Item	Closing balance	Opening balance
Investments in subsidiaries	**189,589**	189,589
Investments in associates	**30,008**	30,008
Other long-term equity investments	**5,000**	5,000
Sub-total	**224,597**	224,597
Less: Provision for impairment	**—**	—
Total	**224,597**	224,597

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment *(continued)*

(2) Long-term equity investments were as follows:

Investee	Accounting for method	Investment cost	Balance at the beginning of the period	Increase/ decrease	Balance at the end of the period	Shareholding percentage (%)	Voting Rights percentage (%)	Provision for impairment	Provision made during the period	Cash dividend for the period
Cost method-subsidiaries										
Chongqing Electronics	Cost method	29,745	41,290	—	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%	—	—	—
Subtotal		178,044	189,589	—	189,589			—	—	—
Equity method-associates										
San Feng Steel 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	213,044	224,597	—	224,597				—	—	—

Details of information on the subsidiaries of the Company see Note IV

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investment *(continued)*

(3) Details of major associates

Name of investee	Total assets at the end of the period	Total liabilities at the end of the period	Net assets at the end of the period	Total operating income for the period	Net profit for the period
San Feng Logistics	1,318,807	1,018,632	300,175	209,969	97

4 Operating income, operating costs

(1) Operating income, operating costs

Item	Jan.-Jun. 2013	Jan.-Jun. 2012
Operating income from principal activities	**9,223,774**	10,205,267
Other operating income	**21,424**	47,162
Operating income	**9,245,198**	10,252,429
Operating costs from principal activities	**9,355,243**	10,004,006
Other operating costs	**14,317**	17,096
Operating costs	**9,369,560**	10,021,102

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income, operating costs *(continued)*

(2) Principal activities (by product)

	Jan.-Jun. 2013		Jan.-Jun. 2012	
Product	**Operating income from principal activities**	**Operating cost from principal activities**	Operating income from principal activities	Operating cost from principal activities
Steel plates	**4,232,825**	**4,399,227**	5,223,261	5,145,363
Hot-rolled coil	**4,266,358**	**4,310,288**	4,010,407	3,874,860
Steel billets	**74,892**	**78,083**	325,682	336,271
Steel sections	**—**	**—**	39,250	43,347
Wire rods	**—**	**—**	22,951	24,325
Cool-rolled sheets	**133,792**	**144,407**	148,414	160,481
By-product	**515,907**	**423,238**	435,302	419,359
Total	**9,223,774**	**9,355,243**	10,205,267	10,004,006

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Supplement to cash flow statement

Item	Jan.-Jun. 2013	Jan.-Jun. 2012
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit ("( )" for losses)	**(1,103,682)**	(655,008)
Add: Depreciation of fixed assets	**186,288**	174,354
Amortisation of intangible assets	**7,400**	3,504
Losses on disposal of fixed assets (gains denoted with "( )")	**3**	312
Financial expenses (income denoted with "( )")	**361,202**	436,843
Investment losses (gain denoted with "( )")	**(7,770)**	(16,305)
Decrease in gross inventories (increase denoted with "( )")	**(2,615,653)**	(1,509,235)
Decrease in operating receivables (increase denoted with "( )")	**591,646**	381,645
Increase in operating payables (decrease denoted with "( )")	**2,212,986**	3,280,204
Decrease in restricted cash (increase denoted with "( )")	**(27,409)**	(224,551)
Net cash flow from operating activities	**(394,989)**	1,871,763
(2) Investing and financing activities not requiring the use of cash or cash equivalents:		
Acquisition of construction materials under finance lease	**—**	581,000
(3) Change in cash and cash equivalents:		
Cash at the end of the period	**606,721**	931,160
Less: Cash at the beginning of the period	**3,364,836**	1,181,593
Add: Cash equivalents at the end of the period	**—**	—
Less: Cash equivalents at the beginning of the period	**—**	—
Net increase in cash and cash equivalents (decrease denoted with "( )")	**(2,758,115)**	(250,433)

X. 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 during the period.

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 60,000,000 (2012: RMB 65,000,000). The Company provided guarantees for the bank loans and finance lease of its associate amounted to RMB 700,000,000 (2012: RMB 700,000,000).

The directors of the Company considered that the Company will not undertake any risk because of these guarantees.

1 EXTRAORDINARY GAIN AND LOSS

Item	Note	Jan.-Jun. 2013	Jan.-Jun.2012
Disposal of non-current asset		**173**	(1,769)
Tax refunds, exemptions and reductions without proper approved or without formal approval document		**2,225**	—
Government grants recognised through profit or loss		**2,639**	—
Actual additional expenditure incurred in relation to the environmental relocation	(1)	**—**	(163,739)
Amount for free use of the Parent Group's assets		**—**	162,739
Income from gas emission reduction		**1,573**	—
Other non-operating income and expenses other than the above items		**(839)**	2,868
Less: Amount of effect on taxation		**1,291**	76
Total		**4,480**	23

The above extraordinary gain and loss items are before taxation.

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	Earnings per share Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	(30.86%)	(0.644)	(0.644)
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	(30.99%)	(0.646)	(0.646)

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS

(1) Cash at bank and on hand

The decrease in the balance of cash at bank and on hand was mainly due to the daily operation and repayment of the loans.

(2) Prepayment

The decrease in the balance of prepayment was mainly due to the decrease in the prepayments for goods.

(3) Inventories

The increase in the balance of inventories was mainly due to part of clients have not yet pick up their goods, which lead to an increase of products stock.

(4) Other current assets

The increase of other current assets was mainly due to the increase of deductible input VAT.

(5) 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.

(6) Intangible assets

The increase in the balance of intangible assets was mainly due to obtaining of four pieces of land use right and recognizing as intangible assets by the group in March 2013.

(7) Other non-current assets

The decrease in the balance of other non-current assets was mainly due to the transfer of prepayment for land use right to intangible assets.

3 EXCEPTION AND REASON FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

(8) Interest payable

The increase in the balance of interest payable was mainly due to the accrue of interest payable for debentures which was unpaid as at 30 June 2013.

(9) Long-term loans

The decrease in the balance of long-term loans was mainly due to the RMB 20 billion government grant received in 2012 which were used to repay certain loans.

(10) General and administrative expenses

The increase in general and administrative expense was mainly due to the increase in the repair fee.

(11) Financial expenses

The decrease in financial expenses was mainly due to the RMB 20 billion government grant received in 2012, the group has sufficient capital to repay maturity borrowings, which lead to an decrease of interest expenses. In addition, fluctuations in exchange rate reduce the exchange loss.

(12) Non-operating income

The decrease in non-operating income was mainly due to that the agreement of free use of the Parent Group's assets authorized by the Group expired as at 31 March 2012. The Group has basically completed environmental relocation and the main production and operation has transferred to Changshou New Zone which led to decrease in relocation compensation..

Documents Available for Inspection

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

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

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

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

Chairman: **Deng Qiang**
Chongqing Iron & Steel Company Limited
29 August 2013