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 ANNUAL REPORT

Contents

IMPORTANT NOTICE

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

2. All directors of the Company attended Board meetings.

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

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

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

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

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

8. This annual report is published in Chinese and English respectively. If there is any difference between Chinese version and English version, the Chinese version shall prevail.

Definition and Major Risk Warning

I. DEFINITION

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

Definitions of frequently-used terms

Chongqing Iron & Steel Group, Parent Company, Controlling Shareholder	Chongqing Iron & Steel (Group) Co., Ltd.
Company, Group, Chongqing Iron & Steel, Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Company Limited
Board	the board of directors of Chongqing Iron & Steel Company Limited
Supervisory Committee	the supervisory committee of Chongqing Iron & Steel Company Limited
General Meeting	the shareholders' general meeting of Chongqing Iron & Steel Company Limited
CSRC	China Securities Regulatory Commission
Chongqing Securities Regulatory Bureau	Chongqing Securities Regulatory Bureau of China Securities Regulatory Commission
Articles of Association	Articles of Association of Chongqing Iron & Steel Company Limited
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Reporting Period	2013
RMB, RMB'000	RMB yuan, RMB'000 yuan

II. MAJOR RISK WARNING:

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

1. COMPANY INFORMATION

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

2. CONTACT INFORMATION

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

3. BASIC INFORMATION

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

4. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

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

5. BASIC INFORMATION ABOUT THE SHARES OF THE COMPANY

Basic Information about the Shares of the Company

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

6. CHANGE IN REGISTRATION INFORMATION DURING THE REPORTING PERIOD

(1) Basic information

There was no change in registration information of the Company during the Reporting Period[1].

(2) Information about the Company at the initial registration

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

(3) Change in principal operations since listing

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

1. During the Reporting Period, the Company has completed the issue of shares to Chongqing Iron & Steel Group for assets purchase and fund raising. Relevant procedures are currently in progress.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Change of the Controlling Shareholder since listing

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

(ii) On 29 January 2007, the Company issued 350,000,000 ordinary shares denominated in Renminbi ("A Shares") on the Shanghai Stock Exchange ("Shanghai Exchange"). Upon completion of the issue, the total share capital of the Company amounted to 1,733,127,200 shares, including 1,195,000,000 A Shares and 538,127,200 H Shares. The Controlling Shareholder was Chongqing Iron & Steel (Group) Co., Ltd.

(iii) On 18 November 2013, the Company completed the issue of 1,996,181,600 A shares to Chongqing Iron & Steel Group for assets purchase, and completed registration of changes on 25 November 2013. Upon completion of the issue, the Company's total share capital amounted to 3,729,308,800 shares, including 3,191,181,600 A shares and 538,127,200 H shares. The Controlling Shareholder was Chongqing Iron & Steel (Group) Co., Ltd.

(iv) On 17 December 2013, the Company issued 706,713,780 RMB-dominated shares (A shares) to 5 target subscribers through the Shanghai Stock Exchange (the "SSE"), and completed registration of changes on 20 Decmber 2013. Upon completion of the issue, the Company's total share capital amounted to 4,436,022,580 shares, including 3,897,895,380 A shares and 538,127,200 H shares. The Controlling Shareholder was Chongqing Iron & Steel (Group) Co., Ltd.

7. OTHER RELATED INFORMATION

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

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

(I) Major financial data

Unit: RMB'000

Major financial data	2013	2012	Increase/ decrease from last year *(%)*	2011
Operating revenue	**17,563,446**	18,458,776	–4.85	23,532,945
Net profit attributable to shareholders of the Company	**–2,499,018**	98,813	–2,629.04	–1,471,082
Net profit after extraordinary gain and loss attributable to shareholders of the Company	**–2,499,318**	–1,868,648	–33.75	–1,493,166
Net cash flow from operating activities	**1,955,331**	5,314,613	–63.21	451,313

	At the end of 2013	At the end of 2012	Increase/ decrease at the end of the year from the end of last year *(%)*	At the end of 2011
Net assets attributable to shareholders of the Company	**9,917,303**	4,173,976	137.60	4,075,108
Total assets	**48,045,977**	31,106,399	54.46	27,050,441

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

(II) Major financial indicators

Major financial indicators	2013	2012	Increase/ decrease from last year *(%)*	2011
Basic earnings per share *(RMB/share)*	**–1.252**	0.057	–2,296.49	–0.849
Diluted earnings per share *(RMB/share)*	**–1.252**	0.057	–2,296.49	–0.849
Basic earnings per share after extraordinary gain and loss *(RMB/share)*	**–1.253**	–1.078	–16.23	–0.862
Return on net assets (weighted average) *(%)*	**–72.46**	2.4	–3,119.17	–30.52
Return on net assets net of extraordinary gain and loss (weighted average) *(%)*	**–72.46**	–45.31	–59.92	–30.98

II. EXTRAORDINARY GAIN AND LOSS ITEMS AND AMOUNTS

Unit: RMB'000

Extraordinary gain and loss item	**Amount for 2013**	Amount for 2012	Amount for 2011
Gain or loss arising from disposal of non-current assets	**–4,132**	–40,398	1,781
Tax refund or relief arising from unauthorized approval, without official approval or on an occasional basis	**3,779**	150	5,479
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	**3,932**	2,001,616	4,521
Capital occupancy fee from non-financial enterprises recognized through profit or loss			
Profits and losses arising from business combination when the combination cost is less than the recognized fair value of net assets of the combined company			
Profit or loss of non-monetary asset exchange			
Profit or loss from entrusting others to invest or manage the assets			
Provision of impairment of all assets due to force majeure such as suffering from natural disaster			
Profit or loss of debt restructuring			
Enterprise restructuring expenses such as employee resettlement compensation and integration expense, etc	**–5,506**	–17,157	
Relevant usage fees which should be measured for use of relevant assets of the Parent Company for free		162,739	503,204
Profit or loss from transactions with obvious unfair transaction price			
Actual additional expenses for environmental relocation		–163,739	–495,660
Subsidiaries' year-to-date net profit/loss arising from business combination of entities controlled by the same company			1,529
Profits or losses arising from contingencies which are not related to company's main business			

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

Extraordinary gain and loss item	Amount for 2013	Amount for 2012	Amount for 2011
Profits or losses on change in fair value from financial assets and financial liabilities held for trading, as well as investment income from disposal of financial assets and financial liabilities held for trading and financial assets available for sales except for effective hedging related with normal businesses of the Company	**–1,505**		
Reserves of impairment provision for account receivables individually tested for impairment	**1,786**		
Profits or losses from outside entrusted loans			
Profits or losses from change in fair value of investment real estate adopting the fair value mode to do the follow-up measurement			
The influence of the one-off adjustment of current period profits or losses on the profits or losses in current period in accordance with the laws and rules of tax and accounting			
Fee and commission incomes arising from trusted customer asset management business			
Other non-operating income and expenses except as listed above	**2,057**	2,220	5,441
Other gain and loss items complied with the definition of extraordinary gain and loss		369,274	
Investment income			
Effect of minority interest			
Effect on income tax	**111**	347,244	4,211
Total	**300**	1,967,461	22,084

III. ITEM MEASURED AT FAIR VALUE

Unit: RMB'000

Item	Opening balance	Closing balance	Change during the period	Impact on profits for the period
Financial liabilities held for trading	**1,556**	0	1,556	1,556
Total	**1,556**	0	1,556	1,556

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

In 2013, the macro-economic situation confronted with by the iron and steel industry was severer. The world economy was in sluggish recovery and the Chinese economy experienced a slower growth. The iron and steel industry saw an increase in losing enterprises due to the high price of iron ore, falling downstream demands, rapid output growth and sharp decline in the price of steel products. In such circumstance, all staff of the Company strengthened the confidence of breaking out of the difficulties for survival, unified their understanding, earnestly grasped the situation and profoundly analyzed their own gaps and problems. The Company aimed at reducing loss and closely centered on the four core tasks, i.e. "highly efficient production, systematic cost reduction, structural adjustment and tapping potential by benchmarking". All the works were proactively conducted and obtained certain achievements.

Establish and maintain strategic customers and optimize product sale structure. The Company established and consolidated the stable cooperative relationships with a number of dealers and seized the market of Chongqing and surrounding markets. Meanwhile, the Company continued to place focus on good strategic client bases, with good market share, e.g. shipbuilding steel plates, boiler plates, auto plates, etc., and the engineering materials of Chongqing and surrounding places. The Company has obtained the orders of materials for the phase I project of terminal T3 of Chongqing Jiangbei International Airport, Wanda Plaza project in Kunming, Tecent project in Chengdu, etc. In addition, the Company also increased the sale efforts in close markets or the regional markets with relatively low logistics cost, so as to reduce logistics cost and enhance the competitiveness of products.

Organize production in an efficient way and achieve cost reduction in the production process. The Company substantially improved the one-time success rates for steelmaking, effectively reduced the proportion of products to be determined, and improved contract performance rate through optimizing planning and scheduling, strengthening working procedures control, improving technological level of operation, etc., providing powerful support for production and operation.

Strengthen quality control and stably improve the quality of products in kind. During the reporting period, the Company obtained obvious achievements in key research works on quality. The objections against the surface quality of steel plates reduced and the Company successfully achieved the rolling of thick TMCP-model shipbuilding steel plates of the classification societies of five countries. Some types of steel were subject to spot inspection or exempt from inspection in the ship survey of the classification societies of three countries, i.e. CCS, GL and DNV.

Boost asset reorganization to guarantee working capital. Through unremitting efforts, the Company obtained the official approval from the CSRC for the material assets reorganization of the Company (i.e. issuing shares to Chongqing Iron & Steel Group for assets purchase) and financing. The reorganization and fundraising have been smoothly completed in the reporting period, which greatly improved the Company's financial position, reduced gearing ratio, increased re-financing capacity and guaranteed the normal operation of funds.

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

Adjust structure and strive to develop new products. During the reporting period, the Company completed the development and trial production of 18 new products including pipeline steel, marine steel, oriented silicon steel, cold-rolled automotive steel, etc. based on market demands and structural adjustment plan.

During the reporting period, the Group produced 2,700,300 tonnes of coke, 5,617,600 tonnes of pig iron, 5,698,600 tonnes of steel and 5,304,500 tonnes of steel products (billets), representing an increase of 14.92%, 9.41%, 9.13% and 12.73% respectively as compared with the same period of last year. The Group recorded operating revenues of RMB17,563,446,000, representing a year-on-year decrease of 4.85%.

(I) Analysis on principal operations

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

Unit: RMB'000

Items	**For the period**	For the corresponding period of last year	Change *(%)*
Operating revenue	**17,563,446**	18,458,776	-4.85
Operating costs	**17,884,462**	18,402,709	-2.82
Selling and distribution expenses	**349,210**	423,351	-17.51
General and administrative expenses	**853,930**	650,617	31.25
Financial expenses	**840,593**	1,006,021	-16.44
Net cash flow from operating activities	**1,955,331**	5,314,613	-63.21
Net cash flow from investing activities	**-2,084,766**	-1,793,672	-16.23
Net cash flow from financing activities	**-2,745,336**	-1,427,800	-92.28
Research and development expenses	**762,717**	714,153	6.80

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

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

2 Revenue

(1) Analysis of factors causing changes in business revenue

In 2013, the domestic macro-economic situation was sluggish. There was a serious surplus of the structural production capacity in the iron and steel industry and the oversupply in the steel product market was also severe, resulting in doubled negative impact on the quality and benefit of economic operation of the iron and steel industry, which gave rise to a substantial decline in the price of steel products. The Group's operating revenue also drop sharply due to the impact.

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

In 2013, the Group's revenue from sales of steel products (billets) was RMB16,419,768,000, representing a decrease of RMB1,000,209,000 from last year. One reason was the decline in the sales price, as the average sales price of steel products (billets) was RMB3,264/tonne, representing a decrease of 7.11% from last year, which resulted in a decrease of RMB1,190,290,000 in our revenue. The other reason was the increase in sales volume, as the full-year sales volume of steel products (billets) was 5,030,400 tonnes, representing an increase of 1.47% year on year, which increased our sales revenue by RMB190,081,000.

Item	2013 *RMB/tonne*	2012 *RMB/tonne*	Year-on-year increase *(%)*	Increase in revenue *(RMB'000)*
Steel plates	**3,415**	3,642	-6.23	-511,794
Steel billets	**2,696**	3,030	-11.02	-19,673
Steel sections		3,316	-100.00	0
Wire rods		3,991	-100.00	0
Hot rolled coil	**3,136**	3,379	-7.19	-644,193
Cool-rolled sheets	**3,757**	3,979	-5.58	-14,630
Total	**3,264**	3,514	-7.11	-1,190,290

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

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

2 Revenue *(Continued)*

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

Item	2013 (0'000 tonnes)	2012 (0'000 tonnes)	Year-on-year increase (%)	Increase in revenue (RMB'000)
Steel plates	**225.46**	260.89	–13.58	–1,290,361
Steel billets	**5.89**	16.48	–64.26	–320,877
Steel sections		1.49	–100.00	–49,408
Wire rods		0.59	–100.00	–23,547
Hot rolled coil	**265.10**	209.83	26.34	1,869,101
Cool-rolled sheets	**6.59**	6.46	2.01	5,173
Total	**503.04**	495.74	1.47	190,081

(3) Major suppliers and customers of the Group

Percentage in total sales for major customers of the Company:

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

Percentage in total sales for the top five customers of the Company: 40%

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

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

3. Costs

(1) Costs analysis table

Unit: RMB'000

By industry

By industry	Costs component	Amount for the period	Percentage of the amount for the period in total costs *(%)*	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs *(%)*	Year-on-year change *(%)*
Iron and steel	Raw materials	14,199,148	79.50	14,797,478	80.67	-4.04
Iron and steel	Energy	1,612,792	9.03	1,325,051	7.22	21.72
Iron and steel	Labor and other expenses	1,972,099	11.04	2,154,015	11.74	-8.45
Electronic engineering design, construction and installation	Labor and other expenses	35,952	0.20	27,466	0.15	30.90
Transportation	Labor and other expenses	39,529	0.22	39,867	0.22	-0.85

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

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

3. Costs *(Continued)*

(1) Costs analysis table *(Continued)*

By product

By industry	Costs component	Amount for the period	Percentage of the amount for the period in total costs *(%)*	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs *(%)*	Year-on-year change *(%)*
Steel products (billets)	Expenses incurred for raw materials, energy and others	17,000,380	95.19	17,557,593	95.71	-3.17
By-product	Expenses incurred for raw materials, energy and others	783,659	4.39	718,951	3.92	9.00
Electronic engineering design, construction and installation	Labor and other expenses	35,952	0.20	27,466	0.15	30.90
Transportation	Labor and other expenses	39,529	0.22	39,867	0.22	-0.85

(2) Major suppliers of the Group

Percentage in total procurement for major suppliers of the Company:

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

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

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

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

4. Expenses

Item	**Amount for the period**	Amount for the previous period	Year-on-year change (%)
Selling and distribution expenses	**349,210**	423,351	-17.51
General and administrative expenses	**853,930**	650,617	31.25
Financial expenses	**840,593**	1,006,021	-16.44

1. The decrease in selling expenses was due to the decrease in transportation expenses.

2. The increase in administrative expenses was mainly due to the increase in the Group's repair fee in 2013.

3. The decrease in financial expenses was mainly due to the decrease in amortisation of financial leases of the Group and exchange gains in 2013.

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

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

5. Research and development expenses

Table of detailed research and development expenses

	Unit: RMB'000
Expensed research and development expenses for the period	528,777
Capitalized research and development expenses for the period	233,940
Total research and development expenses	762,717
Percentage of total research and development expenses in net assets *(%)*	7.68
Percentage of total research and development expenses in operating revenue *(%)*	4.34

6 Cash flow

In face of such grim situations as the substantial decrease in the price of steel products and operation losses of the Company, internally, the Company strengthened capital plan management, increased revenues and saved expenditures, controlled the rhythm of capital payment, properly appropriated the capital of suppliers, and curbed current payment. Meanwhile, the proceeds raised in material assets reorganization amounting to RMB1,950 million was provided in time, which relieved the pressure on capital payment to a certain degree. The net cash inflow from operating activities for 2013 was RMB1,955,331,000. Net cash outflow of financing activities including repayment of finance leases and bank loans amounted to RMB2,745,336,000; Net cash outflow of investing activities after offsetting of the subsequent engineering expenses on environmental relocation with the net cash out flow of RMB2,084,766,000; and net increase in cash and cash equivalents of the Company for the period was RMB-2,875,503,000.

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

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

6. Cash flow *(Continued)*

Items of cash flow statement

Unit: RMB'000

Item	**Jan.- Dec. 2013**	Jan.- Dec. 2012	Main Reasons for the changes
Net cash flow from operating activities	**1,955,331**	5,314,613	The decreased in net cash flow from operating activities from the same period last year is mainly due to the large losses of operation during the year as well as the adoption of usance letter of credit for most payments and receipt of government subsidy in the same period last year.
Net cash flow from investing activities	**-2,084,766**	-1,793,672	Mainly attributable to gradual completion of the environmental relocation project, payment of follow-up construction costs, there is no significant change in expenses of investment projects
Net cash flow from financing activities	**-2,745,336**	-1,427,800	Repayment of finance lease payment for environmental relocation, resulted in the increase of expenses.
Impact of changes in exchange rate on cash and cash equivalents	**-732**	0	
Net increase in cash and cash equivalents	**-2,875,503**	2,093,141	

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

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

7. Others

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

The net profit of the Group for 2013 amounted to RMB-2,499,018,000, representing a decrease of RMB2,597,861,000 as compared to RMB98,843,000 for last year, mainly due to the following reasons:

1) Gross profit of principal operations decreased by RMB353,917,000 from 2012 to RMB-341,468,000, mainly due to the significant decline in the selling prices as a result of the continued slump in the steel market.

In 2013, the average selling price of the Group's steel products (billets) was RMB3,264 per tonne, down 7.11% year on year, leading to a decrease of approximately RMB1,190,290,000 in sales revenue. The sales volume of steel products (billets) increased by 1.47% to 5,030,400 tonnes, leading to an increase of approximately RMB190,081,000 in sales revenue. The cost of principal operations (steel billets) dropped by 2.67% year on year as a result of the decrease in the prices of ore and coal and other raw and auxiliary materials. As the decrease in the cost of principal operations was lower than that in the revenue from principal operations, the gross profit for the current period saw a decline.

2) The period expense incurred by the Group was RMB2,043,733,000, representing a decrease of RMB36,256,000 from last year, the main reason of which was set out in "Analysis of principal operations 4.4 Expenses".

3) The Group recorded net non-operating income of RMB4,080,000, representing a decrease of RMB2,122,247,000, mainly attributable to the receipt of government subsidy amounting to RMB2 billion.

4) The Group recorded an investment income of RMB-1,505,000, representing a decrease of RMB370,779,000 from last year, which was mainly the investment gain of RMB307,008,000 from the transfer of 41% equity held by the Company in San Feng Jingjiang Port Logistics Company Limited, a subsidiary of the Company last year.

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

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

(3) Others

Nil.

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

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

1. Principal operations by industry and product

Unit: RMB'000

Principal operations by industry

By industry	Operating revenue	Operating costs	Gross profit margin *(%)*	Increase/ decrease in operating revenue from last year *(%)*	Increase/ decrease in operating costs from last year *(%)*	Increase/ decrease in gross profit margin from last year *(%)*
Iron and steel	17,424,371	17,784,039	-2.06	-4.66	-2.69	-2.06
Electronic services	44,982	35,952	20.07	37.65	30.90	4.12
Transportation	48,699	39,529	18.83	0.67	-0.85	1.24

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)	16,419,768	17,000,380	-3.54	-5.74	-3.17	-2.75
By-product	1,004,603	783,659	21.99	17.46	9.00	6.05
Electronic engineering design, construction and installation	44,982	35,952	20.07	37.65	30.90	4.12
Transportation	48,699	39,529	18.83	0.67	-0.85	1.24

2 Principal operations by region

Unit: RMB'000

Region	Operating revenue	Increase/ decrease in operating revenue from last year *(%)*
Southwestern region	6,799,583	-10.40
Other regions	11,556,743	7.33
Total	16,419,768	-10.55

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

(III) Analysis of assets and liabilities

1. Items of balance sheet

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets *(%)*	Amount at the end of the previous period	Percentage of the amount at the end of previous period in total assets *(%)*	Year-on-year increase/ decrease *(%)*
Cash at bank and on hand	1,553,350	3.23	3,800,917	12.22	-59.13
Bills receivable	340,783	0.71	779,131	2.5	-56.26
Accounts receivable	535,906	1.12	1,057,179	3.4	-49.31
Prepayments	364,264	0.76	880,823	2.83	-58.65
Other receivables	51,859	0.11	1,802,681	5.8	-97.12
Inventories	8,792,179	18.3	7,196,682	23.14	22.17
Other current assets	1,713,216	3.57	473,185	1.52	262.06
Long-term equity investment	104,752	0.22	104,739	0.34	0.01
Available-for-sale financial assets	5,000	0.01	5,000	0.02	0
Fixed assets	24,570,568	51.14	8,282,293	26.63	196.66
Construction in progress	6,977,960	14.52	4,236,785	13.62	64.7
Construction materials	34,031	0.07	1,190,982	3.83	-97.14
Liquidation of fixed assets	0	0	320,732	1.03	-100
Intangible assets	2,860,193	5.95	350,789	1.13	715.36
Deferred tax assets	17,866	0.04	17,892	0.06	-0.15
Other non-current assets	124,050	0.26	606,589	1.95	-79.55
Short-term loans	4,705,734	9.79	5,620,216	18.07	-16.27
Financial liabilities held for trading	0	0	1,556	0.01	-100
Bills payable	2,583,300	5.38	861,000	2.77	200.03
Accounts payable	13,506,498	28.11	7,486,179	24.07	80.42
Advance from customers	2,303,266	4.79	3,646,951	11.72	-36.84
Employee compensation payable	197,105	0.41	157,904	0.51	24.83
Taxes payable	308,379	0.64	5,618	0.02	5389.12
Interest payable	68,372	0.14	22,173	0.07	208.36
Other payables	1,500,212	3.12	708,640	2.28	111.70
Non-current liabilities due within one year	2,355,454	4.9	3,862,674	12.42	-39.02
Other current liabilities	9,445	0.02	7,712	0.02	22.47
Long-term loans	7,348,938	15.3	799,408	2.57	819.3
Debentures payable	1,976,699	4.11	1,971,617	6.34	0.26
Long-term payables	1,083,193	2.25	1,635,025	5.26	-33.75
Other non-current liabilities	163,079	0.34	126,750	0.41	28.66

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

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

1. Items of balance sheet *(Continued)*

   1. The decrease in the balance of cash at bank and on hand was mainly due to the repayment of a large amount of loans by the Group in 2013.

   2. The decrease in the balance of accounts receivable was mainly attributable to the Group's increased efforts in collecting accounts receivables in 2013.

   3. The decrease in the balance of prepayments was mainly attributable to the decrease in prepayment of the Group for raw materials in 2013.

   4. The decrease in the balance of other receivables was mainly due to the compensation for asset disposal loss incurred from environmental relocation through the significant assets reorganisation of Chongqing Iron & Steel Group in 2013.

   5. The increase in the balance of inventories was mainly due to the increase in the balance of raw materials of the Group at the end of the period in 2013.

   6. The increase in the balance of fixed assets was mainly due to the additional fixed assets resulted from the significant assets reorganization of the Group in 2013 and contribution in progress transferred into fixed assets in the period.

   7. The increase in the balance of construction in progress was mainly attributable to advancement of project construction progress as a result of the Group's adjustment to the product mix in 2013.

   8. The decrease in the balance of construction materials was mainly attributable to transference of equipments and materials of construction materials into construction in progress in 2013.

   9. The decrease in the balance of liquidation of fixed assets was mainly attributable to basic completion of asset disposal of the Old District.

   10. The increase in the balance of intangible assets was mainly attributable to the additional land use right resulted from the significant assets reorganization of the Group in 2013.

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

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

1. Items of balance sheet *(Continued)*

11. The decrease in the balance of other non-current assets was mainly attributable to acquisition of land use right and transfer of the land use right into intangible assets in 2013.

12. The decrease in the balance of short-term loans was mainly attributable to the fact that the Group repaid some short-term loans in 2013.

13. The increase in the balance of bills payable was mainly due to the increase in the settlement methods of bills payable by the Group in 2013.

14. The increase in the balance of accounts payable was mainly due to the increase in procurement and payable for raw materials as a result of the credit period of the Group extended by the suppliers and additional engineering projects and assumed liabilities incurred by significant assets reorganization in 2013.

15. The decrease in the balance of advance from customers was mainly due to the decrease in advance from the third parties in 2013.

16. The increase in the balance of taxes payables was mainly attributable to the provision of stamp duty and deed tax for related assets of significant assets reorganization by the Group in 2013.

17. The increase in the balance of other payables was mainly attributable to that the new related party funding of RMB300,000,000 payable by the Group in 2013 and the payable of Parent Group's advances by the Company.

18. The increase in the balance of long-term loans was mainly attributable to the long-term loans of approximately RMB 7 billion resulted from the significant assets reorganization of the Group in 2013.

19. The decrease in the balance of long-term payables was mainly due to the payment of rents under finance leases paid by the Group in 2013.

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

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

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

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

(IV) Analysis of core competitiveness

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

1. Variety

   Medium-gauge plates, as the Company's leading product, holds a dominant position in the industry with a full range of varieties and specifications. Special-purpose plates account for over 75%, mostly for shipbuilding. The Company is China's largest shipbuilding steel manufacturer, with production volume of thick plates ranking the 8th in China and medium plate the 23rd in 2013.

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

2. Brand

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

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

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

2. Brand *(Continued)*

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

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

3. Customer resources

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

4. Geographical location

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

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

(V) Analysis of investments

1. Analysis of external equity investment

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

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

   (1) Entrusted wealth management

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

   (2) Entrusted loan

   The Company did not have entrusted loans during the year.

3. Use of raised proceeds

   As at 31 December 2013, the Company used proceeds amounting to RMB1,762,222,232.06 and obtained deposit interest amounting to RMB166,836.90. The balance in the special account for raised proceeds was RMB187,944,802.30. The use of raised proceeds is shown below:

Items	Amount
Initial amount of raised proceeds	1,949,999,997.46
Less: Amount used to supplement working capital	1,762,222,232.06
Add: interest income from raised proceeds actually received	166,836.90
Deposit used for opening an account	200.00
Balance in the special account for raised proceeds as at 31 December 2013	187,944,802.30

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

(V) Analysis of investments *(Continued)*

3. Use of raised proceeds *(Continued)*

The use of raised proceeds in the year is shown below:

Items	Amount	Purpose
December 2013	68,552,869.67	Payment of finance lease rent
December 2013	5,000,000.00	Payment of transportation fee
December 2013	25,000,000.00	Material payment
December 2013	188,000,000.00	Material payment
December 2013	50,000,000.00	Material payment
December 2013	178,000,000.00	Material payment
December 2013	500,000,000.00	Repayment of borrowings
December 2013	2,302,222.22	Repayment of interests
December 2013	200,166,666.67	Repayment of finance lease rent
December 2013	5,000,000.00	Payment of transportation fee
December 2013	190,000,000.00	Repayment of borrowings
December 2013	117,000,000.00	Honoring L/C
December 2013	46,200,000.00	Honoring promissory note
December 2013	92,000,000.00	Deposit of guarantee monies for establiment of L/C
December 2013	80,000,000.00	Deposit of guarantee monies for issuing invices
December 2013	15,000,000.00	Deposit of guarantee monies for issuing invices
December 2013	473.50	Commission charge
Total	1,762,222,232.06	

In order to regulate the management and use of raised proceeds of the Group and safeguard the legitimate interests of investrs, the Group prepared the Measures for Management of Raised Proceeds of Chongqing Iron & Steel Company Limited in accordance with the provisions and requirements under the Securities Law of the People's Republic of China, the Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法), the Administrative Measures for Raising Proceeds by Companies Listed on the Shanghai Stock Exchange (Revised in 2013) (《上海證券交易所上市公司募集資金管理辦法(2013年修訂)》) and other laws and regulations, implemented deposit with a special account for raised proceeds and stricty proceeded with the use approval formalities to guarantee the use of proceeds for special purposes.

On 24 December 2013, the Group entered into the Collective Fund Account Supervision Agreement by Three Relevant Parties (《募集資金專戶存儲三方監管協議》) (the "Supervision Agreement") with Chongqing Jiulongpo Sub-branch of Huaxia Bank Co., Ltd. and Southwest Securities Co., Ltd. There isn't any material discrepancy between the Supervision Agreement and the Collective Fund Account Supervision Agreement by Three Relevant Parties (Template) (《募集資金專戶存儲三方監管協議(範本)》). All parties of the agreement have fulfilled their relevant duties in accordance with the Supervision Agreement.

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

(V) Analysis of investments *(Continued)*

4. Analysis of major subsidiaries and investees

RMB'000

Name of subsidiaries/ investees	Principal operations	Registered capital	Shareholding percentage (%)	Total assets	Net assets	Net profit
Chongqing Iron & Steel Group Electronic Company Limited	Maintenance and repair of elevators, development, production and sale of computer software, and software for electronic products, technical services, etc.	22,172	100	92,117	60,586	6,880
Chongqing Iron & Steel Group Transportation Company Limited	Ordinary freight, hazardous goods transportation, chartered bus transportation, vehicle maintenance and repair	21,000	100	85,904	24,968	−20,198
San Feng Jingjiang Port Logistics Company Limited	Cargo handling, lighterage, storage agency, freight agency, loading distribution, ordinary freight, etc.	300,000	10	1,327,488	300,211	133
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	73	76,178	70,000	0
Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司)	Sales of metal and metallic ore, manufacture and sales of environmental pollution control equipment, etc.	50,000	100	357,789	54,638	2,169

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

(V) Analysis of investments *(Continued)*

5. Projects financed by non-raised proceeds

Unit: RMB'000

Name of project	Amount	Progress	Amount invested this year	Total amount actually invested	Earnings
Coking project	1,098,546	100%	57,766	1,405,201	N/A
Product mix adjustment project	5,987,084	92%	2,895,615	5,511,877	N/A
Waste heat power generation project	375,000	100%	95,267	361,240	N/A
Limestone transport system	61,180	100%	4,604	68,164	N/A
Dabaopo project	47,580	100%	0	47,580	N/A
Jingxing Mine project	76,740	100%	11	76,740	N/A
Revamp project	742,474	85%	360,706	764,188	N/A
Railway project	401,734	100%	0	438,266	N/A
Others			148,336	190,202	N/A
Total	8,790,338		3,562,305	8,863,458	N/A

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

(I) Competition dynamics and development trend of the industry

In 2014 , the steel industry is still under grim situation. in the aspect of overseas environment, the world economy recovery keeps a slow step, with new driving forces remaining unclear, adjustments to the quantitative easing policy in developed economic entities such as the U.S. And the difficulties in estimating the impacts of the slowing economic growth in emerging market countries, resulting in the increase in factors of instability and uncertainties. While in the aspect of domestic environment, currently Chinese economy is still facing downward pressure, overcapacity problem in the steel industry is serious, bring in prominent contradiction between supply and demand, low industrial concentration and huge environmental pressure. The industry is now in a transitional period the country's macroeconomic adjustment and a critical period of development patterns transformation from economy of scale and efficiency to economy of quality and efficiency. With the implementation of the State Council's "Guidelines for Addressing Severe Overcapacity" (《國務院關於化解產能嚴重過剩矛盾的指導意見》) and the deepening of various reform measures, reconstruction becomes a prominent and tough task for the steel industry.

(II) Development strategy of the Company

We will guide the overall development upholding the spirits of the Third Plenary Session of the Party's Eighteenth Central Committee and the 2014 National People's Congress and the Chinese People's Political Consultative Conference, inspiring new dynamism through institutional innovation. We will make effort to balance the system and reduce the costs in a systematic way following the principle of "economy" and "efficiency" and carry out good optimization and adjustment in the structure of materials and products.

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

(III) Business plan and working priorities

The production target for 2014: 6,240,000 tonnes of iron, 6,000,000 tonnes of steel and 5,550,000 tonnes of steel products.

Major tasks for 2014:

1 Determine scale upon efficiency and realize economic and efficient production. The Company's organizational scheme must be determined based on the in-depth analysis of the market following the basic principles of small capital investment, low operating cost and great market utility, which can not only grasp the market opportunities but also can avoid blind or uneconomic production. The plan must be capable of safeguarding the overall stability and smoothness of production and operation and the overall stability of quality, so as to achieve economic production.

2 Simulate market accounting and lower overall system cost. By simulating market accounting, the Company find out problems, learn about the differences and promote the delicacy management and control of costs. We will accelerate the solving of key technological problems, technology transformation and tapping the potentials targeting at definite objectives; boost the optimization of product structure with solid results being obtained in the optimization of rew material procurement and supply, and thus achieve systematic cost reduction.

3 Optimize procurement and marketing, and set up risk responsibility. We will pay close attention to the sales market of products and the supply market of raw and supplemental materials and perform good analyses and prediction to seek for opportunities in the two markets, practically improve our technology and adoptability together with the control in respect of product and raw material quality, so as to create favorable conditions for the raising of the selling price through optimizing the sales structure of products and for the cost reduction of procurement and supply through optimizing the procurement and supply of raw and supplemental materials. At the same time, we will implement delicacy management in the sales of products and in the logistics for the supply of raw and supplemental materials and optimize logistics channels to effectively reduce capital investment and logistics expenses.

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

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

4 Carry out evaluation by quantitative indicators and strengthen performance appraisal. The Company must carry out effective cost control evaluation in relation to the key cost reduction and expenses control sections to effectively disseminate the pressures and risks from market. Meanwhile, the Company also need to optimize the appraisal system of economic responsibility making reference to the situations of the market and the Company's production and operation, and effectively motivate managers and operators at all levels to bring into play their potentials, commit themselves to innovation and strive to overcome all difficulties.

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

In 2014, the Company will try to the realization of that all production procedures operating at their respective maximum production capacity and efficiency . Meanwhile, production volume will grow as the product mix adjustment project starts production; on the other hand, subsequent payment must be made for projects which have commenced construction, leading to increase in capital needs. As at 31 December 2013, the Company had RMB5,600 million in untapped credit line. Therefore, the Company will have sufficient liquidity to meet its needs for working capital and capital expenditure.

(V) Potential Risks

1. Industry-related risk. In 2014 , because of the slow recovery of the world economy and the decline in the domestic and overseas market demand which resulting in industrial overcapacity and oversupply, the steel industry is confronted with extreme difficulties.

2. Resource-related risk. Price of imported ore is close to the cost of steel enterprises while the price of steel products remain at low level, steel enterprises can only achieve small profits and face great difficulties in reducing costs improve efficiency due to the pressure from both the cost and the sales price.

(VI) Others

The Company commenced the contruction of 6# coke oven, 4# slab continuous casting machine and other facilities as reserved in the construction contents of product structure adjustment together with the main work in advance in accordance with the future trend of iron and steel market for the purpose of enhancing the market competitive capacity of new district and achieving the adjustment goals of differentiated development of long steel products and upgrading of product structure. Meanwhile, the Company optimized and improved 6# casting machine, wire rods and steel bars rolling mill and auxiliary equipment and facilities to satisfy the production of high-strength steel. Thus, the budgeted investment in product structure adjustment and other projects was changed to RMB6,486,512,200.

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

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

√ N/A

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

1. Contents of and reasons for changes in major accounting policies

The Company has adopted the following new/revised Accounting Standards for Business Enterprises issued by the Ministry of Finance since 1 January 2013:

Accounting Standards for Business Enterprises No. 2 — Long-term Equity Investment ("Standard No. 2 (revised)")

Accounting Standards for Business Enterprises No. 9 — Employees Remuneration ("Standard No. 9 (revised)")

Accounting Standards for Business Enterprises No. 30 — Presentation of Financial Statement ("Standard No. 30 (revised)")

Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statement ("Standard No. 33 (revised)")

Accounting Standards for Business Enterprises No. 39 — Fair Value Measurement ("Standard No. 39(revised)")

Accounting Standards for Business Enterprises No. 40 — Joint Venture Arrangement ("Standard No. 40 (revised)")

The major accounting policies after adoption of the above Accounting Standards for Business Enterprises are presented in 6, 12, 18 and 21 under Note II to the financial statements. In preparation of consolidated financial statements, the accounting policies adopted by subsidiaries are the same with those adopted by the Company.

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

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

2. Major impact of adoption of the above Accounting Standards for Business Enterprises

1) Impact of the long-term equity investment

The Standard No.2 (Revised) re-specified the auditing scope, clarified the disposal of other changes of the owner's equity, other than the net losses of invested enterprise, other comprehensive income and profit distribution, as well as the conversion of the methods of long-term equity investment when use the equity method for auditing. Given the adoption of Standard No. 2 (Revised), the Group will not have control, joint control or significant impact on the invested enterprises, and reclassify the long-term equity investment which has no quota price in active market and the fair value can not be measured reliably, and make retroactive adjustment.

2) Employees Remuneration

The Group has changed its accounting policy and reviewed the current employee benefits according to Standard No. 9 (Revised) with respect to the classification, recognition and measurement of the short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. The above changes in the accounting policy have no material impact on the 2013 and 2012 financial statements.

3) Presentation of Financial Statement

According to the requirements of Standard No.30 (Revised), the Group has changed its presentation of financial statements, including presenting separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss.

The Group has adjusted the presentation of the comparative financial statements accordingly.

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

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

2. Major impact of adoption of the above Accounting Standards for Business Enterprises *(Continued)*

4) Consolidated Financial Statement

Standard No.33 (Revised) has introduced a single control model to determine whether an investee should be consolidated, by focusing on whether the Group has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of Standard No.33 (Revised), the Group has changed its accounting policy with respect to determining whether it has control over an investee and whether an investee should be consolidated.

The adoption does not change any of the control conclusions reached by the Group as at 1 January 2013.

5) Fair Value Measurement

Standard No.39 has redefined fair value with a single source of fair value measurement guidance and extensive disclosure requirements about fair value measurements. The adoption of Standard No.39 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

If the fair value measurement before 1 January 2013 is not consistent with the requirements of Standard No.39, the Group did not restate retrospectively. The Group did not provide comparative information with regard to the new required disclosure.

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

√ N/A

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

(I) FORMULATION, IMPLEMENTATION AND ADJUSTMENT OF CASH DIVIDEND DISTRIBUTION POLICIES

The Medium-and Long-Term Dividend Distribution Plan of the Chongqing Iron & Steel Company Limited was considered and approved by the Company in 2012 and amendments to the corresponding articles of the "Articles of Association of Chongqing Iron & Steel Company Limited" (the "Articles of Association") made in 2012 laid out specific requirements on the basic principles, forms and conditions for profit distribution, the consideration and deliberation procedures and decision-making mechanism in respect of the profit distribution plan and adjustment to profit distribution policies. Considering the substantial losses Group suffered for business operation in 2013 after non-recurring profit and loss and considerable subsequent capital needs, the Board proposed neither to distribute profit for 2013 nor to transfer the capital reserve to share capital.

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

√ N/A

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

Unit: RMB'000

Year	Number of bonus shares for every 10 shares *(Share)*	Dividends for every 10 shares (RMB) (tax inclusive) *(RMB)*	Number of shares transferred for every 10 shares *(Share)*	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the consolidated statements for the year with dividend distribution	As a percentage of net profit attributable to shareholders of the Company in the consolidated statements *(%)*
2013	0	0	0	0	–2,499,018	0
2012	0	0	0	0	98,813	0
2011	0	0	0	0	–1,471,082	0

V. FULFILLMENT OF SOCIAL RESPONSIBILITY

(I) Social Responsibility efforts

For details, please refer to the 2013 Social Responsibility Report of Chongqing Iron & Steel Company Limited published on the website of the Shanghai Stock Exchange on 28 March 2014.

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

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

VI. ONGOING WORK OF THE BOARD

(I) Regular meetings of the Board

During the Reporting Period, the Company held 4 meetings and passed relevant resolutions.

1. On 28 March 2013, the Company held the 4th meeting of the sixth session of the Board, at which the Company's 2012 audited financial report, 2012 annual report, 2012 Annual Results Announcement, the Summary of 2012 Annual Report, profit distribution proposal for 2012, the 2012 annual audit work summary report by KPMG Huazhen Certified Public Accountants submitted by the audit committee, the Special Report on the Retaining and Actual Application of the Proceeds from the Fund-raising Exercises by the Company, the Social Responsibility Report for 2012, self-assessment report on the 2012 internal control of the Company by the Board, reappointment of auditors, the Report on Performance of Duties of the Independent Directors of the Company for the year 2012, the Resolution on the Remuneration of the Directors, Supervisors and other senior management of the Company for the year 2012.

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

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

2. On 9 April 2013, the Company held the 5th meeting of the sixth session of the Board, at which the proposal in relation to the Assets Valuation Report renewed and issued by Huakang Asset & Land & Real Estate Valuation Co., Ltd., the proposal in relation to that the renewal of valuation report does not have an impact on the reorganisation scheme and transaction pricing, etc. were considered and approved.

3. On 29 August 2013, the Company held the 6th meeting of the sixth session of the Board, at which the Company's interim financial statements for 2013, the 2013 Semi-annual Report and its summary, the Announcement of unaudited Interim Results for the six months ended 30 June 2013 were considered and approved.

4. On 24 October 2013, the Company held the 7th meeting of the sixth session of the Board, at which the proposal to be submitted to general meeting of the Company on extension of effective period for resolutions in relation to Material Assets Reorganisation and Fundraising of the Company and period in relation to the authorisation to the Board to deal with relevant matters and the proposal in relation to proposing the convention of 2013 first extraordinary meeting, the 2013 first class meeting of A shareholders and the 2013 first class meeting of H shareholders, etc. were considered and approved.

(II) Written resolutions passed by the Board

1. On 3 January 2013, the sixth session of the Board of the Company passed the 22nd written resolution in relation to approving the 2013 production and operation plans of Chongqing Iron & Steel.

2. On 15 April 2013, the sixth session of the Board of the Company passed the 29th written resolution in relation to the Proposal Regarding the Resignation of Mr. Xia Tong as a Director and Other Posts of the Company, Nomination of Mr. Guan Zhaohui as a Director of the Company and Proposition to the General Meeting of the Company for Approval.

3. On 23 April 2013, the sixth session of the Board of the Company passed the 30th written resolution in relation to the Proposal regarding the Appointment and Dismissal of Deputy General Management of the Company.

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

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

4. On 25 April 2013, the sixth session of the Board of the Company passed the 31st written resolution in relation to the Proposal regarding the Consideration and Approval of the 2013 First Quarterly Report of the Company.

5. On 10 July 2013, the sixth session of the Board of the Company passed the 40th written resolution in relation to the Proposal regarding the Finance Lease by Huarong Financial Leasing Co., Ltd.

6. On 31 August 2013, the sixth session of the Board of the Company passed the 46th written resolution in relation to the Proposal regarding the 2013 Pro Forma Profit Forcast Report Prepared for the Material Assets Reorganisation.

7. On 15 October 2013, the sixth session of the Board of the Company passed the 48th written resolution in relation to the Proposal regarding the 2013 and 2014 Pro Forma Profit Forcast Report Prepared for the Material Assets Reorganisation.

8. On 25 October 2013, the sixth session of the Board of the Company passed the 18th written resolution in relation to the Proposal regarding the Consideration and Approval of the 2013 First Quarterly Report of the Company.

9. On 30 December 2013, the sixth session of the Board of the Company passed the 61st written resolution in relation to Approving the 2014 Production and Operation Plans of Chongqing Iron & Steel.

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

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

In 2013, the Board strictly executed the Service and Supply Agreement and Ore Procurement Agreement (refer to the 2011 annual report for details) passed at the 2011 second extraordinary general meeting and the transaction amount did not exceed the transaction caps approved at general meeting.

Resolutions related to the Material Assets Reorganisation approved at the 2013 first extraordinary general meeting, 2013 first A shareholders class meeting and 2013 first H shareholders class meeting were implemented in an orderly manner.

VII. OTHER DISCLOSURES

(1) Fixed assets

For the year ended 31 December 2013, movements in the fixed assets of the Group are set out in Note V.9 to the financial statements.

(2) Reserves

For the year ended 31 December 2013, movements in the reserves of the Group are set out in 35, 36 and 37 under Note V to the financial statements.

(3) Entrusted deposits and overdue time deposits

For the year ended 31 December 2013, the Group did not have entrusted deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

(4) Management contract

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

VIII. ACKNOWLEDGEMENTS

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

For and on behalf of the Board
Head of the Company: **Li Rensheng**

Chongqing, PRC, 27 March 2014

During the Reporting Period, the Supervisory Committee of the Company fairly and faithfully performed their statutory supervision duties according to the requirements of relevant laws, regulations and rules and in strict accordance with the working procedures under the Rules of Procedure of the Supervisory Committee so as to practically safeguard the lawful interests of the shareholders and the Company and improve the standard operation of the Company.

The Supervisory Committee's performance of its duties is reported as follows:

I. ATTENDENCE OF MEETINGS

During the Reporting Period, the Supervisory Committee convened five meetings to perform their statutory supervision duties, completed the review of 2012 annual report, 2013 interim report, 2013 first and third quarterly reports, and 2012 and 2013 interim financial statements, considered the 2012 profit distribution proposal, connected transactions in 2012, the implementation and performance of corporate internal control in 2012, and the election of the chairman of the Supervisory Committee of the Company. During the Reporting Period, the Supervisory Committee attended 2 general meetings, 4 Board meetings and 2 meetings of the Audit Committee, followed up the production and operation management of the Company, objectively analyzed the sustainable development capacity and potential risks of the Company, and proposed suggestions and opinions to the Company, which promoted the stable and sound development of the Company.

II. SUPERVISION OF THE DUTY PERFORMANCE BY DIRECTORS AND SENIOR MANAGEMENT

In accordance with relevant regulations, the Supervisory Committee of the Company established duty performance files for Directors and senior management and supervised their duty performance. The implementation of the the proposal in relation to reducing equity interests in San Feng Jingjiang Port Logistics Company Limited as approved by the Board of the Company on 3 December 2012 achieved income from investment amounting to RMB306 million which reached the standard of disclosure under the Listing Rules of Shanghai Stock Exchange. However, the Company failed to make a disclosure promptly. Meanwhile, the said proposal was not mentioned in the announcements on unusual fluctuations in stock trading published by the Company on 28 November 2012 and 30 November 2012. Thus, Mr. Deng Qiang, Chairman of the Company, Mr. Chen Hong, General Manager of the Company, and Mr. You Xiaoan, Secretary to the Board of the Company, received the disciplinary sanction of reprimand by announcement by the Shanghai Stock Exchange in November 2013. The Supervisory Committee promptly issued a letter to remind the Directors and other senior management of the Company to enhance rule consciousness, improve internal management procedures, eliminate administrative vulnerability, and further promote the standard operation of the Company, striving to safeguard the interests of shareholders.

II. SUPERVISION OF THE DUTY PERFORMANCE BY DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

The Supervisory Committee is of the view that, in 2013, all members of the management of the Company united as one, performed their respective duties, overcame difficulties, and strengthened operation management to ensure the sustainable and stable development of the Company. The Directors and other senior management of the Company performed their duties in accordance with rules, and proactively made rectifications, improved internal control, and strengthened standard operation after the reprimand by announcement by the Shanghai Stock Exchange on 10 November 2013 to prevent the interests of the Company and shareholders from any damage. Apart from the disciplinary sanction, the Directors and other senior management of the Company had no other behaviors violating laws and rules.

III. SUPERVISION AND INSPECTION

The Supervisory Committee collected and analysis the financial statements of the Company on regular basis, and proactively provided opinions and advices to the Board and management, which supervised and promoted the improvement of the operation and management of the Company.

During the reporting period, based on the annual production and operation plan of the Company as well as the implementation of the Company's development strategy, by collaborating with the internal audit, internal control and discipline supervision departments, the Supervisory Committee carried out various supervisions, such as the annual concentrated supervision and inspection, semi-annual supervision and inspection from the aspect of financial risk control, specific inspection on the execution of foreign economic contracts of the Company, specific inspection on disposal of assets in original environmental relocation district of the Company and specific inspection on the financial revenues and expenditures of Vehicle Transportation Company (a subsidiary) from January to September 2013.

IV. CONCENTRATED ON SUSTAINABLE DEVELOPMENT CAPACITY OF THE COMPANY

In 2013, the world economy recovered slowly, the iron & steel market remained severe, and the market competition became more brutal due to the high ore prices and low iron & steel prices. As a result, the Company recorded sales revenues of RMB17.5 billion and loss of RMB2.49 billion in 2013. The Supervisory Committee of the Company paid attention to the production and operation as well as the financial position of the Company, to the losses resulted from costs, cash flows and product profitability, and procured the Board and management of the Company to proactively carry out various works by focusing on the four core tasks of the Company, i.e. "high-efficiency production, comprehensively reducing costs, structure adjusting, tapping potential by benchmarking" based on the development strategy of "three steps", strive to achieve the goal of the Company in 2014, i.e. reducing and turning losses.

The Supervisory Committee believe that, in 2014, despite that the Company is facing severe challenges, the Company's profitability is positive due to the expectation that the iron&steel industry will get out of tough gradually in the future and the implementation of the Company's various measures to reduce and turn loss.

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

1. Legality of the Company's operation

The Supervisory Committee was of the view that the Company worked in strict compliance with the laws and regulations and the Articles of Association of the Company by making reasonable and effective decisions through legal procedures; the Company has established a relatively sound corporate governance structure; the Company had no abuses of insider information, leakage of inside information or insider transactions.

2. Inspection of the Company's financial status

During the Reporting Period, the Supervisory Committee oversaw and inspected the Company's financial status and was of the view that the Company's financial statements were explicitly prepared under relevant rules and regulations, giving a true and objective picture of the Company's financial status and operating results. The comments included in the auditors' opinion issued by external auditor in respect of the Company's 2013 financial report are objective and fair.

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

3. Acquisition and disposal of assets by the Company

The Supervisory Committee is of the view that the material assets reorganization in 2013 were conduced in lawful procedures at fair prices; no insider transactions was found during the reorganization period of major assets after inspection; not detrimental to the interests of the Company and its shareholders; and did not cause any loss of assets to the Company.

4. Connected transactions of the Company

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

5. Use of proceeds of the Company

In 2013, the Company raised proceeds of RMB2 billion through non-public issuance of shares arising from material assets reorganization, and received actual net proceeds of RMB1.95 billion after deducting issuance expenses. After inspection, the Supervisory Committee was in the view that the Company set up a special account for deposit of proceeds in accordance with relevant laws, regulations and rules, and strictly carry out the approval processes, earmarked the funds for its specified purpose, thus there was no change in the proceeds investment projects and no misuse of proceeds.

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

6. Construction and implementation of internal control

During the Reporting Period, the Supervisory Committee supervised and inspected the establishment and implementation of the internal control by the Board . The Supervisory Committee is of the opinion that the Company enhanced the management and control on the internal control system in accordance with the relevant requirements under the corporate internal control standards, therefore, the internal control system was further improved, powerfully controlled and implemented effectively in 2013. The Company did not violated the Guidelines for Internal Control of Listed Companies and the Basic Standards for Enterprise Internal Control. The Self-Evaluation Report on Internal Control of the Company is objective, true and accurately reflected the actual situation of internal control of the Company.

In addition, the Supervisory Committee organized the members of the Supervisory Committee to participate in two specific trainings in October and November 2013, so as to enhance its construction and improve Supervisors' ability for duty performance.

The Supervisory Committee strictly complied with the requirements under relevant laws and regulations, insisted not to participate in and not interfere the operating decision and operating activities of the Company, diligently performed their legal supervision responsibility and safeguarded the legal interests of the shareholders and the Company, thus promoted the standard operation of the Company.

VI. ACKNOWLEDGEMENTS

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

By order of the Supervisory Committee
Chairman of the Supervisory Committee: **Xia Tong**

Chongqing, PRC, 26 March 2014

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

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

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

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

There was no material lawsuit, arbitration or matters questioned by the media which was not disclosed in extraordinary announcement with subsequent development during the Reporting Period.

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

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

(IV) Other Explanations

There are no other matters required to be explained.

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

Unit: RMB

Balance of the Company's capital appropriated by the Controlling Shareholder and other related parties for non-operation purposes					Total amount of capital appropriated during the Reporting Period and paid by at the end of the Reporting Period	Capital recovered during the Reporting Period			
Opening balance	Amount appropriated during the Reporting Period	Closing balance	Projected payment method	Time of payment		Total recovered amount during the Reporting Period	Method of recovering the capital	Recovered amount	Time of recovering (month)
1,703,385	-169,095	0	N/A	November 2013	1,534,290	1,534,290	Not in cash	1,534,290	2013.11
—	3,000	0	N/A	September 2013	3,000	3,000	In cash	3,000	2013.9

Decision making procedure for capital appropriation by the Controlling Shareholder and its related parties for non-operation purposes	N/A
Reasons for new capital appropriation for non-operation purposes during the Reporting Period	No
Person responsible for new capital appropriation	N/A
Reasons for failure to recover the appropriate capital at the end of the Reporting Period	N/A
Measures taken for recovering the appropriated capital	N/A
Expected time to recover the appropriated capital	N/A
Other explanations for capital appropriated by the Controlling Shareholder and other related parties for non-operation purposes and recovering thereof	N/A

As at the end of the Reporting Period, there was no capital of the Company appropriated by the Controlling Shareholder and other related parties for non-operation purposes.

Capital appropriated for non-operation purposes	Names of related parties	Relationship with listed company	Account items	Balance at the beginning of 2013	Accumulated amount during 2013 (interest excluded)	Interest for 2013 (if any)	Recover of accumulated amount during 2013	Balance at the end of 2013	Reason for occurrence	Nature
the current major shareholder and its subsidiaries	Chongqing Iron & Steel Company (Group) Limited (the "Parent Company")	Parent Company	Other receivables	2,227,588	448,299	0	-2,675,887	0	impairment loss of fixed assets and inventories	non-operation purposes
			Other receivables	-524,203	-617,394	0	1,141,597	0	asset usage fees	non-operation purposes
others			Other receivables	/	3,000	0	-3,000	0	government grants	non-operation purposes
the former major shareholder and its subsidiaries	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total				1,703,385	-166,095	0	-1,537,290	0		

III. BANKRUPTCY REORGANISATION RELATED MATTERS

The Company had no bankruptcy reorganisation related matters.

IV. ASSETS TRADING AND BUSINESS COMBINATION

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

Overview and type of the matter	Media for information disclosure
material assets reorganisation of Chongqing Iron & Steel Company Limited and purchase of assets by issuing shares to Chongqing Iron & Steel Company (Group) Limited	Announcement of material Assets Acquisition, Raise of Funds and Completion of Delivery of Assets relating to Connected Transactions (2013-046) dated 20 November 2013 published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times

V. SHARE OPTION INCENTIVE AND ITS IMPACT

√ N/A

VI. MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

1) Service and Supply Agreement

On 31 January 2011, the Company and the Parent Company entered into the Service and Supply Agreement ("Service and Supply Agreement") with a term of three years from 1 January 2011 to 31 December 2013. (Refer to the announcement of the Company dated 1 February 2011 for details).

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).

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.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

    1) Service and Supply Agreement *(Continued)*

        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.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

   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. The usage fee of the target assets during the transition period provided by the Company was RMB617,394,000 (2012: RMB524,203,000). As at the delivery date of assets, the accumulated usage fee of assets provided by the Company basing on the fair value of the target assets was RMB1,141,597,000. As at the delivery date, the entry value of the target assets of RMB1,141,597,000 was offsetting by accumulated assets usage fee provided in the transition period by the Company, including accumulated depreciation of RMB1,076,217,000 and accumulated amortization of RMB65,380,000.

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

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

       As at the delivery date of assets, the Parent Company compensated the impairment loss of fixed assets in old district of the Company resulting from environmental relocation with machinery and equipments, appraised value of which amounted to RMB2,695,753,000; the Company took over the Parent Company's liability of RMB10,463,455,000; the Company issued 1,996,181,600 A shares to the Parent Company at the price of RMB3.14 per share; and paid RMB205,487,000 in cash to the Parent Company. According to the reorganisation agreement, the Company shall pay the cash amount to the Parent Company within 24 months since the delivery date.

    3) Procurement Agreement

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

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

3. Matters undisclosed in extraordinary announcements

(1) Set out below are purchases of goods by the Group and the Company for related parties

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for connected transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Ore and accessories	By reference to market price		1,576,817	17.23%			
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy	By reference to market price		521,641	94.59%			
Chongqing Wuxia Mining Industry Incorporated Company	Under common control of Chongqing Iron & Steel Group	Related purchase	Coal	By reference to market price		233,124	4.64%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Fixed assets and scrap steel	By reference to market price		62,538	2.02%			
Chongqing Donghua Special Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Scrap steel	By reference to market price		0	0			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Instrument parts and energy	By reference to market price		43,288	3.07%			

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

(1) Set out below are purchases of goods by the Group and the Company for related parties *(Continued)*

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for connected transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Research Institute	Under common control of Chongqing Iron & Steel Group	Related purchase	Alloy and accessories	By reference to market price		5,698	0.34%			
Chongqing Iron & Steel Group Design and Research Institute	Under common control of Chongqing Iron & Steel Group	Related purchase	Fixed assets	By reference to market price		39,478	1.77%			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Energy and scrap steel	By reference to market price		44,595	3.14%			
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Refractory materials	By reference to market price		1,790	0.67%			
Chongqing Iron & Steel Group Iron Company Limited	Under common control of Chongqing Iron & Steel Group	Related purchase	Iron	By reference to market price		0	0			
Chongqing Iron & Steel Hong Kong						5,173,379	39.88%			
Sanfeng Logistic						3,177	0.04%			
Others						4,927	0			
Total						7,710,452				

Note: In 2013, Chongqing Iron & Steel Hong Kong purchased ore of RMB5,173,377,000 (2012: RMB2,343,637,000) on behalf of the Company. During the Reporting Period, the agent service fee of the Company charged by Chongqing Iron & Steel Hong Kong was RMB23,762,000 (2012: 8,996,000).

VI. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

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

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for related-party transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Energy and accessories	By reference to market price		337,224	71.64%			
Chongqing Iron & Steel Group Mining Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Energy and accessories	By reference to market price		85,611	18.19%			
Chongqing Si Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		0	0			
Chongqing Iron & Steel Group Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel and accessories	By reference to market price		32,405	0.20%			
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		57,379	0.35%			
Chongqing Iron & Steel Group	Under common control of Chongqing Iron & Steel Group	Related sale	Accessories	By reference to market price		10,775	2.28%			
Chongqing San Gang Steel Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel	By reference to market price		30,318	0.19%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Steel and accessories	By reference to market price		11,943	0.07%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under common control of Chongqing Iron & Steel Group	Related sale	Accessories	By reference to market price		5,119	1.10%			
Others						3,055				
Total						573,829				

VII. 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	Effect of gain on lease on the Company	Connected relations
1Chongqing 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	6,221	1 January 2013	31 December 2013	660.8	Pay-in slip of bank	It formed part of other operating income	No	Other

(II) Guarantee

Unit: RMB'000

External Guarantees provided by the Company (excluding those for subsidiaries)

Guarantor	Relationship with the Company	Sponsored party	Guarantee amount	Date of occurrence of guarantee (signature date of agreement)	Date of commencement of guarantee	Expire date of guarantee	Guarantee type	Completed or not	Over due or not	Amount over due	Anti-guarantee or not	Connected parties guarantee or not	Connected relations
The Company	Connected companies	Sanfeng Logistics	900,000	2012-4-17	2012-4-17	2022-8-30	credit guarantee	No	No		Yes	Yes	associates

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

(II) Guarantee *(Continued)*

Total guarantees during the Reporting Period (excluding those for subsidiaries)	0
Total guarantee balance at the end of Reporting Period (A) (excluding those for subsidiaries)	739,038

Guarantees provided by the Company for subsidiaries	
Total guarantees for subsidiaries during the Reporting Period	0
Total guarantee balance for subsidiaries at the end of Reporting Period (B)	0

Total amount of guarantees provided by the Company (including those for subsidiaries)	
Total amount of guarantees (A+B)	739,038
Total amount of guarantees over the net assets of the Company(%)	7.51%
Including:	
Amount of guarantees provided to shareholders. De facto controllers and their related parties (C)	739,038
Amount of debt guarantees directly or indirectly provided for sponsored parties with the gearing ratio exceeding 70% (D) (excluding the related parties)	0
Amount of the total guarantees exceeding 50% of net assets (E)	0
Total amount of above three guarantees (C+D+E)	739,038

In 2013, the Company did not offer external guarantees but provided a RMB900 million guarantee for San Feng Jingjiang Port Logistics Company Limited, which was 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. These guarantees were anti-guaranteed by other shareholders of Jingjiang Logistic Company on their respective shareholdings. At the end of the Reporting Period, the Company had a balance of external guarantees of RMB739 million.

(III) Other material contracts

The Company had no other material contracts for the year.

VIII. FULFILLMENT OF COMMITMENTS

(I) Commitment of the Company, Shareholders holding 5% or more of its capitals, controlling shareholders and de facto controller during or continuing to the Reporting period

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Commitment in relation to material assets reorganisation	To solve the horizontal competition	Parent Company	In order to avoid inter-competitions with the Company, the Parent Company hereby undertakes as follows: (1) The Parent Company and enterprises controlled or invested by the Parent Company do not have, and will not be engaged in by any means (including but not limited to investment, acquisition, joint venture, joint operation, contracting, operation under lease arrangement or any other way of having stakes or interests) at any place in or outside China after the Reorganisation, any business that competes or may compete, directly or indirectly, with the principal activities of the Company; (2) If the Parent Company and enterprises controlled or invested by the Parent Company are engaged in, involved in or invest in any business or projects that compete or may compete, directly or indirectly, with the principal activities of the Company, the Company is entitled to require the Parent Company to terminate the competing business and stop investing in related enterprises or projects, and has the right of first refusal over the related business assets, investment return or project assets; (3) The above undertaking is effective as long as the Parent Company remains the controlling shareholder or de facto controller of the Company. The Parent Company will be willing to take responsibility for the damages should the Company suffer any loss of interests due to the Parent Company's violation of the aforesaid undertakings.	3 May 2012	No	Yes
	To solve the horizontal competition	Parent Company	(1) To ensure that the Company shall have independent business, complete assets, independent and complete production, supply and sales, and other auxiliary systems, to prevent and reduce unnecessary connected transactions; (2) To determine the transaction price and sign connected transaction contracts according to law and in strict accordance with the principle of openness, fairness and impartiality and by reference to common prevailing market standards with respect to the unavoidable connected transactions; (3) To follow procedures of having the connected shareholders and connected directors to abstain from voting and the independent directors to express opinions on connected transactions in strict accordance with the Articles of Association and relevant regulations of regulatory authorities, and to ensure that the procedures for connected transactions are legal and the results of connected transactions are fair and reasonable; (4) To strictly comply with the rules on information disclosure regarding connected transactions.	3 May 2012	No	Yes
	Release of liabilities	Parent Company	(1) If creditors who have not returned their reply slips agreeing the relevant creditors' rights and liabilities to be generally assumed by the Company before the completion of the Material Assets Reorganisation and would claim their rights against the Parent Company after the completion of the Material Assets Reorganisation, the Parent Company will send the written notices to the Company within 2 days after receiving the notices from the creditors claiming their rights, and will refer the aforesaid claims to the Company. If the above creditors do not agree to transfer their rights and liabilities to the Company, the Parent Company will inform the Company by written notice and assist in handling the transfer. Under this premise, the Company can choose to settle its debts directly with creditors or through the Parent Company. If the above creditors request the Parent Company's guarantee, the Parent Company would provide guarantee to them; (2) If the Company faces any liabilities or loss in the course of generally assuming creditors' rights and liabilities during the Material Assets Reorganisation, the Parent Company will make full compensation to the Company within 5 working days after receiving the Company's written notice and the proof for relevant liabilities.	From 22 October 2012 to the date on which relevant creditors claim their rights	Yes	Yes

VIII. FULFILLMENT OF COMMITMENTS *(CONTINUED)*

(I) Commitment of the Company, Shareholders holding 5% or more of its capitals, controlling shareholders and de facto controller during or continuing to the Reporting period *(Continued)*

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	Asset contribution	Parent Company	The undertaking by the Parent Company in relation to the Target assets under the material assets reorganisation: "(1) The Parent Company guarantees that all the items for government approval or filing regarding the Target Assets under the Material Assets Reorganisation, from project initiation, environmental protection, industry access, to land use, planning, construction, trial production and completion acceptance inspection, will not become any impediment to the Material Assets Reorganisation. The Parent Company also undertakes that in case the Company suffers administrative penalty or is liable for other legal liabilities as a result of flawed legal procedures related to government approval or filing items mentioned above during construction and completion acceptance inspection of the Target Assets, such administrative penalty or other legal liabilities should be fully assumed by the Parent Company. Apart from the aforesaid administrative penalty or other legal liabilities, the Parent Company will compensate the Company if the Company suffers loss as a result of flawed legal procedures during investment, construction and completion acceptance inspection of the Target Assets; (2) The Parent Company guarantees that, as at the date of the undertaking letter, save as some of the Target Assets acquired under finance leases, the Parent Company enjoys full legal entitlement of the remaining Target Assets. If the entitlement of the remaining Target Assets fails to transfer/deliver to the Company upon the delivery of the reorganisation, the losses resulted to the Company shall be born by Parent Company. There is no pledge, mortgage or other third party rights restrictions on the Target Assets which may affect their transferability and there is no litigation, arbitration or other forms of legal disputes against the Target Assets. From the issue date of the undertaking letter to the completion date of the Material Assets Reorganisation, the Parent Company guarantees that no new pledge, mortgage or other third party rights restrictions would be imposed on the Target Assets. For some of the Target Assets acquired under the finance leases, the Parent Company has obtained written consents of all counte rparties under relevant finance leases to the effect that the Parent Company will proceed with the Material Assets Reorganisation, upon or after the completion of which the lessee under the finance lease agreements shall be changed to the Company, and rights of credits and liabilities under those finance lease agreements will be generally assumed by the Company. The Parent Company guarantees that there shall be no legal impediment on the transfer of the Target Assets to the name of the Company upon the completion of the Material Assets Reorganisation, or the Parent Company will compensate the Company against all losses arising therefrom; (3) The land use rights regarding a land area of 4,403,831.10 sqm within the Target Assets have been recorded in 10 land use rights certificates covering an aggregate land area of 4,681,041.10 sqm held by the Parent Company. The Parent Company undertakes that there is no legal impediment on partitioning the land use rights of the Target Assets and re-registering the same in the name of the Company upon the completion of the Material Assets Reorganisation. The Parent Company will assist the Company in handling the partition and re-registration procedures on such land use rights, during which, should there exist any causes such as mapping which would make the actual land use rights partitioned and re-registered in the name of the Company cover an aggregate area less than 4,403,831.10 sqm, the Parent Company will pay the difference in cash to the Company based on the applicable unit price of the land under valuation applicable to the Material Assets Reorganisation within 10 days after completion of the Material Assets Reorganisation; (4) Since the buildings located within the Target Assets are not accompanied with title certificates, the Parent Company undertakes that it will try its best to assist the Company and initiate title certificate registration for buildings within the Target Assets so that those certificates would be under the name of the Company from the approval date of the Material Assets Reorganisation granted by CSRC. The Parent Company guarantees that there is no legal impediment on the title certificate registration, or the Parent Company will compensate the Company against all losses arising therefrom."	From 22 October 2012 to the completion of government approval or filing regarding the investment, construction, completion and acceptance of the Target Assets	Yes	Yes

VIII. FULFILLMENT OF COMMITMENTS *(CONTINUED)*

(I) Commitment of the Company, Shareholders holding 5% or more of its capitals, controlling shareholders and de facto controller during or continuing to the Reporting period *(Continued)*

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
	Sales restriction of shares	Parent Company	The undertaking by the Parent Company in relation to the lock-up period of the shares issued by the Company acquired in the reorganisation: "the acquisition of A shares issued by the Company in the reorganisation: (including A shares of the Company arising from further allotment due to above shares) shall not be transferred or entrusted others to management within 36 months since the issuance date of shares, and shall not be purchased back by the Company. Otherwise shall be executed pursuant to requirements of the law and regulations or supervise institutions in securities."	25 November 2013 to 24 November 2016	Yes	Yes
Commitment regarding the initial public issuance	To solve the horizontal competition	Parent Company	As long as the Company's shares remained listed on any stock exchange in PRC or Hong Kong, and the Parent Company held 30% or more in issued shares or be deemed to be a controlling shareholder under the requirements on relevant stock exchanges or laws, the Parent Company and its subsidiaries or companies directly or indirectly invested or controlled by the Parent Company will not participate in any business or activity that constituted or may constitute competition with reorganised business in PRC or overseas, or in any other ways (including but not limited to separate operation, joint venture or held shares or other interests in another company or corporate).	29 September 1997	No	Yes
Other commitment	dividend	the Company	Medium and long term dividend distribution plan of the Company: "(1) The Company shall implement a proactive profit distribution mechanism to ensure that investors receive reasonable returns; (2) The Company shall distribute dividends in cash or a combination of cash and shares, and may pay interim dividends based on the Company's capital needs. If there are no significant investment plan, large cash outlay or other events, the Company shall distribute no less than 10% of the distributable profit realised for the year in cash and the total profit distributed in cash in any given consecutive three years shall be no less than 30% of the average annual distributable profit realised in the recent three years provided that the capital needs of the Company for normal production and operation are satisfied; (3) The Board of the Company shall put forth an annual profit distribution plan at the end of each financial year and submit the same to the general meeting for approval. If the Board of the Company does not propose a cash dividends distribution plan although profit is recorded, it shall explain in details in the annual report the specific reasons therefor and the purpose for the retained profit. Independent directors shall express and publicly disclose their independent opinions thereon; (4) Upon occurrence of any illegal appropriation of the Company's funds by shareholders, the Company shall deduct the cash dividend to be paid to such shareholders to make up for the appropriated funds."	30 August 2012	No	Yes

(II) There were profit forecast for the Company's assets or projects and the Reporting Period was still in the profit forecast period, the Company made explanations on whether the assets or projects achieved original profit forecast and the reasons thereof

The Group's net profits amounted to RMB-2,493,018,000 in 2013, the net profit in the announcement dated October 2013, i.e. Consolidated Pro Forma Profit Forecast of 2013 and 2014 was RMB-2,553,289,000.

IX. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB'000

Whether or nor change the accounting firm:	No	
	Former	**Current**
Name of the domestic accounting firm	KPMG Huazhen Certified Public Accountants (Special General Partnership)	KPMG Huazhen Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	3,500	3,500
Term of service of the domestic accounting firm	7	7

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

As approved at 2010 annual general meeting, the Board reappointed KPMG Huazhen and KPMG as the auditors of the Company respectively. On 18 March 2011, a resolution was passed at the 2011 first extraordinary general meeting of the Company, pursuant to which the Company's international auditor KPMG ("International Auditor"), which was appointed at the 2009 annual general meeting, was dismissed, and KPMG Huazhen was retained to audit the financial statements for the year 2011 prepared under the PRC Accounting Standards for Business Enterprises and issue audit opinion in accordance with PRC auditing standards and to undertake all such activities as required to be performed by overseas auditors under the Listing Rules (including preliminary announcement on annual results, annual review of continuing connected transactions, etc.). The dismissal of the International Auditor helps to improve efficiency and reduce information disclosure costs. There are no disagreements between the Company and the International Auditor. The dismissal has gone through necessary procedures in compliance with relevant laws, listing rules of the listing place and the Articles of Association. On 13 June 2013, the 2012 annual general meeting of the Company passed the proposal for re-appointment of KPMG Huazhen (Special General Partnership) as the auditor and internal control auditor of the Company for the year 2013. KPMG Huazhen has audited the financial statements prepared under PRC GAAP. The Company paid RMB5 million of audit fee for integrated auditing service. As at the end of the Reporting Period, it had provided auditing service for the Company for 7 years.

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

None of the directors, supervisors, senior management, shareholders holding 5% or more of its share capital, de facto controller and acquirer (excluding the Chairman, Mr. Deng Qiang, the general manager, Mr. Chen Hong ans the secretary to the Board, Mr. You Xiaoan) was subject to inspection, administrative punishment, reprimand by announcement by CSRC, or public censure by stock exchanges.

The Company achieved investment income of RMB 306 million after implementing the proposal in relation to reduce 41% equity interests held in San Feng Jingjiang Logistics Co., Ltd., which was passed by the Board of the Company on 3 December 2012, satisfied the disclosable rule under the Listing Rules Governing the Listing of Securities on Shanghai Stock Exchange, but the Company did not disclose in time. Meanwhile, the announcements on abnormal fluctuations of share trading published by the Company on 28 November 2012 and 30 November 2012 did not mention above resolution. Given above reasons, the Disciplinary Committee of Shanghai Stock Exchange made a criticism to the Company, the Chairman, Mr. Deng Qiang, the general manager, Mr. Chen Hong ans the secretary to the Board, Mr. You Xiaoan on 10 November 2013.

XI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

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

I. CHANGES IN SHARE CAPITAL

(I) Movement of shares

1. Table of movement of Shares

Unit: share

	Before change		Increase/decrease (+, -)					After change	
	Amount	Percentage (%)	New shares	Bonus shares	Shares transferred from the capital reserve	Others	Subtotal	Amount	Percentage (%)
I. Shares subject to trading moratorium	0	0	2,702,895,380	0	0	0	2,702,895,380	2,702,895,380	60.93
1. State-owned shares									
2. State-owned legal person shares			2,160,995,380				2,160,995,380	2,160,995,380	48.71
3. Other domestic shares			541,900,000				541,900,000	541,900,000	12.22
Including: Domestic non-state-owned legal person shares			541,900,000				541,900,000	541,900,000	12.22
Domestic natural person shares									
4. Foreign shares									
Including: Foreign legal person shares									
Foreign natural person shares									
II. Shares not subject to trading moratorium	1,733,127,200	100.00	0	0	0	0	0	1,733,127,200	39.07
1. Renminbi denominated ordinary shares	1,195,000,000	68.95	0	0	0	0	0	1,195,000,000	26.94
2. Foreign shares listed domestically									
3. Overseas listed foreign shares	538,127,200	31.05	0	0	0	0	0	538,127,200	12.13
4. Others									
III. Total shares	1,733,127,200	100.00	2,702,895,380	0	0	0	0	4,436,022,580	100

I. CHANGES IN SHARE CAPITAL *(CONTINUED)*

(I) Movement of shares *(Continued)*

2. Explanation for change in shares

   On 18 November 2013, the Company completed the issuance of 1,996,181,600 RMB-dominated shares to the Parent Company for purchase of assets according to the "Reply on the Approval to the Material Assets Reorganisation of Chongqing Iron & Steel Company Limited and its Issuance of Shares to Chongqing Iron & Steel (Group) Co., Ltd. for Acquisition of Assets and Fundraising" (Zheng Jian Xu Ke [2013] No. 1412) (《關於核准重慶鋼鐵股份有限公司重大資產重組及向重慶鋼鐵(集團)有限責任公司發行股份購買資產並募集配套資金的批覆》(證監許可[2013]1412號)) passed by the CSRC on 8 November 2013, and completed the change of register on 25 November 2013. Upon the completion, the total share capital of the Company was 3,729,308,800, including 3,191,181,600 A shares and 538,127,200 H shares.

   On 17 December 2013, the Company completed the issuance of 706,713,780 RMB-dominated A shares to five specific investors on the Shanghai Stock Exchange (" Shanghai Stock Exchange") according to the "Reply on the Approval to the Material Assets Reorganisation of Chongqing Iron & Steel Company Limited and its Issuance of Shares to Chongqing Iron & Steel (Group) Co., Ltd. for Acquisition of Assets and Fundraising" (Zheng Jian Xu Ke [2013] No. 1412) (《關於核准重慶鋼鐵股份有限公司重大資產重組及向重慶鋼鐵(集團)有限責任公司發行股份購買資產並募集配套資金的批覆》(證監許可[2013]1412號)) passed by the CSRC on 8 November 2013, and completed the change of register on 20 December 2013. Upon the completion, the total share capital of the Company was 4,436,022,580, including 3,897,895,380 A shares and 538,127,200 H shares.

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

   Change in shares had diluted impact on financial indicators such as earnings per share and net assets per share for the latest year and the latest period.

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

   Nil

I. CHANGES IN SHARE CAPITAL *(CONTINUED)*

(II) Change in shares subject to trading moratorium

Unit: share

Name of shareholder	Number of shares subject to trading moratorium at the beginning of the year	Number of shares released from trading moratorium in the year	Increase in shares subject to trading moratorium	Number of shares subject to trading moratorium at the end of the year	Reasons for trading moratorium	Date of release of trading moratorium
Chongqing Iron & Steel (Group) Co., Ltd.	0	0	1,996,181,600	1,996,181,600	New shares resulting from material assets reorganisation for acquisition of assets	25 November 2016
Shenzhen Ping'an Innovation Capital Investment Co., Ltd. (深圳市平安創新資本投資有限公司)	0	0	212,020,000	212,020,000	Non-public issuance to specific objects for raising funds	20 December 2014
Chongqing Water Assets Management Co., Ltd. (重慶市水務資產經營有限公司)	0	0	200,000,000	200,000,000	Non-public issuance to specific objects for raising funds	20 December 2014
Chongqing Energy Investment Group Co., Ltd. (重慶市能源投資集團有限公司)	0	0	147,150,000	147,150,000	Non-public issuance to specific objects for raising funds	20 December 2014
CCB Principal Asset-CMBC-China Fortune Trust —China Fortune Trust·No.685 Securities Investment Collected Fund Trust Scheme (建信基金—民生銀行—華鑫信託—華鑫信託685號證券投資集合資金信託計劃)	0	0	129,880,000	129,880,000	Non-public issuance to specific objects for raising funds	20 December 2014
Chongqing Transportation Holdings(Group) Co., Ltd. (重慶交通運輸控股(集團)有限公司)	0	0	17,663,780	17,663,780	Non-public issuance to specific objects for raising funds	20 December 2014
Total	0	0	2,702,895,380	2,702,895,380	/	/

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the latest 3 years ended 31 December 2013

Unit: RMB

Type of shares and its derivative securities	Date of issue	Issue price (or interest rate)	Number issued	Date of listing	Number approved for listing	Expiry date of the transaction
Type						
Ordinary shares dominated in RMB	25 November 2013	3.14	1,996,181,600	25 November 2016	1,996,181,600	
Ordinary shares dominated in RMB	20 December 2013	2.83	706,713,780	20 December 2014	706,713,780	

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

During the latest three years ended 31 December 2013, the Company issued two batches of shares in 2013, changes are as follows:

On 18 November 2013, the Company completed the issuance of 1,996,181,600 RMB-dominated shares to the Parent Company for purchase of assets according to the "Reply on the Approval to the Material Assets Reorganisation of Chongqing Iron & Steel Company Limited and its Issuance of Shares to Chongqing Iron & Steel (Group) Co., Ltd. for Acquisition of Assets and Fundraising" (Zheng Jian Xu Ke [2013] No. 1412) (《關於核准重慶鋼鐵股份有限公司重大資產重組及向重慶鋼鐵(集團)有限責任公司發行股份購買資產並募集配套資金的批覆》(證監許可[2013]1412號)) passed by the CSRC on 8 November 2013, and completed the change of register on 25 November 2013. The term of trading Moratorium of these shares are 36 months. Upon the completion, the total share capital of the Company was 3,729,308,800, including 3,191,181,600 A shares and 538,127,200 H shares. For the information on the changes of share structure, please refer to the Announcement on Results of Issuance for Acquisition of Material Assets and Changes in Share Structure (2013-048) (《關於重大資產購買之發行結果暨股本變動公告》(2013-048)) and attachments thereof published by the Company on the website of Shanghai Stock Exchange and China Securities Journal, Shanghai Securities News, Security Daily and Security Times on 28 November 2013.

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

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

On 17 December 2013, the Company completed the issuance of 706,713,780 RMB-dominated A shares to five specific investors on the Shanghai Stock Exchange ("Shanghai Stock Exchange") according to the "Reply on the Approval to the Material Assets Reorganisation of Chongqing Iron & Steel Company Limited and its Issuance of Shares to Chongqing Iron & Steel (Group) Co., Ltd. for Acquisition of Assets and Fundraising" (Zheng Jian Xu Ke [2013] No. 1412) (《關於核准重慶鋼鐵股份有限公司重大資產重組及向重慶鋼鐵(集團)有限責任公司發行股份購買資產並募集配套資金的批覆》(證監許可[2013]1412號)) passed by the CSRC on 8 November 2013, and completed the change of register on 20 December 2013. The term of trading Moratorium of these shares are 12 months. Upon the completion, the total share capital of the Company was 4,436,022,580, including 3,897,895,380 A shares and 538,127,200 H shares. For the information on the changes of share structure, please refer to the Announcement on Results of Non-public Issuance of Shares and Changes in Share Structure (2013-053) (《非公開發行股票發行結果暨股本變動公告》(2013-053)) and attachments thereof published by the Company on the website of Shanghai Stock Exchange and China Securities Journal, Shanghai Securities News, Security Daily and Security Times on 24 December 2013.

(III) Existing internal employee shares

The Company has no internal employee shares.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders and their shareholding

Unit: Share

Total number of shareholders at the end of the Reporting Period	89,339, including 89,033 holders of A Shares and 306 holders of H Shares	Total number of shareholders at the end of the 5th trading day before disclosure of the annual report	87,188, including 86,884 holders of A Shares and 304 holders of H Shares

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

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

Shareholdings of the top ten shareholders

Name of shareholder	Type of shareholders	Shareholding percentage *(%)*	Total number of shares held	Increase/ decrease in 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	63.05	2,796,981,600	1,996,181,600	1,996,181,600	141,336,000
HKSCC NOMINEES LIMITED	Foreign legal person	11.88	526,877,970	-54,300	0	Unknown
Shenzhen Ping'an Innovation Capital Investment Co., Ltd. (深圳市平安創新資本投資有限公司)	Unknown	4.78	212,020,000	212,020,000	212,020,000	Unknown
Chongqing Water Assets Management Co., Ltd. (重慶市水務資產經營有限公司)	Unknown	4.51	200,000,000	200,000,000	200,000,000	Unknown
Chongqing Energy Investment Group Co., Ltd. (重慶市能源投資集團有限公司)	State-owned legal person	3.32	147,150,000	147,150,000	147,150,000	Unknown
CCB Principal Asset —CMBC —China Fortune Trust —China Fortune Trust·No.685 Securities Investment Collected Fund Trust Scheme (建信基金—民生銀行—華鑫信託—華鑫信託·685號證券投資集合資金信託計劃)	Unknown	2.93	129,880,000	129,880,000	129,880,000	Unknown
Chongqing Transportation Holdings (Group) Co., Ltd. (重慶交通運輸控股(集團)有限公司)	State-owned legal person	0.40	17,663,780	17,663,780	17,663,780	Unknown
Bai Jiping (白計平)	Domestic natural person	0.05	2,310,000	0	0	Unknown
Zhou Yong (周勇)	Domestic natural person	0.04	1,600,000	0	0	Unknown
Shen Sasa (申颯颯)	Domestic natural person	0.03	1,347,300	0	0	Unknown

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

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

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

Name of shareholder	Number of shares not subject to trading moratorium	Type and number of shares	
Chongqing Iron & Steel (Group) Co., Ltd.	800,800,000	RMB-denominated ordinary shares	800,800,000
HKSCC NOMINEES LIMITED	526,877,970	Overseas listed foreign shares	526,932,270
Bai Jiping (白計平)	2,310,000	RMB-denominated ordinary shares	2,310,000
Zhou Yong (周勇)	1,600,000	RMB-denominated ordinary shares	1,600,000
Shen Sasa(申颯颯)	1,347,300	RMB-denominated ordinary shares	1,347,300
Chen Guoling(陳國玲)	1,230,200	RMB-denominated ordinary shares	1,230,200
Wang Weijing(王偉京)	860,500	RMB-denominated ordinary shares	860,500
IP KOW	725,200	Overseas listed foreign shares	725,200
Xing Huzhi(邢浥之)	719,555	RMB-denominated ordinary shares	719,555
Shen Huatang(沈華堂)	700,000	RMB-denominated ordinary shares	700,000
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. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

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

Number of shares subject to trading moratorium held by the top ten shareholders

Unit: shares

No.	Name of holders of shares subject to trading	Number of shares subject to trading moratorium held	Number of shares subject to trading moratorium available for trading: Time available for trading	Number of shares subject to trading moratorium available for trading: Number of new shares available for trading	Trading moratorium
1	Chongqing Iron & Steel (Group) Co., Ltd.	1,996,181,600	20 November 2016	0	New shares resulting from Material Assets Reorganisation for acquisition of assets, with trading moratorium term of 36 months.
2	Shenzhen Ping'an Innovation Capital Investment Co., Ltd. (深圳市平安創新資本投資有限公司)	212,020,000	20 December 2014	0	Non-public issuance to specific objects for raising funds, with trading moratorium term of 12 months.
3	Chongqing Water Assets Management Co., Ltd. (重慶市水務資產經營有限公司)	200,000,000	20 December 2014	0	Non-public issuance to specific objects for raising funds, with trading moratorium term of 12 months.
4	Chongqing Energy Investment Group Co., Ltd. (重慶市能源投資集團有限公司)	147,150,000	20 December 2014	0	Non-public issuance to specific objects for raising funds, with trading moratorium term of 12 months.
5	CCB Principal Asset -CMBC-China Fortune Trust-China Fortune Trust·No.685 Securities Investment Collected Fund Trust Scheme (建信基金—民生銀行—華鑫信託—華鑫信託·685號證券投資集合資金信託計劃)	129,880,000	20 December 2014	0	Non-public issuance to specific objects for raising funds, with trading moratorium term of 12 months.
6	Chongqing Transportation Holdings(Group) Co., Ltd. (重慶交通運輸控股(集團)有限公司)	17,663,780	20 December 2014	0	Non-public issuance to specific objects for raising funds, with trading moratorium term of 12 months.
Explanation about connected relationship and acts in concert of the above shareholders			There is no connection between the Parent Company and other 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 shareholders or whether they are parties acting in concert.		

Note: There was six shareholders of the Company who were subject to trading moratorium.

IV. CONTROLLING SHAREHOLDER AND DE FACTOR CONTROLLER

(I) Controlling Shareholder

1. Legal person

Unit: RMB

Name	**Chongqing Iron & Steel (Group) Co., Ltd.**
Legal representative	Liu Jiacai
Date of incorporation	19 January 1982
Organization code	20280337-0
Registered capital	1,650,706,543.56
Principal operations	Assets operation, investment and property right trading within the authorized scope, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computers and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals)
Operating results	Net profit: RMB-2,800 million in 2013 (unaudited)
Financial status	Total assets: RMB72.6 billion; total liabilities: RMB51.9 billion; net assets: RMB20.7 billion in 2013 (unaudited)
Cash flow and strategy for future development	Chongqing Iron & Steel Group maintained normal status in 2013. It will promote the implementation of the plan and support the development of the principal business of iron & steel and the mineral resources in light of the goals set in the Outline of the Development Plan for the "12th Five-Year Plan" period of Chongqing Iron & Steel Group and the 3-year Development Strategic Plan of Chongqing Iron & Steel Group.
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	Unknown

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

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

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

(II) De factor controller

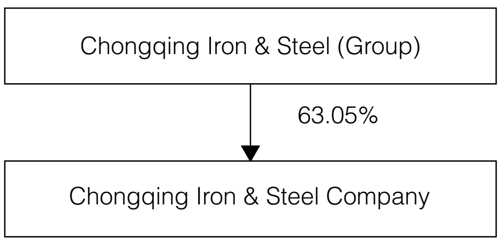
1. Legal person

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

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

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

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



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

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

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

1. Interests or Short Positions

As at 31 December 2013 the Board was not aware of any person or its associates whose interests or short positions in the shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO").

2. Pre-emptive Rights

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

3. Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2013 the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

4. Public float of H shares

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

5. Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2013 the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$1.22)) was HK$657 million and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB2.48)) was RMB9.667 billion.

I. CHANGES IN SHAREHOLDING AND REMUNERATION

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

Unit: share

Name	Title	Gender	Age	Starting date of the tenure	Ending date of the tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Increase/ decrease in shareholding during the year	Reason for change in shareholding	Total remuneration received from the Company during the Reporting Period (before tax) *(RMB0'000)*	Total remuneration receivable from Shareholder *(RMB0'000)*
Deng Qiang	Chairman *(Non-executive director)*	M	51	18 March 2011	24 January 2014	0	0	0	N/A	/	/
Xia Tong	Vice chairman *(Executive director)* and Party secretary	M	48	28 February 2012	2 April 2013	0	0	0	N/A	8.42	/
Yuan Jin Fu	Non-executive director	M	51	1 June 2009	2013 annual general meeting	0	0	0	N/A	/	/
Chen Hong (陳洪)	Executive director. general manager	M	57	1 June 2009	12 February 2014	0	0	0	N/A	27.60	/
Sun Yi Jie	Executive director and Deputy General Manager	M	58	1 June 2009	11 July 2013	0	0	0	N/A	17.90	/
Li Ren Sheng	Executive director and Deputy General Manager	M	49	1 June 2009	2014 annual general meeting	0	0	0	N/A	24.27	/
Guan Zhao Hui	Executive director and Deputy General Manager	M	45	13 June 2013	2014 annual general meeting	0	0	0	N/A	24.21	/
Zhu Jian Pai	Chairman of the Supervisory Committee	M	56	1 June 2009	2 April 2013	0	0	0	N/A	/	/
Xia Tong	Chairman of the Supervisory Committee and Party secretary	M	48	13 June 2013	2014 annual general meeting	0	0	0	N/A	16.83	/
Li Zheng	Supervisor	M	51	18 August 2010	2014 annual general meeting	0	0	0	N/A	/	/
Li Mei Jun	Supervisor	M	47	18 August 2009	2014 annual general meeting	0	0	0	N/A	/	/
Chen Hong (陳紅)	Supervisor representing staff	F	49	1 June 2009	2014 annual general meeting	0	0	0	N/A	20.04	/
Dou Hui	Supervisor representing staff	M	50	25 July 2011	2014 annual general meeting	0	0	0	N/A	21.00	/
Liu Tian Ni	Independent director	M	49	1 June 2009	2014 annual general meeting	0	0	0	N/A	7.14	/
Zhang Guo Lin	Independent director	M	58	1 June 2009	2014 annual general meeting	0	0	0	N/A	7.14	/
Ran Mao Sheng	Independent director	M	50	29 May 2012	2014 annual general meeting	0	0	0	N/A	7.14	/
Zhang Liquan	Deputy General Manager	M	51	23 April 2003	/	0	0	0	N/A	11.61	/
Gong Jun	Financial Controller	F	41	26 September 2010	/	0	0	0	N/A	20.98	/
You Xiao An	Secretary to the Board	M	49	23 January 2001	/	0	0	0	N/A	20.08	/
Total	/	/	/	/	/	0	0	0	N/A	234.36	/

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

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

Directors:

Mr. Deng Qiang, aged 51, is the Chairman of the Board, chairman of the strategic committee and the deputy general manager of the Parent Company. He graduated from Metallurgy Department of Chongqing University, majoring in iron refinery. He holds Master's Degree for Engineering and is a senior engineer. Mr. Deng joined the Parent Company in 1982, and served, from time to time, as Deputy Head (in charge of general operation) of No.6 Plant and deputy director (in charge of general operation) of Steel Business Unit of the Parent Company, deputy general manager of the Company, deputy chief engineer of the Parent Company and head of the Technical Centre of Chongqing Iron & Steel (during this period, he also held various positions in the wholly-owned subsidiaries of the Parent Company as below: chairman of the Transportation Company (運輸公司), chairman and general manager of No.3 Steel Company (三鋼公司), General Manager of Zhongxing Company (中興公司) and chairman of No.4 Steel Company (四鋼公司)), assistant to the general manager of the Parent Company and deputy general manager of the Parent Company. Mr. Deng was re-elected as a director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Yuan Jin Fu, aged 51, is a Director and member of the Salary and Remuneration Review Committee of the Company. He is also the director, deputy general manager and the chief accountant of the Parent Company. Mr. Yuan obtained a bachelor degree in Economics and Management and holds the title of senior accountant. Mr. Yuan joined the Parent Company in 1981 and has been the chief accountant of the Parent Company since August 2002 and deputy general manager of the Parent Company since July 2008. He had been the head and deputy head of Finance Office and deputy chief accountant of the Parent Company, and the chairman of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. Mr. Yuan was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

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

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

Directors: *(Continued)*

Mr. Chen Hong(陳洪), aged 57, is a Director, a member of the Strategic Committee and the general manager of the Company. Mr. Chen graduated from Wuhan Iron & Steel University with a bachelor's degree in coking engineering and attended the postgraduate course in management engineering of Tsinghua University with a postgraduate diploma, and he is a senior engineer. Mr. Chen joined the Parent Company in 1982, and had been the deputy head of Chemical Workshop, deputy head of Recycle Workshop, deputy head of Coking Workshop, deputy plant head, plant head of the Coking Plant of the Parent Company, head of Raw Material Department of the Company, deputy chief engineer of the Parent Company, the chairman of the board of directors of the Chongqing Iron & Steel Group Industries Co., Ltd., the chairman of the board of directors of Chongqing Iron & Steel Group Doorlead Realty Co., Ltd., deputy general manager and head of Sales Department of the Company. Mr. Chen was reelected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Sun Yi Jie, aged 58, is a Director, a member of the Strategic Committee, the deputy general manager and chief engineer of the Company. Mr. Sun graduated from the Metallurgy Faculty of Jiangxi Metallurgy College with major in metal and heating processing. He holds a bachelor degree in engineering and holds the title of senior engineer, and is a certified metallurgical engineer of the State and "Leader of Academy and Technology in Chongqing City". Mr. Sun joined the Parent Company in 1982 and had worked as the deputy factory manager of No. 1 Steel Smelting Plant, deputy general manager and general manager of Hengda Company. Mr. Sun was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012 and resigned as a Director of the Company due to work adjustment on 11 July 2013.

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

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

Directors: *(Continued)*

Mr. Li Ren Sheng, aged 49, is a Director and the deputy general manager of the Company. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses a bachelor's degree and is a senior engineer. He joined the Parent Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Parent Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of the Raw Materials Department of the Company. Mr. Li was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Guan Zhao Hui (管朝暉), aged 45, is the deputy general manager of the Company. Mr. Guan graduated from Chongqing University, majoring in engineering mechanics. He holds Master's Degree and is a senior engineer. Mr. Guan joined the Parent Company in 1990, served from time to time as Chief of Mechanics Section of Steel Section Plant (型鋼廠機械科科長), Assistant to the Head of the Medium-Gauge Plate Plant (中厚板廠廠長助理), Deputy Chief and Chief of Mechanics Division (in charge of general operation) and Head of the Medium-Gauge Plate Plant of the Company. Mr. Guan was elected as a Director of the Company at the 2012 annual general meeting held on 13 June 2013.

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

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

Independent Directors:

Mr. Zhang Guo Lin, aged 58, is an Independent Non-executive Director, Chairman of Salary and Remuneration Review Committee, a member of the Strategic Committee and the Audit Committee of the Company, the professor and master tutor of Southwest University of Political Science & Law, an academic leader and secretary to the Party Committee of Chongqing, a member of Technology Advisory Committee of Chongqing government, a member of Discipline Committee of Chongqing and a member to the Third People's Congress of Chongqing. He is also the vice president of Administration Association of Chongqing and an independent director of Chongqing Brewery Co. Ltd. Mr. Zhang graduated from the Faculty of Metallurgy of Chongqing University in January 1982 with a doctor's degree in technology economy and management. He had studied as a visiting scholar in University of Illinois at Chicago, USA. Mr. Zhang had released a number of academic theses in academic periodicals and obtained numerous awards for research achievements and projects. Mr. Zhang has extensive teaching and working experience in steel smelting, metallurgy and economy management. Mr. Zhang had been director of the Organization Department of Party Committee, the deputy secretary to party committee, the vice director to school administration committee, the standing member of party committee and the vice president of Chongqing University. He also served as the deputy secretary to working committee and the vice director of Administrative Committee of northern new district of Chongqing, a member of the second CCP Discipline Committee of Chongqing and a member of the second Political Consultative Conference of Chongqing. Mr. Zhang was re-elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Liu Tian Ni, aged 49, is an Independent Non-executive Director and a member of the Salary and Remuneration Review Committee and the Audit Committee of the Company, the founder and chairman of Wonderful Sky Financial Group Limited, an executive director of Silver Grant International Industries Limited, a listed company in Hong Kong, the Managing Director of Sure Spread Company Limited, and an independent director of Qingling Motors Company Limit. Mr. Liu graduated from Beijing Normal University, with a master's degree in Science. Mr. Liu has extensive experience in fields including international capital market, post listing corporate financing, mergers & acquisitions and direct investment. Mr. Liu Tian Ni was awarded the World Outstanding Young Chinese Entrepreneur by Asia Weekly in October 2008 for his excellent corporate management and remarkable business strategy. Mr. Liu was re-elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

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

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

Independent Directors: *(Continued)*

Mr. Ran Mao Sheng, aged 50, is the head of Planning and Finance Division and the director of State-owned Assets Office of Chongqing University, and concurrently serves as vice president of Research Society of China University & College Capital Settlement Centre (全國高等學校資金結算中心研究會), a standing director of Chongqing Auditing Society, a standing director of Chongqing Internal Audit Society, a director of Chongqing University Science and Technology Group Company Limited (重慶大學科技企業集團股份有限公司), a financial consultant of China Development Bank Chongqing Branch and an independent director of Chongqing Zongshen Power Machinery Co., Ltd. Mr. Ran graduated from Chongqing University with a Doctor's Degree in Technology Economics and Management. He is a professor and PhD supervisor. Mr. Ran has extensive experience in finance, financial management and audit. Mr. Ran was elected as an Independent Non-executive Director of the Company at the 2011 annual general meeting held on 31 May 2012.

Supervisors:

Mr. Xia Tong (夏彤), aged 48, is the chairman of the supervisory committee, party secretary, secretary of the disciplinary committee, and chairman of the Labour Union of the Company. Mr. Xia graduated from Chongqing University and holds Master's Degree for Engineering. Mr. Xia is a senior engineer. Mr. Xia joined the Parent Company in July 1987, and served as director of the Party and Administration Office of the Parent Company's Medium Plate Plant, party secretary, secretary of the disciplinary committee, and chairman of the labour union of the Parent Company's Medium Plate Plant, secretary to the Board of Directors and head of the Managerial Office (Office of the Board of Directors) of the Parent Company, party secretary of the Environmental Relocation Headquarters of the Parent Company. Mr. Xia was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012 and resigned as a Director of the Company due to work adjustment with effect from 2 April 2013. He was elected as a Shareholder Representative Supervisor of the Company at the 2012 annual general meeting held on 13 June 2013.

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

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

Supervisors: *(Continued)*

Mr. Zhu Jian Pai, aged 56, is the former Chairman of the Supervisory Committee of the Company, and currently a Director, general manager and the deputy secretary to the Communist Party Committee of the Parent Company. Mr. Zhu has a bachelor degree in engineering from the Faculty of Metallurgy of Chongqing University with major in pressure processing and a master degree in EMBA from Chongqing University. He is a senior engineer and a certified metallurgy and metal materials engineer. Mr. Zhu joined the Parent Company in 1982 and served as the deputy secretary to the Communist Party Committee and secretary of the disciplinary committee of the Parent Company in January 2000, the Chairman of the Supervisory Committee of the Parent Company in September 2011, the secretary to the Communist Party Committee and the Chairman of the Labour's Union of the Company, the head of the labour affairs office, the head of the personnel department, the deputy secretary to the Communist Party Committee and a director of the Parent Company. Mr. Zhu was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012 and resigned as a Supervisor of the Company due to work adjustment with effect from 2 April 2013.

Mr. Li Zheng, aged 51, is the Office Director of the Supervisory Committee and the head of audit department of the Parent Company. Mr. Li graduated from Sichuan Second Communist Party School by distance learning with a bachelor's degree in economics and trade (四川省二黨校函授經貿專業). He is a senior accountant. Mr. Li joined the Parent Company in 1980 and acted as the head of audit department of the Parent Company in May 2010 and Office Director of the Supervisory Committee in November 2011. He held positions as the assistant to the head of the Finance Office of the Parent Company, the chief accountant of Chongqing Building Materials and Industry Co., Ltd. (重慶建材實業有限公司), the deputy head of the sales department and the secretary to the Chief Party Committee of the sales department of the Company as well as the deputy general manager of Chongqing Iron & Steel Mining Company (重鋼集團礦業公司). Mr. Li was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012.

Mr. Li Mei Jun, aged 47, is the officer of the legal affairs office of the Parent Company. Mr. Li graduated from the law department of Nankai University with a master's degree in law. He is an assistant economist. Mr. Li joined the Parent Company in 1988 and acted as the officer of the legal affairs office of the Parent Company in July 2011. He held positions as the deputy manager of the sales department of Zhangjiang Industry and Trade Dong Hua (湛江工貿東華) of the Parent Company, the manager of Nanning Business Department (南寧經營部) of Zhangjiang Industry and Trade Group (湛江工貿集團) of Parent Company, the chief and deputy director of of the legal affairs office of the legal department of the Parent Company. Mr. Li was re-elected as a Shareholder Representative Supervisor of the Company at the 2011 annual general meeting held on 31 May 2012.

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

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

Supervisors: *(Continued)*

Ms. Chen Hong（陳紅）, aged 49, is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen obtained a university diploma from the Logistical Engineering University of the Chinese Peoples's Liberation Army. Ms. Chen joined the Parent Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of the Design Institute, chief officer of Production and Operation Department of the Parent Company and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the Company at the 71st meeting of the sixth staff representative meeting for its group leaders of the Company on 29 may 2012.

Mr. Dou Hui, aged 50, is the secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Steel Smelting Plant of the Company. He is holder of a bachelor's degree, and a senior political worker (高級政工師). Mr. Dou joined the Parent Company in August 1982. He served from time to time as the director of the office of the Labor Union, organization department chief of the Labor Union of the Parent Company, as well as secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the Labor Union of the Sintering Plant of the Company. On 29 May 2012, Mr. Dou was re-elected as a Staff Representative Supervisor of the Company at the 71st meeting of the sixth staff representative meeting for its group leaders of the Company.

Other senior management members:

Mr. Zhang Li Quan, aged 51, is the deputy general manager of the Company. Mr. Zhang graduated from Chongqing University, majoring in non-ferrous metal metallurgy. He holds Master's Degree and is a senior engineer. Mr. Zhang joined the Parent Company in 1987 served from time to time as the Deputy head, Head and the director of the Production and Direction Center of the Sintering Plant of the Company.

Ms. Gong Jun, aged 41, is the Financial Controller and the head of the financial and accounting office of the Company. Ms. Gong graduated from China Central Radio and TV University with bachelor degree in accounting. She is a senior accountant and PRC Certified Public Accountant. Joining the Parent Company in 1996, she acted as the head of Audit Department of the Parent Company from March 2008 to May 2010 and acted as the head of Finance Office of the Parent Company from May 2010 to September 2010. She had been the deputy head of the Accounting Department of the Financial and Accounting Office the Company, head of the Accounting Management Division of the Financial Department, deputy head of the Financial Department, deputy head and head of the Audit Department and head of the Financial Department of the Parent Company.

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

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

Other senior management members: *(Continued)*

Mr. You Xiao An, aged 49, is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now attending postgraduate courses in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Parent Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.

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

1. Positions held at shareholders

Name	Name of shareholders	Positions held at shareholders	Starting date of the tenure	Ending date of the tenure
Deng Qiang	Chongqing Iron & Steel Group	Deputy General Manager	September 2010	/
Yuan Jin Fu	Chongqing Iron & Steel Group	Director, Deputy General Manager and Chief Accountant	Chief Accountant since August 2002; Deputy General Manager since July 2008; Director since December 2011	/
Zhu Jian Pai	Chongqing Iron & Steel Group	Director, General Manager, deputy secretary to the Communist Party Committee and the secretary of the Discipline Inspection Committee	Deputy secretary to the Communist Party Committee since January 2000; Director since February 2013; General Manager since February 2013	/
Li Zheng	Chongqing Iron & Steel Group	Office Director of the Supervisory Committee and the head of audit department	Head of audit department since May 2010; Office Director of the Supervisory Committee since November 2011	/
Li Mei Jun	Chongqing Iron & Steel Group	Officer of the legal affairs office	Since July 2011	/

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

2. Positions held at other entities

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

III. REMUNERATIONS OF DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

Procedure for determining remunerations of Directors, Supervisors and Senior Management	The Remuneration Committee decides the remuneration plan for Directors, Supervisors and Senior Management for the next year
Basis for determining remunerations of Directors, Supervisors and Senior Management	Remuneration for the Company's executive Directors, the management and other senior management members is designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. Remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons.
Remunerations payable to Directors, Supervisors and Senior Management	RMB2,343,600
Total remunerations actually received by all Directors, Supervisors and Senior Management at the end of the Reporting Period	RMB2,343,600

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason for change
Xia Tong	Vice Chairman	Resigned	Work adjustment
Zhu Jian Pai	Chairman of Supervisory Committee	Resigned	Work adjustment
Zhang Li Quan	Deputy General Manager	Appointed	Appointment
Xia Tong	Chairman of Supervisory Committee	Appointed	Election
Guan Zhao Hui	Director	Appointed	Election
Sun Yi Jie	Director, Deputy General Manager	Resigned	Work adjustment

V. CORE TECHNICAL TEAM OR KEY TECHNICAL PERSONNEL

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

VI. EMPLOYEES OF THE COMPANY AND MAJOR SUBSIDIARIES

1. Employees

Number of in-service employees of the Company	11,310
Number of in-service employees of major subsidiaries	1,179
Total number of in-service employees	12,489
Number of retired employees for whom the Company and major subsidiaries need to bear certain expenses	429

Structure of profession **Type of profession**	**Number of people**
Production staff	10,182
Sales staff	149
Technical staff	819
Finance staff	82
Administrative staff	1,257
Total	12,489

Education background **Education level**	**Number of people**
Secondary technical graduates and below	6,786
Associate degree	3,907
Undergraduate	1,573
Master's degree and above	223
Total	12,489

2. Remuneration policy

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

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

2. Remuneration policy *(Continued)*

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

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

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

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

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

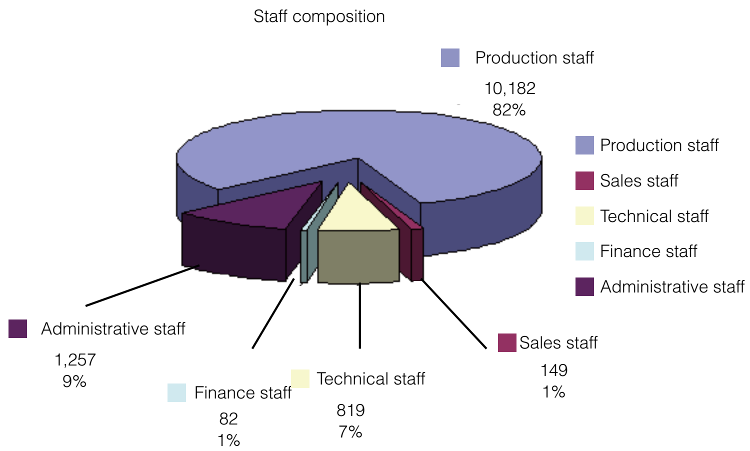
The Company implements a minimus salary system, requiring all of its entities to provide a salary not lower than the minimum salary prescribed by the local government for employees who offer normal labor in legitimate working time (including the trial period, probationary period, learning period and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

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

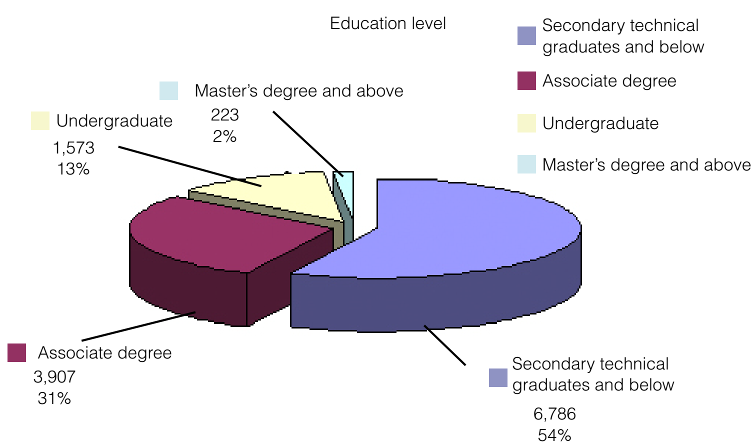
3. Training program

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

4. Statistical diagram of staff composition



5. Statistical diagram of education level



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

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

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

1. Shareholders and shareholders' general meeting: The Company convenes, gives notices of and holds general meetings in strict compliance with relevant requirements of the Company Law, the Articles of Association and the Rules of Procedure for General Meetings. The Company retains lawyers to witness the meetings and issue legal opinion, listen to shareholders' opinions and suggestions to ensure that shareholders, minority shareholders in particular, have equal status and that shareholders have and exercise lawful rights conferred by laws, regulations and the Articles of Association. During the Reporting Period, the Company held the 2012 annual general meeting and the first extraordinary general meeting for 2013. On-site and online voting was adopted for the both general meeting. The 2012 annual report, re-election of the Board, the Material Assets Reorganisation and other matters were considered an approved at the general meetings with a view to protecting the lawful rights and interests of all shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

II. INTRODUCTION OF GENERAL MEETINGS

Meeting	Date	Resolutions	Voting results	Websites designated for publication of resolutions	Date of publication of resolutions
2012 Annual General Meeting	13 June 2013	1. The report of the Supervisory Committee of the Company for the year 2012; 2. report of the Board of Directors of the Company for the year 2012; 3. Performance Report of the Independent Directors of the Company for the year 2012; 4 The audited financial report for the year 2012; 5. 2012 Annual Report; 6. profit distribution proposal for the year 2012; 7. Proposal for re-appointment of KPMG Huazhen as the auditor and internal control auditor of the Company for the year 2013; 8. To approve the proposal in relation to resignation fo Mr. Xia Tong and Mr. Zhu Jian Pai as a Director and as a Supervisor of the Company respectively; 9. Election of Mr. Guan Zhao Hui as a Director of the Company to hold office from the date of election until the expiry of the sixth session of the Board of Directors of the Company; 10. Election of Mr. Xia Tong as a Supervisor of the Company to hold office from the date of election until the expiry of the sixth session of the Supervisory Committee of the Company	Passed upon consideration	http://www.sse.com.cn http://www.hkexnews.hk/index_c.htm	14 June 2013
2013 First Extraordinary Meeting, 2013 First Class Meeting of A Shareholders and 2013 First Class Meeting for H Shareholders	10 December 2013	Proposal in relation to the extension of effective period for resolutions in relation to Material Assets Reorganization and Fundraising of the Company and period in relation to the authorization to the Board to deal with relevant matters	Passed upon consideration	http://www.sse.com.cn http://www.hkexnews.hk/index_c.htm	11 December 2013

III. DUTY PERFORMANCE OF DIRECTORS

1. Directors' attendance of Board meetings and general meetings

		Attendance of Board meetings						Attendance of general meetings
Name of director	Independent director or not	Number of Board meetings	Attendance in person	Attendance via communication	Attendance by proxy	Absence	Whether failed to attend 2 consecutive meetings in person	Attendance of general meetings
Deng Qiang	No	4	4/4	0	0	0	No	1/2
Xia Tong	No	1	1/1	0	0	0	No	0/0
Yuan Jin Fu	No	4	4/4	0	0	0	No	2/2
Chen Hong (陳洪)	No	4	4/4	0	0	0	No	2/2
Sun Yi Jie	No	2	2/2	0	0	0	No	1/1
Li Ren Sheng	No	4	4/4	0	0	0	No	1/2
Guan Zhao Hui	No	2	2/2	0	0	0	No	1/1
Liu Tian Ni	Yes	4	0	4/4	0	0	No	1/2
Zhang Guo Lin	Yes	4	4/4	0	0	0	No	2/2
Ran Mao Sheng	Yes	4	4/4	0	0	0	No	2/2

The Company's directors all attended the meeting by either physical or virtual means.

Number of Board meetings during the year	4
Including: number of physical meetings	0
number of virtual meetings	0
number of meetings by both physical and virtual means	4

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

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

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

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

(1) Work of the Strategy Committee. On 22 February 2013, the Company held its 1st meeting of the fourth Strategy Committee, at which the resolution regarding the additional investment in the Company's product mix adjustment project.

(2) Work of the Audit Committee. On 27 March 2013, the Company held 2nd meeting of the fifth Audit Committee, at which the following resolutions were formed: (i) approving the annual report of the Company and its summary for 2012 and the annual results announcement for the year ended 31 December 2012 and submitting the same to the Board for consideration; (ii) confirming the continuing connected transactions of the Company in 2012; (iv) the Audit Committee's suggestion that the Board and the management pay high attention to the problems identified by auditors in the audit; (v) approving the the 2012 annual audit work summary report by KPMG Huazhen Certified Public Accountants and submitting the same to the Board for consideration; (vi)approving the re-appointment of KPMG Huazhen Certified Public Accountants as the domestic auditor of the Company for the year 2013 and submitting the same to the Board for consideration.

On 28 August 2013, the Company held the 3rd meeting of the fifth Audit Committee, at which (i) the unaudited financial report of the Group for the six months ended 30 June 2013; (ii) the interim report of the Group for 2013 and its summary, unaudited interim results the Group for the six months ended 30 June 2013 were considered and approved.

(3) Work of the Remuneration and Evaluation Committee. On 26 December 2013, the Company held the 2nd meeting of the fourth Remuneration and Evaluation Committee, at which the follow resolutions were formed: (i) Remuneration for the Company's executive Directors, the management and other senior management members in 2013 was designed to be 4 to 10 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons; remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.2 times of difference for different persons. The above persons' remunerations were paid based on a established package including basic salary, monthly bonus, performance-based quarterly award and year-end bonus in line with the Company's economic benefits and in light of the performance appraisal results. The actual payment accorded with the remuneration scheme for 2013. (ii) approving the remuneration scheme for directors, supervisor and senior management of the Company for 2014; (iii) recommendation that the remuneration of directors, supervisor and senior management should continue to be linked with the Company's performance and the internal incentive and constraint mechanism should be further improved and refined.

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

(4) Work of the Nomination Committee. On 8 April 2013, the Company held the second meeting of the first Nomination Committee. Having adequately vetted the profession, education, professional title, detailed work experience and all part-time jobs of Mr. Guan Zhao Hui, the Nomination Committee is of the opinion that, Mr. Guan Zhao Hui is qualified for a director of a listed company ans is capable of taking the responsibility of the position appointed. Mr. Guan is neither identified as being prohibited from holding the position of company director under Rule 147 of the Company Law nor as being prohibited from entering the securities market and is still in the prohibition period by the China Securities Regulatory Commission.

On 23 April 2013, the first proposals in writing of the first session of the Nomination Committee considered and approved the proposal in relation to the review of candidates for deputy general manager. Having adequately vetted the profession, education, professional title, detailed work experience and all part-time jobs of Mr. Zhang Li Quan, the Nomination Committee is of the opinion that, Mr. Zhang Li Quan is qualified for the position under the requirements of the Company Law, the Articles of Association and relevant laws and regulations.

On 20 December 2013, the Company held the third meeting of the first Nomination Committee. Based on relevant situations in relation to the Company's production and operation scales and industrial features, the Nomination Committee is of the opinion that, the size and composition of the Board are proper and in line with relevant requirements on standardized governance. In 2013, Mr. Xia Tong and Mr. Sun Yi Jie, being Directors of the Company resigned as a Director of the Company successively due to work adjustments. Though the Company timely elected Mr. Guan Zhao Hui as a Director, there was still vacancy for one Director, the Nomination Committee recommended the Company carry out election in a timely manner.

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

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

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

Item	Whether independent and complete or not	Explanation
Business	Yes	The Company is a self-sustaining entity operating independently with an independent production, supply and sales system. The Company does not compete with its Controlling Shareholder in its principal business activities.
Staff	Yes	The Company is completely independent in terms of labor, personnel and salary affairs. All of the Company's senior management members including the general manager, deputy general manager, chief engineer, financial controller and secretary to the Board receive remuneration in the Company without concurrently holding posts at shareholders.
Assets	Yes	Chongqing Iron & Steel Group injected the iron and steel making related facilities into the Company within the reporting period, the Company has complete and independent assets, and independent from the Controlling Shareholder' assets.
Organization	Yes	The Company has a complete organizational structure and functional departments independent from the Controlling Shareholder. The Company's offices and production and operational premises are completely separated from those of the Controlling Shareholder.
Finance	Yes	The Company establishes a finance department as the independent financial accounting division, sets up an independent accounting system and financial management system, opens accounts independently with financial institutions and pays taxes separately.

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

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

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

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

The Board of the Company is responsible for setting up and maintaining an effective internal control system related to financial reporting. The Company prepared the 2013 Internal Control Evaluation Report of Chongqing Iron & Steel Company Limited according to the internal control functioning in 2013 (for details, please refer to the announcement published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 28 March 2013).

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

KPMG Huazhen Certified Public Accountants (Special General Partnership) audited the internal control of the Company in 2013 and issued a standard unqualified Audit Report on Internal Control of Chongqing Iron & Steel Company Limited in 2013 to the effect that the Company maintained effective internal control on financial reporting in all material aspects as at 31 December 2013 according to the Basic Standards for Enterprise Internal Control and relevant requirements.

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

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

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

I. CORPORATE GOVERNANCE PRACTICES

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

The Company complied with the corporate governance principles and all the code provisions (if applicable, including most recommended best practices) (Corporate Governance Code) set out in Appendix 14 to the Listing Rules as at 31 December 2013.

II. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2013 none of the Directors, Supervisors or their respective associates had any interest in the shares of the Group or its associated corporations.

During the year 2013, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year 2013 was the Group, its fellow subsidiaries or its Parent Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year 2013 was the Group, its fellow subsidiaries or its Parent Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

2. Service Contracts of Directors and Supervisors

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

3. Directors' and Supervisors' Interests in the Contracts

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

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

4. Model Code for Securities Transactions by Directors and Supervisors

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

III. THE BOARD

1. Composition of the Board

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

2. Number of Board meetings during the financial year

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

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

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

III. THE BOARD *(CONTINUED)*

4. Division of responsibilities between the Board and the management

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

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

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

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

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

8. Directors and senior management training

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

IV. CHAIRMAN AND GENERAL MANAGER

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

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

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

V. NON-EXECUTIVE DIRECTOR

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

VI. COMMITTEES UNDER THE BOARD

(I) Functions of special committees

1. Primary responsibilities of the Strategy Committee

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

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

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

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

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

   (6) Other matters authorized by the Board.

VI. COMMITTEES UNDER THE BOARD *(CONTINUED)*

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

2. Primary responsibilities of the Audit Committee

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

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

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

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

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

   (6) other matters authorized by the Board.

3. Primary responsibilities of the Remuneration and Evaluation Committee

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

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

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

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

   (5) other matters authorized by the Board.

VI. COMMITTEES UNDER THE BOARD *(CONTINUED)*

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

4. Primary responsibilities of the Nomination Committee

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

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

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

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

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

(6) other matters authorized by the Board.

(II) Composition of all special committees (as at 31 December 2013)

(1) The fourth Strategy Committee of the Board:

Chairman: Deng Qiang

Member: *Zhang Guo Lin,* Chen Hong（陳洪）, Li Ren Sheng

(2) The fifth Audit Committee of the Board:

Chairman: Ran Mao Sheng

Member: *Zhang Guo Lin, Liu Tian Ni*

VI. COMMITTEES UNDER THE BOARD *(CONTINUED)*

(II) Composition of all special committees (as at 31 December 2013) *(Continued)*

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

Chairman: *Zhang Guo Lin*

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

(4) The first Nomination Committee of the Board:

Chairman: Deng Qiang

Member: *Ran Mao Sheng, Liu Tian Ni*

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

(III) Work of special committees

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

VII. REMUNERATION OF AUDITORS

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

VIII. COMPANY SECRETARY

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

IX. SHAREHOLDERS' RIGHTS

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

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

(II) Enquiry procedure and available information

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

1. the Articles of Association after paying the cost;

2. Inspect and copy, after paying reasonable fees:

   (1) all parts of the register of shareholders;

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

   (3) counterfoil of corporate bonds;

   (4) resolutions of the Board meetings;

   (5) resolutions of the Supervisory Committee meetings;

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

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

   (8) minutes of general meetings.

IX. SHAREHOLDERS' RIGHTS *(CONTINUED)*

(III) procedure for proposing a resolution

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

X. INVESTOR RELATIONS

In 2013, bearing in mind the work concept of "understanding investors, serving investors", the Company continuously enhanced investors' recognition of the Company's value, kept improving transparency of corporate governance, increased the scope and depth of information disclosure and took full advantage of the investors communication platform to strengthen exchanges with investors.

In order to meet the requirements of the regulatory authorities and improve investor relation efforts, the Company held promotion and interactive events at multiple levels and by various means in 2013. The Company launched a special column entitled "rewarding investors" to publicize information of the Company on rewarding investors. In the day-to-day work, the Company made full use of the investors interactive platform on www.p5w.net to timely answer all kinds of questions raised by investors. The above activities brought about good publicity and communication effects.

In a bid to further tighten investor relation management and push into depth the theme event entitled "understanding investors, serving investors" and give investors a better understand of the Company's dividend distribution policy, return plan and business development, the Company participated in the "theme event of online open day for investors of listed companies in Qongqing" at 14:00-17:00, 12 November 2013. Senior management of the Company conducted timely and efficient exchanges and communication with investors via the online platform.

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

畢馬威華振審字第1400511號

All Shareholders of Chongqing Iron and Steel Company Limited:

We have audited the accompanying financial statements of Chongqing Iron and Steel Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2013, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

AUDITORS' RESPONSIBILITY *(CONTINUED)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2013, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen
(Special General Partnership)

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

Ling Yun

China Beijing

Wan Shu

27 March 2014

Consolidated balance sheet

As at 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	2013	2012
Current assets			
Cash at bank and on hand	V.1	**1,553,350**	3,800,917
Bills receivable	V.2	**340,783**	779,131
Accounts receivable	V.3	**535,906**	1,057,179
Prepayments	V.4	**364,264**	880,823
Other receivables	V.5	**51,859**	1,802,681
Inventories	V.6	**8,792,179**	7,196,682
Other current assets	V.7	**1,713,216**	473,185
Total current assets		**13,351,557**	15,990,598
Non-current assets			
Available-for-sale financial assets	V.53	**5,000**	5,000
Long-term equity investments	V.8	**104,752**	104,739
Fixed assets	V.9	**24,570,568**	8,282,293
Construction in progress	V.10	**6,977,960**	4,236,785
Construction materials	V.11	**34,031**	1,190,982
Fixed assets to be disposed of	V.12	**—**	320,732
Intangible assets	V.13	**2,860,193**	350,789
Deferred tax assets	V.14	**17,866**	17,892
Other non-current assets	V.15	**124,050**	606,589
Total non-current assets		**34,694,420**	15,115,801
Total assets		**48,045,977**	31,106,399

The notes on pages 128 to 277 form part of these financial statements.

Consolidated balance sheet (Continued)

As at 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	*Note*	2013	2012
Current liabilities			
Short-term loans	V.18	**4,705,734**	5,620,216
Financial liabilities at fair value through profit or loss	V.19	**—**	1,556
Bills payable	V.20	**2,583,300**	861,000
Accounts payable	V.21	**13,506,498**	7,486,179
Advances from customers	V.22	**2,303,266**	3,646,951
Employee benefits payable	V.23	**197,105**	157,904
Taxes payable	V.24	**308,379**	5,618
Interest payable	V.25	**68,372**	22,173
Other payables	V.26	**1,500,212**	708,640
Non-current liabilities due within one year	V.27	**2,355,454**	3,862,674
Other current liabilities	V.28	**9,445**	7,712
Total current liabilities		**27,537,765**	22,380,623
Non-current liabilities			
Long-term loans	V.29	**7,348,938**	799,408
Debentures payable	V.30	**1,976,699**	1,971,617
Long-term payables	V.31	**1,083,193**	1,635,025
Other non-current liabilities	V.32	**163,079**	126,750
Total non-current liabilities		**10,571,909**	4,532,800
Total liabilities		**38,109,674**	26,913,423

The notes on pages 128 to 277 form part of these financial statements.

As at 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	**2013**	2012
Shareholders' equity			
Share capital	V.33	**4,436,023**	1,733,127
Capital reserve	V.34	**6,648,883**	1,109,163
Specific reserve	V.35	**1,344**	1,615
Surplus reserve	V.36	**606,991**	606,991
Retained earnings ("( )" for undistributed deficit)	V.37	**(1,775,938)**	723,080
Total equity attributable to shareholders of the Company		**9,917,303**	4,173,976
Minority interests		**19,000**	19,000
Total shareholders' equity		**9,936,303**	4,192,976
Total liabilities and shareholders' equity		**48,045,977**	31,106,399

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Balance sheet

As at 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Assets	Note	2013	2012
Current assets			
Cash at bank and on hand		**1,536,656**	3,771,189
Bills receivable		**329,619**	769,881
Accounts receivable	XI.1	**468,322**	931,263
Prepayments		**93,234**	304,375
Other receivables	XI.2	**46,271**	1,794,099
Inventories		**8,782,016**	7,184,212
Other current assets		**1,712,544**	470,533
Total current assets		**12,968,662**	15,225,552
Non-current assets			
Available-for-sale financial assets		**5,000**	5,000
Long-term equity investments	XI.3	**219,610**	219,597
Fixed assets		**24,523,710**	8,232,887
Construction in progress		**6,974,608**	4,233,224
Construction materials		**34,031**	1,190,982
Fixed assets to be disposed of		**—**	316,476
Intangible assets		**2,856,166**	346,662
Deferred tax assets		**17,116**	17,116
Other non-current assets		**58,750**	606,589
Total non-current assets		**34,688,991**	15,168,533
Total assets		**47,657,653**	30,394,085

The notes on pages 128 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity	Note	2013	2012
Current liabilities			
Short-term loans		**4,705,734**	5,555,216
Financial liabilities at fair value through profit or loss		**—**	1,556
Bills payable		**2,583,300**	861,000
Accounts payable		**13,470,028**	7,445,606
Advances from customers		**1,990,185**	3,124,969
Employee benefits payable		**193,331**	154,204
Taxes payable		**307,438**	2,791
Interest payable		**68,372**	22,173
Other payables		**1,562,280**	744,930
Non-current liabilities due within one year		**2,355,454**	3,862,674
Other current liabilities		**9,445**	7,712
Total current liabilities		**27,245,567**	21,782,831
Non-current liabilities			
Long-term loans		**7,348,938**	799,408
Debentures payable		**1,976,699**	1,971,617
Long-term payables		**1,083,193**	1,635,025
Other non-current liabilities		**162,286**	126,750
Total non-current liabilities		**10,571,116**	4,532,800
Total liabilities		**37,816,683**	26,315,631

The notes on pages 128 to 277 form part of these financial statements.

As at 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Liabilities and shareholders' equity *(continued)*	*Note*	**2013**	2012
Shareholders' equity			
Share capital		**4,436,023**	1,733,127
Capital reserve		**6,680,331**	1,140,611
Surplus reserve		**577,012**	577,012
Retained earnings ("( )" for undistributed deficit)		**(1,852,396)**	627,704
Total shareholders' equity		**9,840,970**	4,078,454
Total liabilities and shareholders' equity		**47,657,653**	30,394,085

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Consolidated income statement

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2013**	2012
I. Operating income	V.38	**17,563,446**	18,458,776
II. Less: Operating costs	V.38	**17,884,462**	18,402,709
Business taxes and surcharges	V.39	**7,296**	12,268
Selling and distribution expenses	V.40	**349,210**	423,351
General and administrative expenses	V.41	**853,930**	650,617
Financial expenses	V.42	**840,593**	1,006,021
Impairment losses	V.43	**127,977**	379,743
Add: Gains from changes in fair value ("( )" for losses)	V.44	**1,556**	22,157
Investment income ("( )" for losses)	V.45	**(1,505)**	369,274
Including: Income from investment in associates and jointly controlled enterprises		**13**	7
III. Operating profit ("( )" for losses)		**(2,499,971)**	(2,024,502)
Add: Non-operating income	V.46	**12,022**	2,168,322
Including: Gains from disposal of non-current assets		**225**	646
Less: Non-operating expenses	V.47	**7,942**	41,995
Including: Losses from disposal of non-current assets		**4,357**	41,044
IV. Profit before income tax ("( )" for losses)		**(2,495,891)**	101,825
Less: Income tax expense	V.48	**3,127**	2,982
V. Net profit for the year ("( )" for net losses)		**(2,499,018)**	98,843
Attributable to:			
Shareholders of the Company		**(2,499,018)**	98,813
Minority interests		**—**	30
VI. Earnings per share			
Basic earnings per share (Renminbi Yuan) ("( )" for net losses)	V.49	**(1.252)**	0.057
Diluted earnings per share (Renminbi Yuan)("( )" for net losses)	V.49	**(1.252)**	0.057

The notes on pages 128 to 277 form part of these financial statements.

	Note	2013	2012
VII. Other comprehensive income that cannot be reclassified into profit and loss in future periods		—	—
Including: Changes resulted from re-measurement of net liabilities or assets of defined benefit plans		—	—
Share of other comprehensive income of investees that cannot be reclassified into profit and loss in future periods under the equity method		—	—
Other comprehensive income that can be reclassified into profit and loss in future periods when certain conditions are satisfied		—	—
Including: Share of other comprehensive income of investees that can be reclassified into profit and loss in future periods under the equity method		—	—
Gains / (losses) arising from changes in fair value of available-for-sale financial assets		—	—
Gains / (losses) arising from reclassification from held-to-maturity investments to available-for-sale financial assets		—	—
Effective portion of gains /(losses) on instruments designated as cash flow hedges		—	—
Exchange differences on translation of financial statements denominated in foreign currencies		—	—
		—	—

The notes on pages 128 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2013**	2012
Net amount of other comprehensive income items (net of taxes)		**—**	—
VIII. Total comprehensive income for the year		**(2,499,018)**	98,843
Attributable to:			
Shareholders of the Company		**(2,499,018)**	98,813
Minority interests		**—**	30

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Income statement

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2013	2012
I. Operating income	XI.4	**17,367,834**	18,372,275
Less: Operating costs	XI.4	**17,731,675**	18,377,090
Business taxes and surcharges		**1,074**	2,472
Selling and distribution expenses		**345,618**	421,378
General and administrative expenses		**814,470**	620,025
Financial expenses		**837,697**	1,000,461
Impairment loss		**128,089**	379,814
Add: Gains from changes in fair value ("( )" for losses)		**1,556**	22,157
Investment income ("( )" for losses)	XI.5	**6,265**	294,582
Including: Income from investment in associates and jointly controlled enterprises		**13**	7
II. Operating profit ("( )" for losses)		**(2,482,968)**	(2,112,226)
Add: Non-operating income		**6,369**	2,167,505
Including: Gains from disposal of non-current assets		**1**	16
Less: Non-operating expenses		**3,501**	40,539
Including: Losses from disposal of non-current assets		**3**	39,595
III. Profit before income tax ("( )" for losses)		**(2,480,100)**	14,740
Less: Income tax expense		**—**	1,163
IV. Net profit for the year ("( )" for losses)		**(2,480,100)**	13,577
V. Other comprehensive income that cannot be reclassified into profit and loss in future periods		**—**	—
Including: Changes resulted from re-measurement of net liabilities or assets of defined benefit plans		**—**	—
Share of other comprehensive income of investees that cannot be reclassified into profit and loss in future periods under the equity method		**—**	—

The notes on pages 128 to 277 form part of these financial statements.

	Note	**2013**	2012
Other comprehensive income that can be reclassified into profit and loss in future periods when certain conditions are satisfied		**—**	—
Including: Share of other comprehensive income of investees that can be reclassified into profit and loss in future periods under the equity method		**—**	—
Gains / (losses) arising from changes in fair value of available-for-sale financial assets		**—**	—
Gains / (losses) arising from reclassification from held-to-maturity investments to available-for-sale financial assets		**—**	—
Effective portion of gains /(losses) on instruments designated as cash flow hedges		**—**	—
Exchange differences on translation of financial statements denominated in foreign currencies		**—**	—
		—	—
Net amount of other comprehensive income items(net of taxes)		**—**	—
VI. Total comprehensive income for the year		**(2,480,100)**	13,577

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2013	2012
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**21,495,204**	24,389,270
Refund of taxes		**3,169**	4,391
Cash received from government subsidies		**46,700**	2,001,800
Cash received relating to other operating activities		**7,263**	13,655
Sub-total of cash inflows		**21,552,336**	26,409,116
Cash paid for goods and services		**(18,503,825)**	(20,029,311)
Cash paid to and for employees		**(1,017,179)**	(969,049)
Cash paid for all types of taxes		**(63,614)**	(64,331)
Cash paid relating to other operating activities	V.51(1)	**(12,387)**	(31,812)
Sub-total of cash outflows		**(19,597,005)**	(21,094,503)
Net cash inflow from operating activities	V.52(1)	**1,955,331**	5,314,613
II. Cash flows from investing activities:			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**3,093**	198,992
Net cash received from disposal of subsidiaries and other business units	V.52(2)	**—**	286,359
Cash received relating to other investing activities	V.51(2)	**20,205**	34,820
Sub-total of cash inflows		**23,298**	520,171
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(2,108,064)**	(2,313,843)
Sub-total of cash outflows		**(2,108,064)**	(2,313,843)
Net cash outflow from investing activities		**(2,084,766)**	(1,793,672)

The notes on pages 128 to 277 form part of these financial statements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	**2013**	2012
III. Cash flows from financing activities:			
Cash received from investors		**1,950,000**	—
Including: Cash received from minority shareholders of subsidiaries		**—**	—
Cash received from borrowings		**6,059,786**	6,878,511
Cash received from finance leases		**—**	200,000
Sub-total of cash inflows		**8,009,786**	7,078,511
Cash repayments of borrowings		**(8,073,100)**	(6,112,937)
Cash paid for dividends, profit distributions or interest		**(771,179)**	(769,828)
Including: Subsidiary paid to minority shareholders dividends, profit		**—**	—
Cash paid relating to other financing activities	V.51(3)	**(1,910,843)**	(1,623,546)
Sub-total of cash outflows		**(10,755,122)**	(8,506,311)
Net cash outflow from financing activities		**(2,745,336)**	(1,427,800)
IV. Effect of changes in exchange rate on cash and cash equivalents		**(732)**	—
V. Net increase in cash and cash equivalents ("( )" for decreases)	V.52(1)	**(2,875,503)**	2,093,141
Add: Cash and cash equivalents at the beginning of the year		**3,394,564**	1,301,423
VI. Cash and cash equivalents at the end of the year	V.52(3)	**519,061**	3,394,564

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2013	2012
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**20,384,404**	23,874,220
Refund of taxes		**2,063**	4,241
Cash received from government subsidies		**45,000**	2,001,800
Cash received relating to other operating activities		**3,598**	3,618
Sub-total of cash inflows		**20,435,065**	25,883,879
Cash paid for goods and services		**(17,592,813)**	(19,508,983)
Cash paid to and for employees		**(946,931)**	(876,000)
Cash paid for all types of taxes		**(20,149)**	(43,235)
Cash paid relating to other operating activities		**(6,385)**	(19,801)
Sub-total of cash outflows		**(18,566,278)**	(20,448,019)
Net cash inflow from operating activities	XI.6	**1,868,787**	5,435,860
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		**2,237**	196,728
Net cash received from disposal of subsidiaries and other business units		**—**	430,000
Cash received relating to other investing activities		**20,148**	34,702
Sub-total of cash inflows		**30,155**	672,976
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(2,083,253)**	(1,779,141)
Net cash paid for acquisition of subsidiaries and other business units		**—**	(61,546)
Sub-total of cash outflows		**(2,083,253)**	(1,840,687)
Net cash outflow from investing activities		**(2,053,098)**	(1,167,711)

The notes on pages 128 to 277 form part of these financial statements.

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

	Note	2013	2012
III. Cash flows from financing activities			
Cash received from investors		**1,950,000**	—
Cash received from borrowings		**6,059,786**	6,171,514
Sub-total of cash inflows		**8,009,786**	6,171,514
Cash repayments of borrowings		**(8,008,100)**	(5,864,937)
Cash paid for dividends, profit distributions or interest		**(768,270)**	(767,937)
Cash paid relating to other financing activities		**(1,910,843)**	(1,623,546)
Sub-total of cash outflows		**(10,687,213)**	(8,256,420)
Net cash outflow from financing activities		**(2,677,427)**	(2,084,906)
IV. Effect of changes in exchange rate on cash and cash equivalents		**(732)**	—
V. Net increase in cash and cash equivalents ("( )" for decreases)	XI.6	**(2,862,470)**	2,183,243
Add: cash and cash equivalents at the beginning of the year		**3,364,836**	1,181,593
VI. Cash and cash equivalents at the end of the year		**502,366**	3,364,836

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Consolidated statement of changes in shareholder's equity

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

		2013							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 year		1,733,127	1,109,163	1,615	606,991	723,080	19,000	4,192,976	1,733,127	1,109,163	1,560	605,633	625,625	166,007	4,241,115
Add: Changes in accounting policy		—	—	—	—	—	—	—	—	—	—	—	—	—	—
II. Balance at the beginning of the year		1,733,127	1,109,163	1,615	606,991	723,080	19,000	4,192,976	1,733,127	1,109,163	1,560	605,633	625,625	166,007	4,241,115
III. Changes in equity for the year ("( )" for decreases)															
1. Net profit for the year		—	—	—	—	(2,499,018)	—	(2,499,018)	—	—	—	—	98,813	30	98,843
2. Other comprehensive income for the year		—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	—	(2,499,018)	—	(2,499,018)	—	—	—	—	98,813	30	98,843
3. Contributions from shareholders		2,702,896	5,539,720	—	—	—	—	8,242,616	—	—	—	—	—	—	—
— Contributions from shareholders		2,702,896	5,515,115	—	—	—	—	8,218,011	—	—	—	—	—	—	—
— Others		—	24,605	—	—	—	—	24,605	—	—	—	—	—	—	—
4. Appropriate of profits		—	—	—	—	—	—	—	—	—	—	1,358	(1,358)	—	—
— Appropriation for surplus reserve	V. 36	—	—	—	—	—	—	—	—	—	—	1,358	(1,358)	—	—
— Distributions to shareholders		—	—	—	—	—	—	—	—	—	—	—	—	—	—
5. Disposal of subsidiaries		—	—	—	—	—	—	—	—	—	—	—	—	(147,037)	(147,037)
6. Specific reserve		—	—	(271)	—	—	—	(271)	—	—	55	—	—	—	55
— Accrued	V. 35	—	—	25,120	—	—	—	25,120	—	—	29,204	—	—	—	29,204
— Utilised	V. 35	—	—	(25,391)	—	—	—	(25,391)	—	—	(29,149)	—	—	—	(29,149)
Sub-total of 3 & 6		2,702,896	5,539,720	(271)	—	—	—	8,242,345	—	—	55	1,358	(1,358)	(147,037)	(146,982)
IV. Balance at the end of the year		4,436,023	6,648,883	1,344	606,991	(1,775,938)	19,000	9,936,303	1,733,127	1,109,163	1,615	606,991	723,080	19,000	4,192,976

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

Statement of changes in shareholder's equity

For the year ended 31 December 2013
(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

Item	*Note*	2013 Share capital	2013 Capital reserve	2013 Specific reserve	2013 Surplus reserve	2013 Retained earnings	2013 Total	2012 Share capital	2012 Capital reserve	2012 Surplus reserve	2012 Surplus reserve	2012 Retained earnings	2012 Total
I. Balance at the end of the previous year		**1,733,127**	**1,140,611**	**—**	**577,012**	**627,704**	**4,078,454**	1,733,127	1,140,611	—	575,654	615,484	4,064,876
Add: Changes in accounting policy		—	—	—	—	—	—	—	—	—	—	1	1
II. Balance at the beginning of the year		**1,733,127**	**1,140,611**	**—**	**577,012**	**627,704**	**4,078,454**	1,733,127	1,140,611	—	575,654	615,485	4,064,877
III. Changes in equity for the year													
1. Net profit for the year ("( )" for decrease)		—	—	—	—	**(2,480,100)**	**(2,480,100)**	—	—	—	—	13,577	13,577
2. Other comprehensive income		—	—	—	—	—	—	—	—	—	—	—	—
Sub-total of 1 & 2		—	—	—	—	**(2,480,100)**	**(2,480,100)**	—	—	—	—	13,577	13,577
3. Contributions from shareholders		**2,702,896**	**5,539,720**	—	—	—	**8,242,616**	—	—	—	—	—	—
— Contributions from shareholders		**2,702,896**	**5,515,115**	—	—	—	**8,218,011**	—	—	—	—	—	—
— Others		—	**24,605**	—	—	—	**24,605**	—	—	—	—	—	—
4. Appropriate of profits		—	—	—	—	—	—	—	—	—	1,358	(1,358)	—
— Appropriation for surplus reserve		—	—	—	—	—	—	—	—	—	1,358	(1,358)	—
— Distributions to shareholders		—	—	—	—	—	—	—	—	—	—	—	—
5. Specific reserves		—	—	—	—	—	—	—	—	—	—	—	—
— Accrued		—	—	**23,355**	—	—	**23,355**	—	—	(27,566)	—	—	(27,566)
— Utilized		—	—	**(23,355)**	—	—	**(23,355)**	—	—	27,566	—	—	27,566
Sub-total of 3 & 5		**2,702,896**	**5,539,720**	—	—	—	**8,242,616**	—	—	—	1,358	(1,358)	—
IV. Balance at the end of the year		**4,436,023**	**6,680,331**	**—**	**577,012**	**(1,852,396)**	**9,840,970**	1,733,127	1,140,611	—	577,012	627,704	4,078,454

These financial statements were approved by the Board of Directors of the Company on 27 March 2014.

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

The notes on pages 128 to 277 form part of these financial statements.

I. COMPANY STATUS

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

The Company is a joint stock limited company established by the Parent Group as the sole promoter under the approval (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems under the State Council. As part of the implementation of the restructuring of the Parent Group, the Company took over the principal iron and steel business and one of the subsidiaries of the Parent Group, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda") under the Restructuring Agreement. As consideration, the Company issued 650,000,000 state-owned legal person shares of RMB 1 each to the Parent Group.

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.

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.

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. 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.

As approved by the CSRC, the Company issued 1,996,181,600 ordinary denominated in Renminbi with the price of RMB 3.14/share to the Parent Group on 18 November 2013 to purchase assets, and issued 706,713,780 ordinary denominated in Renminbi with the price of RMB 2.83/share in private placement to no more than 10 investors on 17 December 2013, raising total proceeds of RMB 1,999,999,997 after deduction of issuance cost. Upon the issuance of A shares, the Company's total number of shares increased from 1,733,127,200 shares to 4,436,022,580 shares, including 3,897,895,380 domestic A shares and 538,127,200 overseas listed H shares.

I. COMPANY STATUS *(CONTINUED)*

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. The Company's term of operation is from 11 August 1997 to the permanent, and for the subsidiaries' term of operation, see Note IV.1.

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 Changshou District of Chongqing ("Changshou New Zone"). The Company is included in the relocation plan. Under the arrangement of the municipal government of Chongqing, the Company and the Parent Company launched the relocation project in 2007.

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.

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 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"), from 1 April 2010 to 31 March 2012, the Parent Group has authorized free use of the steel smelting production line and its auxiliary public facilities which had reached an expected condition for use.

On 31 March 2012, as authorized free use of assets expired, the Company has basically completed the environment relocation, and 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 (Note VI 6 (6)).

I. COMPANY STATUS *(CONTINUED)*

Environmental Relocation and Material Assets Reorganization *(continued)*

On 8 November 2013, the Company received the "Approval in relation to Material Assets Reorganisation of Chongqing Iron & Steel Company Limited and Issuance of Shares to Chongqing Iron & Steel (Group) Company Limited for Purchasing Assets and Fundraising" (Zheng Jian Xu Ke [2013] No.1412) from CSRC. The main contents of the reply from the CSRC are: (1) the approval on the Material Assets Reorganisation of the Company and its issuance of 1,996,181,600 Shares to Chongqing Iron & Steel (Group) Co., Ltd. For the acquisition of the relevant assets; (2) the approval on the non-public issuance of no more than 706,713,780 new Shares by the Company to raise funds for acquisition of assets by issuance of Shares. On 18 November 2013 ("Completion Day"), the company entered the "Confirmation of Completion" with the Parent Group, which transferred iron-making and steelmaking related assets and supporting public and ancillary facilities invested and constructed in Changshou New Zone to the Company.

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

1 Basis of preparation

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

As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB 14,186,208,000 (2012: the Group's current liabilities exceeded its current assets by RMB 6,390,025,000). As at 31 December 2013, the Group has been granted available bank facilities amounting to RMB 5,572,777,000 (Note X.3(2)). From the balance sheet date to the date of approval of these financial statements, the accumulation short-term loans reviewed or extended by the Company were amounting to RMB 1,073,000,000 and received standby credit of RMB 1,000,000,000. And the Company has reached oral agreements with several financial institutions which enable the Company to renew or extent the loans according to its funding needs when the short-term loans expired. Meanwhile, the Parent Group has promised to provide sufficient funding support to the Group during at least 12 months from 31 December, 2013 in order to guarantee the going concern of the Group, including but not limited to continuing providing guarantees for loans, and exempting liabilities owing the Parent Group and other subsidiaries it controlled of the Group when the Group couldn't repay the liabilities owing the other creditors. So, the management of the Group considers it appropriate for the financial statements to be prepared on a going concern basis.

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

2 Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC), which present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2013, and the consolidated financial performance of the Company and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

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

3 Accounting period

The accounting year of the 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.

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.

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 *(continued)*

(2) Business combinations involving enterprises not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the fair value at the acquisition date of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the fair value at the acquisition date of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note II.19). Where (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of the issuance of equity or debt securities as a part of the consideration paid for the acquisition are included as a part of initial recognition amount of the equity or debt securities. Other acquisition-related costs arising from the business combination are recognised as expenses in the periods in which the costs are incurred. The difference between the fair value and the carrying amount of the assets transferred is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if satisfying the recognition criteria, are recognised by the Group at their fair value at the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

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 and has the ability to influence the benefits from the enterprise. In assessing control, only substantive right is taken into account (including the substantive right enjoyed by the company and other entity). 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.

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

6 Consolidated financial statements *(continued)*

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.

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 Unrealized profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as Unrealized gains but only to the extent that there is no evidence of impairment.

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

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.

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

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

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

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences, except for those arising from the principal and interest of specific foreign currency borrowings for the purpose of acquisition, construction of qualifying assets (see Note II.15), are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

9 Financial instruments

Financial instruments include cash at bank and on hand, receivables, payables, loans and borrowings, debentures payable and share capital.

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

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

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

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

9 Financial instruments *(continued)*

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

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

— Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

— Receivables

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

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

— Held-to-maturity investments

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

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

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

9 Financial instruments *(continued)*

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

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for 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.

— 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.19).

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

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

9 Financial instruments *(continued)*

(2) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and 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.

(3) 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.

(4) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, 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

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

9 Financial instruments *(continued)*

(4) Impairment of financial assets *(continued)*

(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.

For the calculation method of impairment of receivables, see 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)*

(4) Impairment of financial assets (continued)

— Available-for-sale financial assets

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

(5) 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.

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.

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

10 Impairment of receivables *(continued)*

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

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

Judgment basis or criteria for receivables that are individually significant	Accounts receivables that are individually significant are receivables unit amount exceeds RMB 20,000,000. Other receivables that are individually significant are receivables unit amount exceeds RMB 5,000,000.
Method of provisioning for bad and doubtful debts for receivables that are individually significant and assessed individually	Individually tested, 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 receivables 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	Individually tested, 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 labor costs and an appropriate allocation of production overheads.

Contract costs comprise the direct and indirect costs attributable to the contract and incurred during the period from the date of entering into the contract to the final completion of the contract. The net amount of (a) costs incurred plus recognised profits (or recognised losses) and (b) progress billings is presented in the balance sheet as inventory when (a) exceeds (b), or as advance from customers when (b) exceeds (a).

(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 amortized in full when received for use and in installments when they are used. The amortizations are included in the cost of the related assets or recognised in profit or loss for the current period.

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

11 Inventories *(continued)*

(3) *Basis for determining the net realizable value of inventories and provisioning methods for diminution in value of inventories.*

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

Net realizable 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 realizable value of materials held for use in the production is measured based on the net realizable value of the finished goods in which they will be incorporated. The net realizable value of the quantity of inventory held to satisfy sales or service contracts is 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 realizable 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 (continued)

(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.

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.

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)*

— 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. Unrealized 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. Unrealized losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as Unrealized gains but only to the extent that there is no evidence of impairment.

— 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.

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

12 Long-term equity investment *(continued)*

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

Joint control is the 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

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.

(4) Method of impairment testing and measurement

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

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

13 Fixed assets

(1) Recognition of fixed assets

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

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

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

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

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

(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 (Note II.28 (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.

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

13 Fixed assets *(continued)*

(3) For the method of impairment testing and measurement, see 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, see the accounting policy set out in Note II.24 (3).

(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 expected use.

A self-constructed asset is included in construction in progress before it is transferred to fixed asset when it is ready for its expected 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, see the accounting policy set out in Note II.24 (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 capitalization 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 capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

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

During the capitalization 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.

The capitalization period is the period from the date of commencement of capitalization of borrowing costs to the date of cessation of capitalization, excluding any period over which capitalization is suspended. Capitalization of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction that are necessary to prepare the asset for its expected use are in progress, and ceases when the assets become ready for their expected use. Capitalization of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts for more than three months.

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

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 Note 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 expenditure 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.

17 Impairment of assets other than inventories and financial assets

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 and construction meterial

— intangible assets

— long-term equity investments in subsidiaries, associates and jointly controlled enterprises

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

17 Impairment of assets other than inventories and financial assets *(continued)*

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.

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.

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.

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

18. Measurement of fair value

Unless otherwise stated, the Group measures fair value according to the following principles:

Fair value is the price to be received in selling an asset or to be paid in transferring a liability by a market participant in an orderly transaction on the measurement date.

In estimating the fair value, the Group considers the factors (e.g. the condition and location of the asset, restrictions on the sale or use) that a market participant would consider when pricing the relevant asset or liability on the measurement date, and applies a valuation technique appropriate for the current situation and supported by sufficient available data and other information. Valuation techniques mainly include the market approach, income approach and cost method.

19 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.

20 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.

(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.

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

20 Revenue recognition *(continued)*

(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.

(3) Revenue from construction contracts

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

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

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

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

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

(4) Interest income

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

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

21 Employee benefits

(1) Short-term benefits

In the accounting period that services are rendered by employees, the Group makes wages, bonuses and social insurance contributions – including contributions to medical insurance, work-related injury insurance and maternity insurance – as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the government based on the actual wages and bonuses paid. Such contributions are charged to profit or loss as liability or recognised as part of the cost of assets. If the liability cannot be fully paid within 12 months after the end of annual reporting period in which employees render services, then the liability is measured at discounted amount, where the financial impact is material.

(2) Post-employment benefits – Defined contribution plan

The Group has joined defined contribution plans as required by the relevant laws and regulations in China. Its employees are enrolled in the pension insurance plan established and administered by government organizations as part of the social security system. The Group makes contributions to the plan at the applicable benchmarks and rates stipulated by the government. In the accounting period that services are rendered by employees, the contributions are charged to profit or loss as liabilities or recognised as part of the cost of assets.

In addition, the Group has joined a retirement plan set up by the Parent Group for its employees. Except for the above contributions, the Group does not have any other obligations in this respect.

(3) Termination benefits

When the Group terminates an employment relationship before the employment contract expires, or provides compensation as an offer to encourage an employee to accept voluntary redundancy, the liability of the termination benefits to be provided is recognised in profit or loss at the earlier of the following:

— when the Group cannot withdraw unilaterally from a termination plan or redundancy offer for which termination benefits are offered

— when the Group recognises the costs or expenses of restructuring related to the payment of early retirement benefits.

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

22 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.

The Group recognized the government grant which is used to construct or form the long term use assets as the government grant related to an asset. The Group recognized the other government grant except for government grant related to an asset as the government grant related to profit. A government grant related to an asset is recognised initially as deferred income and amortized to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is 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.

23 Income tax

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

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

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

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

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

23 Income tax *(continued)*

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).

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.

24 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.

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

24 Operating leases and finance leases *(continued)*

(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 capitalised and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

(3) Assets acquired under finance leases

When the Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the minimum lease payments are recorded as long-term payables. The difference between the value of the leased assets and the minimum lease payments is recognised as unrecognised finance charges. Initial direct costs that are attributable to a finance lease incurred by the Group are added to the amounts recognised for the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes II.13(2) and II.17, respectively.

If there is a reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognised finance charge under finance lease is amortized using an effective interest method over the lease term. The amortization 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.

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

25 Profit distributions to shareholders

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

26 Related parties

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

(a) the Company's parent

(b) the Company's subsidiaries

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

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

(e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group

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

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

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

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

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

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

(l) other enterprises that are controlled or, jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

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

26 Related parties *(continued)*

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

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

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

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

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

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

27 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 meet the following conditions:

— 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)*

27 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 following conditions:

— 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.

28 Significant accounting estimates and judgments

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

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

(1) Impairment of receivables

As described in Note II.10, receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

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

28 Significant accounting estimates and judgments *(continued)*

(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.

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.

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

29 Significant accounting policies and changes in accounting estimates

(1) Changes in accounting policies

(a) Description of and reasons for changes in accounting policies

The Company has adopted the following Accounting Standards for Business Enterprises (ASBE) newly issued/amended by the Ministry of Finance from 1 January 2013:

- ASBE No.2——Long-term equity investment ("ASBE No.2 (Revised)")
- ASBE No.9 —— Employee Compensation ("ASBE No.9 (Revised)")
- ASBE No.30 —— Presentation of Financial Statements ("ASBE No.30 (Revised)")
- ASBE No.33 —— Consolidated Financial Statements ("ASBE No.33 (Revised)")
- ASBE No.39 —— Fair Value Measurement ("ASBE No.39")
- ASBE No.40 —— Joint Arrangements ("ASBE No.40")

Major accounting policies after the adoption of the above standards are presented in note II 6, 12, 18 and 21. In preparing the consolidated financial statements, subsidiaries' accounting policies are consistent with those adopted by the Company.

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

29 Significant accounting policies and changes in accounting estimates

(1) Changes in accounting policies (continued)

(a) Description of of and reasons for changes in accounting policies *(continued)*

Major impacts of the above standards on the Group are set out as follows:

(i) Long-term Equity Investments

CAS No.2 revised the scopes, defined accounting treatment under the equity method on changes in owners' equities of the investee, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution and accounting treatment conversions for long-term equity investments. Pursuant to the accounting treatment of CAS No.2 (Revised), the Group reclassified the equity investments that 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 reliable measured to financial assets available for sale and made retroactive adjustment, see Note V.53.

(ii) Employee benefits

Pursuant to the accounting requirements of ASBE No.9 (Revised) on the classification, recognition and measurement of short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits, the Group has reviewed its existing employee benefits and changed the relevant accounting policies. The changes to the above accounting policies do not have any material impact on the financial statements of the Group and the Company for year ended 2013 and 2012.

(iii) Presentation of financial statements

In accordance with the requirements of ASBE No.30 (Revised), the Group has revised the presentation of the financial statements, including presenting separately the items of other comprehensive income in the income statement that would be reclassified to profit or loss in the future accounting period if certain conditions are met from those that would never be reclassified to profit or loss.

The Group has made corresponding adjustments to the presentation of the comparative statement.

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

29 Significant accounting policies and changes in accounting estimates

(1) ***Changes in accounting policies*** *(continued)*

(a) Description of and reasons for changes in accounting policies *(continued)*

(iv) Scope of consolidation

ASBE No.33 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the Group has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of adopting ASBE No.33 (Revised), the Group has revised the accounting policy with respect to whether the Group has control over the investee, and whether the investee should be included in the scope of consolidation.

The adoption of the standard will not change the Group's consolidation scope as at 1 January 2013.

(v) Fair value measurement

ASBE No.39 re-defines fair value, providing a single fair value measurement framework and standardising the disclosure requirement on fair value. The adoption of this standard does not have any material impact on the fair value measurement of the Group's assets and liabilities.

Where the requirements on fair value measurement prior to 1 January 2013 are different from those of ASBE No. 39, the Group does not make any retrospective adjustments. No comparison information is provided pursuant to the new disclosure requirements.

(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.	11%, 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 year is 15% (2012: 15%).

The income tax rates for the subsidiaries are as follows:

	2013	2012
Chongqing Iron & Steel Group Electronics Company Limited (“Chongqing Electronics”)	**15%**	15%
Chongqing Iron & Steel Group Transportation Company Limited (“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%

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 Du kou Guo Shui Han [2003] No. 8) issued by the State Administration of Taxation of Da Du kou 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.

III. TAXATION *(CONTINUED)*

2 Income tax rate *(continued)*

"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 [2007] No 39) issued by the State Council on 2 December 2007, the new PRC EIT law provides that, as from 1 January 2008, the enterprises that have been granted tax concessions under the tax preferential policies in the development of China's western region shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax laws, regulations and relevant provisions. Therefore, the income tax rate applicable to the Company is still 15% from 1 January 2008 to 31 December 2010.

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.

The preferential tax period pertaining to the development of western China enjoyed by the Company and its subsidiaries ended on 31 December 2010. As at the date of approval of these financial statements, the State Administration of Taxation ("SAT") had extended the preferential tax policies in this regard by issuing the "Notice on Corporate Income Tax Issues Concerning Further Implementation of Western China Development Strategy" (Guo Jia Shui Wu Zong Ju Gong Gao [2012] No.12), stating that "companies in the western region that engage in the industries encouraged by the state can enjoy the preferential corporate income tax rate of 15% from 1 January 2011 to 31 December 2020". The Company and its subsidiaries expected that they can continue to enjoy this preferential tax policy, thus the same tax rates and preferential tax policies were applied by the Company and its subsidiaries this year. As at 31 December 2013, 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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

IV. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1 Background of major subsidiaries

(1) Subsidiaries acquired through establishment

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing balance of other items that in substance from net investment in a subsidiary	Share-holding percentage (%)	Voting rights percentage (%)	Consolidated (Y/N)	Closing balance of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code	Term of operation
Jingjiang San Feng Steel Processing & Distribution Company Limited *(note (a))*	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	–	73%	73%	Y	19,000	–	57669207-0	23/05/2011 to permanent
Jingjiang Chongqing Iron & Steel East China Trading Company Limited	Company Llimited	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	06/07/2012 to 05/07/2062

(a) Due to the original shareholders of Jingjiang San Feng Steel Processing & Distribution Company Limited Yangzijiang shipbuilding limited company fails to pay the full funding, the Jingjiang San Feng Steel Processing & Distribution Company Limited held shareholders meeting on 3 June 2013 and cancelled qualification of shareholder of the company. On 12 August 2013, Jingjiang San Feng Steel Processing & Distribution Company Limited changed the registration of shareholders, and the registration capital changed from RMB 100,000,000 to RMB 70,000,000.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Background of major subsidiaries *(continued)*

(2) Subsidiaries acquired under common control

Full name	Type	Registration place	Legal representative	Business nature	Registered capital	Business scope	Year end actual investment	Closing blance of other items that in substance from net investment in a subsidiary	Share-holding percentage (%)	Voting rights percentage (%)	Consolidated (Y/N)	Closing balance of minority interests at the year end	Reversal of minority profit loss interest from minority interest	Organization code	Term of operation
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	05/04/1996 to permanent
Chongqing Iron & Steel Group Transportation Company Limited	Company Limited	Chongqing	Lei Jingchuan	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	11/01/1996 to permanent

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash at bank and on hand

	2013			2012		
Item	**Original currency**	**Exchange rate**	**RMB/ RMB equivalents**	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand						
RMB	**—**	**—**	**1,062**	—	—	693
Deposits with banks						
RMB	**—**	**—**	**493,936**	—	—	2,435,151
US Dollars	**3,857**	**6.0969**	**23,517**	152,470	6.2855	958,350
HK Dollars	**60**	**0.7833**	**47**	70	0.8108	57
Sub-total			**517,500**			3,393,558
Other monetary funds						
RMB	**—**	**—**	**942,066**	—	—	406,427
US Dollars	**15,208**	**6.0969**	**92,722**	38	6.2855	239
Sub-total			**1,034,788**			406,666
Total			**1,553,350**			3,800,917

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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

Other cash and cash equivalents include:

	2013			2012		
Item	**Original currency**	**Exchange rate**	**RMB/ RMB equivalents**	Original currency	Exchange rate	RMB/ RMB equivalents
Restricted						
— Guarantees for letter of credit:						
RMB	**—**	**—**	**941,567**	—	—	406,114
US Dollars	**15,208**	**6.0969**	**92,722**	38	6.2855	239
Sub-total			**1,034,289**			406,353
Unrestricted						
— Cash in transit						
RMB	**—**	**—**	**499**	—	—	313
Total			**1,034,788**			406,666

2 Bills receivable

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

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the balance of bills receivable in the current reporting period. Bills receivable due from related parties are set out in Notes VI.7(1).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Bills receivable *(Continued)*

(3) The five largest pledged amounts of bills payable of the Group at the end of the year are as follows:

Issuer	Issuing date	Due date	Amount	Remarks
Sinosteel Iron & Steel Co., Ltd.	17/07/2013	17/01/2014	15,300	Bank acceptance
Chongqing Second Light Industry Supply & Sales Co., Ltd.	18/07/2013	18/01/2014	10,800	Bank acceptance
Sinosteel Iron & Steel Co., Ltd.	17/07/2013	17/01/2014	10,000	Bank acceptance
Sinosteel Iron & Steel Co., Ltd.	17/07/2013	17/01/2014	10,000	Bank acceptance
Sichuan Xihua International Trading Co., Ltd.	05/07/2013	05/01/2014	3,500	Bank acceptance
Total			49,600	

As at 31 December 2013, the amount of bank acceptance receivable pledged as security by the Group is RMB 62,125,000 (2012: Nil), and these bills receivable were due before 18 January 2014.

(4) At the year end, 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*	2013	2012
Third party		**360,054**	777,385
Related party	VI.7(2)	**330,503**	436,231
Sub-total		**690,557**	1,213,616
Less: Provision for bad and doubtful debts		**154,651**	156,437
Total		**535,906**	1,057,179

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

	2013		2012	
Debtor	Carrying amount	Provision for bad and doubtful debt	Carrying amount	Provision for bad and doubtful debt
Parent Group	**160**	**—**	9,750	—

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

Ageing	2013	2012
Within 1 year (inclusive)	**312,085**	833,714
Over 1 year but within 2 years (inclusive)	**85,134**	222,618
Over 2 years but within 3 years (inclusive)	**141,844**	3,571
Over 3 years	**151,494**	153,713
Sub-total	**690,557**	1,213,616
Less: Provisions for bad and doubtful debt	**154,651**	156,437
Total	**535,906**	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:

Category	Note	2013 Carrying amount Amount	2013 Carrying amount Percentage (%)	2013 Provision for bad and doubtful debts Amount	2013 Provision for bad and doubtful debts Percentage (%)	2012 Carrying amount Amount	2012 Carrying amount Percentage (%)	2012 Provision for bad and doubtful debts Amount	2012 Provision for bad and doubtful debts Percentage (%)
Individually significant and assessed individually for impairment		—	—	—	—	—	—	—	—
Individually insignificant but assessed individually for impairment	(5)	2,756	0%	2,756	100%	2,756	0%	2,756	100%
Collectively assessed for impairment*									
Group 1	(6)	360,054	52%	151,895	42%	777,385	64%	153,681	20%
Group 2		327,747	48%	—	—	433,475	36%	—	—
Sub-total		687,801	100%	151,895	22%	1,210,860	100%	153,681	13%
Total		690,557	100%	154,651	22%	1,213,616	100%	156,437	13%

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

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Accounts receivable *(continued)*

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

Content	Carrying amount	Provisions for bad and doubtful debt	Percentage of provision
Accounts receivable due from related parties	2,756	2,756	100%

As at 31 December 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:

	2013			2012		
	Carrying amount			Carrying amount		
Ageing	**Amount**	**Percentage** *(%)*	**Provision for bad and doubtful debts**	Amount	Percentage *(%)*	Provision for bad and doubtful debts
Within 3 months	**161,640**	**45%**	**—**	550,470	71%	—
4 to 12 months	**44,430**	**12%**	**2,221**	72,260	9%	3,613
Sub-total	**206,070**	**57%**	**2,221**	622,730	80%	3,613
1 and 2 years (inclusive)	**4,580**	**2%**	**1,145**	3,924	1%	981
2 and 3 years (inclusive)	**1,750**	**0%**	**875**	3,289	0%	1,645
Over 3 years	**147,654**	**41%**	**147,654**	147,442	19%	147,442
Total	**360,054**	**100%**	**151,895**	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) Reversal or recovery of provision for bad and doubtful debts during the year

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

Accounts receivable	Reason for reversal or recovery	Reason for original provision	Accumulated provision for bad and doubtful debts before reversal or recovery	Amount reversed or recovered
Accounts receivable due from third parties	Account received	Full provision was made due to the overdue based on ageing analysis method	1,543	1,543

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

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable *(%)*
1. Chongqing Si Gang Steel Co., Ltd	Related party	154,577	within 3 year (inclusive)	22%
2. Chongqing San Gang Steel Co., Ltd	Related party	91,587	within 3 year (inclusive)	13%
3. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	74,967	within 2 years (inclusive)	11%
4. Customer 1	Third party	63,278	within 1 year (inclusive)	9%
5. Customer 2	Third party	32,122	within 1 years (inclusive)	5%
Total		416,531		60%

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment

(1) The prepayments by category:

Item	2013	2012
Material prepayments	**350,897**	879,459
Others	**13,367**	1,364
Total	**364,264**	880,823

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of prepayments in the current reporting year. For prepayment to other related parties, see Note VI. 7(4).

(3) Prepayments by ageing:

Ageing	2013 Amount	2013 Percentage (%)	2012 Amount	2012 Percentage (%)
Within 1 year (inclusive)	**350,358**	**96%**	867,067	99%
Over 1year but within 2 years (inclusive)	**3,796**	**1%**	2,271	0%
Over 2 years but within 3 years (inclusive)	**1,046**	**0%**	11,008	1%
Over 3 years	**9,064**	**3%**	477	0%
Total	**364,264**	**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).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Prepayment *(continued)*

(4) Prepayment due from the top five debtors:

Debtor	Relationship with the Company	Amount	Percentage of total prepayment *(%)*	Date of prepayment	Reason for unsettlement
1. Supplier 1	Third party	238,167	65%	2013	Goods not arrived
2. Supplier 2	Third party	18,720	5%	2013	Goods not arrived
3. Supplier 3	Third party	14,179	4%	2013	Goods not arrived
4. Supplier 4	Third party	12,500	4%	2013	Goods not arrived
5. San Feng Jingjiang Logistics Co., Ltd ("San Feng Logistics")	Related party	11,901	3%	2013	Goods not arrived
Total		295,467	81%		

5 Other receivables

(1) Other receivables by customer type:

Customer type	*Note*	2013	2012
The third parties		**68,817**	116,254
Related parties	VI.7(3)	**—**	1,703,385
Sub-total		**68,817**	1,819,639
Less: Provision for bad and doubtful debts		**16,958**	16,958
Total		**51,859**	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	2013 Carrying amount	2013 Provision for bad and doubtful debt	2012 Carrying amount	2012 Provision for bad and doubtful debt
Patent Group	—	—	1,703,385	—

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

Ageing	2013	2012
Within 1 year (inclusive)	**20,223**	1,779,852
Over 1 year but within 2 years (inclusive)	**14,867**	13,625
Over 2 years but within 3 years (inclusive)	**7,864**	2,242
Over 3 years	**25,863**	23,920
Sub-total	**68,817**	1,819,639
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**51,859**	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:

	2013				2012			
	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	**31,922**	**46%**	**16,958**	**53%**	1,770,615	97%	15,827	1%
Individually insignificant but assessed individually for impairment	**36,895**	**54%**	**—**	**—**	49,024	3%	1,131	2%
Total	**68,817**	**100%**	**16,958**	**25%**	1,819,639	100%	16,958	1%

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.

(6) Other receivables due from the top five debtors

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivables *(%)*
1. Business related unit 1	Third party	11,958	Within 2 years	17%
2. Business related unit 2*	Third party	10,240	Over 3 years	15%
3. Business related unit 3*	Third party	5,587	Over 3 years	8%
4. Business related unit 4	Third party	3,006	Within 1 year	4%
5. Business related unit 5*	Third party	1,131	Over 3 years	2%
Total		31,922		46%

* These amounts have been fully provided for.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories

(1) *Inventories by category:*

Item	2013 Book value	2013 Provision for diminution in value of inventories	2013 Carrying amount	2012 Book value	2012 Provision for diminution in value of inventories	2012 Carrying amount
Raw materials	**6,968,615**	**101,967**	**6,866,648**	5,628,130	252,072	5,376,058
Work in progress	**1,008,832**	**15,970**	**992,862**	1,029,818	91,620	938,198
Finished goods	**394,118**	**24,914**	**369,204**	344,336	14,328	330,008
Consumables	**590,780**	**27,315**	**563,465**	575,186	22,768	552,418
Total	**8,962,345**	**170,166**	**8,792,179**	7,577,470	380,788	7,196,682

No capitalised borrowing costs were included in the Group's closing balance of inventories (2012: Nil).

At the year end, no inventory was pledged as security by the Group (2012: Nil).

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

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Raw materials	5,628,130	17,140,458	15,799,973	6,968,615
Work in progress	1,029,818	19,604,328	19,625,314	1,008,832
Finished goods	344,336	18,721,493	18,671,711	394,118
Consumables	575,186	822,787	807,193	590,780
Sub-total	7,577,470	56,289,066	54,904,191	8,962,345
Less: Provision for diminution in value of inventories	380,788	146,436	357,058	170,166
Total	7,196,682	56,142,630	54,547,133	8,792,179

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Inventories *(continued)*

(3) Provision for diminution in value of inventories

Item	Balance at the beginning of the year	Provision made for the year	Written back during the year: Reversal	Written back during the year: Write-off	Balance at the end of the year
Raw materials	252,072	101,967	—	252,072	101,967
Work in progress	91,620	15,970	—	91,620	15,970
Finished goods	14,328	23,952	—	13,366	24,914
Consumables	22,768	4,547	—	—	27,315
Total	380,788	146,436	—	357,058	170,166

Part of the production lines of the Group underwent trial operation in 2013 are not available for use. At 31 December 2013, the provision for losses arising from the excess of unit cost over the net realizable value of the products under trial operation, totaling RMB 16,673,000 , which was capitalised and included in construction in progress (2012: Nil).

As at 31 December 2013, according to the holding purpose, the excess of the cost over the net realizable value of each item of inventories is recognised as a provision for diminution in the value of inventories, and is recognised in profit or loss by the Group.

The written down provision in 2013 is mainly arising from the realization of utilization or sale of the provisional inventories.

7 Other current assets

Item	**2013**	2012
Deductible input VAT	**1,702,012**	458,950
Others	**11,204**	14,235
Total	**1,713,216**	473,185

As at year end, the balance of deductible value-added tax ("VAT") included deductible input VAT of RMB 944,812,000 relating to the assets transferred from material asset reorganization with the Parent Group. See Note VI 6 (6) and (9).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

8 Long-term equity investments

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

Item	2013	2012
Investments in associates	**104,752**	104,739

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

Investee	Investment cost	Balance at the beginning of the year	Increase/ Decrease	Balance at the end of the year	Share-holding percentage (%)	Voting rights percentage (%)	Provision for impairment	Provision made during the year	Cash dividend for the year
Equity method San Feng Logistics	30,000	104,739	13	104,752	10%	10%	–	–	–

(3) *Details of major associates*

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total operating income for the year	Net profit for the year
San Feng Logistics	1,327,488	1,027,277	300,211	217,123	133

The Company's significant influence was established as a result of 10% voting rights and representative on the Board of Directors which means the Company participates in decision-making, and making operating policies substantively.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

9 Fixed assets

(1) Fixed assets

Item	Plant & buildings	Machinery & equipment	Motor vehicles	Total
Cost				
Balance at the beginning of the year	2,689,308	6,298,951	104,793	9,093,052
Transfer from material asset reorganisation	8,014,319	8,509,608	2,619	16,526,546
Additions during the year	—	—	1,008	1,008
Transfer from construction in progress	452,415	797,418	6,194	1,256,027
Disposal during the year	720	493	10,079	11,292
Balance at the end of the year	11,155,322	15,605,484	104,535	26,865,341
Accumulated depreciation				
Balance at the beginning of the year	146,166	597,241	65,016	808,423
Transfer from material asset reorganisation	329,326	746,337	554	1,076,217
Charge for the year	78,452	330,583	8,999	418,034
Written off during the year	87	479	8,814	9,380
Balance at the end of the year	553,857	1,673,682	65,755	2,293,294
Provision for impairment				
Balance at the beginning of the year	—	286	2,050	2,336
Charge for the year	—	—	—	—
Written off on disposal	—	—	857	857
Balance at the end of the year	—	286	1,193	1,479
Carrying amounts				
At the end of the year	10,601,465	13,931,516	37,587	24,570,568
At the beginning of the year	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

	2013				2012			
Item	Cost	Accumu-lated depreciat-ion	Provision for impair-ment	Net book value	Cost	Accumu-lated depreciat-ion	Provision for impair-ment	Net book value
Machinery and equipment:								
— Sale leaseback	**3,100,827**	**752,399**	**—**	**2,348,428**	3,100,827	602,009	—	2,498,818
— Direct lease	**1,720,713**	**106,168**	**—**	**1,614,545**	931,000	34,471	—	896,529
Total	**4,821,540**	**858,567**	**—**	**3,962,973**	4,031,827	636,480	—	3,395,347

(3) Fixed assets with pending certificates of ownership

As at 31 December 2013, the Group was in the process of obtaining ownership certificates of certain plants and buildings with cost of RMB 848,556,000 and carrying amount of RMB 795,523,000 (2012: cost of RMB 848,556,000 and carrying amount of RMB 816,101,000).

(4) Fixed assets leased out under operating leases

Item	2013	2012
Plant and buildings	**6,221**	1,782

(5) For plant and buildings used as mortgage for bank loans by the Group as at 31 December 2013, see NoteV.17.

(6) The details of the material assets reorganization see note VI.6(6). At the Completion date, according to the Project progress of the Target Assets that constructed by the subsidiaries of the company, reduced the book value of accounts payable and fixed assets under these contracts by RMB 121,063,000 at the same time.

(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

	2013			2012		
Project	**Book value**	**Provision for impairment**	**Carrying amount**	Book value	Provision for impairment	Carrying amount
Coke oven project	**—**	**—**	**—**	781,964	—	781,964
Product restructuring project	**5,511,877**	**—**	**5,511,877**	2,616,262	—	2,616,262
Recycle heat power station	**361,240**	**—**	**361,240**	265,973	—	265,973
Limestone transportation system	**—**	**—**	**—**	63,560	—	63,560
Dabaopo project	**5,859**	**—**	**5,859**	32,353	—	32,353
Jingxing mine project	**—**	**—**	**—**	27,954	—	27,954
Equipment upgrade project	**489,037**	**—**	**489,037**	403,483	—	403,483
Railway project	**438,266**	**—**	**438,266**	—	—	—
Others	**171,681**	**—**	**171,681**	45,236	—	45,236
Total	**6,977,960**	**—**	**6,977,960**	4,236,785	—	4,236,785

The book value of construction in progress at the end of year included capitalised borrowing costs of RMB 287,951,000 (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) Movement of the Group's major constructions in progress as at 31 December 2013

Project	Note	Budget	Balance at the beginning of the year	Additions during the year	Transfer from material asset reorganisation	Transfer to fixed assets	Transfer to others	Balance at the end of the year	Percentage of actual cost to budget	Project progress	Accumulated capitalised interest	Including: interest capitalised in 2013	Interest rate for capitalisation in 2013	Sources of funds
Coke oven project		1,098,546	781,964	57,766	–	839,730	–	–	128%	100%	85,243	16,489	5.21%~11.45%	Bank loans/self-financing
Product restructuring project		5,987,084	2,616,262	2,895,615	–	–	–	5,511,877	92%	92%	242,194	113,701	5.78%~11.45%	Bank loans/self-financing
Recycle heat power station		375,000	265,973	95,267	–	–	–	361,240	96%	100%	19,044	9,802	6.00%	Bank loans/self-financing
Limestone transportation system		61,180	63,560	4,604	–	68,164	–	–	111%	100%	10,434	4,514	6.00%	Bank loans/self-financing
Dabaopo project		47,580	32,353	–	–	26,494	–	5,859	100%	100%	–	–	–	Bank loans/self-financing
Jingxing mine project		76,740	27,954	11	–	27,965	–	–	100%	100%	–	–	–	Bank loans/self-financing
Equipment upgrade project		742,474	403,483	360,706	–	275,152	–	489,037	103%	85%	42,353	35,659	6.00%	Bank loans/self-financing
Railway project	(a)	401,734	–	–	438,266	–	–	438,266	109%	100%	–	–	–	Bank loans/self-financing
Others		–	45,236	148,336	–	18,522	3,369	171,681	–	100%	6,777	6,777	6.00%	Bank loans/self-financing
Total		8,790,338	4,236,785	3,562,305	438,266	1,256,027	3,369	6,977,960			406,045	186,942		

(a) On the Completion Day, the railway projects acquired through material asset reorganisation included Chenjiawan No. 2 Bridge, XDK Subgrade and Xin Jie Pai Po Tunnel (see Note VI.6(6)) .

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

10 Construction in progress *(continued)*

(3) Progress of major construction projects

Project	Progress	Note
Product restructuring project	92%	Equipment under installation
Recycle heat power station	100%	Equipment installation completed, under trial operation
Dabaopo project	100%	Equipment installation completed, under trial operation
Product restructuring project	85%	Equipment under installation
Railway project	100%	Project Construction completed, under acceptance

(4) Construction in progress under finance lease

Item	2013	2012
Machinery and equipment	**1,452,738**	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 year	Additions during the year	Decrease during the year	Balance at the end of the year
Construction materials for large equipment	826,873	28,925	823,984	31,814
Construction materials for special equipment	364,109	12,290	374,182	2,217
Total	1,190,982	41,215	1,198,166	34,031

(2) *Construction materials under financial leases*

Item	2013	2012
Machinery and equipment	—	801,550

12 Fixed assets to be disposed of

Item	2013	2012	Reason for disposal
Plant and buildings	—	143,502	Environmental relocation
Machinery and equipment	—	177,230	Environmental relocation
Total	—	320,732	

(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
Cost			
Balance at the beginning of the year	384,183	6,478	390,661
Transfer from material asset reorganisation	2,062,491	—	2,062,491
Additions during the year	538,246	—	538,246
Disposal during the year	—	—	—
Balance at the end of the year	2,984,920	6,478	2,991,398
Accumulated amortisation			
Balance at the beginning of the year	33,394	6,478	39,872
Transfer from material asset reorganisation	65,380	—	65,380
Additions during the year	25,953	—	25,953
Charge during the year	—	—	—
Written off at the end of the year	124,727	6,478	131,205
Carrying amounts			
Balance at the end of the year	2,860,193	—	2,860,193
Balance at the beginning of the year	350,789	—	350,789

The trademark was invested by the Parent Group during the restructuring of the Company in 1997. The initial amount was determined based on the appraisal value issued by the independent valuer, Zhongzi Assets Assessment Co., Ltd. which has been certified by the State-owned Assets Administration Department at the time of the restructuring of the Company.

As at 31 December 2013, all ownership certificates of certain land use rights were obtained. (2012: ownership certificates of land use rights RMB 94,461,000 were in the process of obtaining).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

13 Intangible assets *(continued)*

The land use right used as mortgage for bank loans by the Group as at 31 December 2013. See Note V.17.

For the intangible assets transferred from material asset reorganization, see Note VI.6(6).

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	2013 Deductible or taxable temporary differences ("( )" for taxable temporary difference)	2013 Deferred tax assets/ liabilities ("( )" for liabilities)	2012 Deductible or taxable temporary differences ("( )" for taxable temporary difference)	2012 Deferred tax assets/ liabilities ("( )" for liabilities)
Deferred tax assets:				
Provision for impairment against assets	**4,206**	**631**	5,175	776
Deferred income	**793**	**119**	—	—
Deductible tax losses	**1,026,176**	**153,927**	515,129	77,269
Sub-total	**1,031,175**	**154,677**	520,304	78,045
Amount of offsetting	**—**	**(136,811)**	—	(60,153)
Balance after offsetting	**—**	**17,866**	—	17,892
Deferred tax liabilities:				
Capitalised realised gain or loss arising from try run	**(640,309)**	**(136,811)**	(401,020)	(60,153)
Sub-total	**(640,309)**	**(136,811)**	(401,020)	(60,153)
Amount of offsetting	**—**	**136,811**	—	60,153
Balance after offsetting	**—**	**—**	—	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets and deferred tax liabilities *(continued)*

(1) Deferred tax assets or liabilities after offsetting and the corresponding deductible or taxable temporary differences (continued)

As at 31 December 2013, taking into account of the expected recovery or settlement of the deferred tax assets, the Group 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.

(2) Details of unrecognised deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Details of unrecognised deferred tax assets at the end of the year are as follows:

Item	**2013**	2012
Deductible temporary differences	**667,334**	769,776
Deductible tax losses	**3,710,356**	1,402,086
Total	**4,377,690**	2,171,862

The carrying amount of deferred tax asset is reviewed at each balance sheet date. As at 31 December 2013, the Group recognised deferred tax assets to the extent that it was probable that future taxable profits would be available against which deductible temporary differences can be utilised, and reduced part of the carrying amount of deferred tax asset recognised in the previous year, consider it is no longer probable that sufficient taxable profit in the future would be available to allow all the benefit of deferred tax asset to be utilized.

(3) Expiration of deductible tax losses for unrecognised deferred tax assets

Year	**2013**	2012
2014	**456,611**	456,611
2015	**150,133**	150,133
2016	**778,016**	761,225
2017	**—**	34,117
2018	**2,325,596**	—
Total	**3,710,356**	1,402,086

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

14 Deferred tax assets and deferred tax liabilities *(continued)*

(4) Unrecognised deferred tax liabilities

The Company disposed the San Feng Logistics, resulting in the loss of control over it in December 2012. The remaining equity investment is remeasured at its fair value at the date when control is lost, leading to gains amounting to RMB 11,204,000. The management considers the temporary differences caused by remeasurement would probably not be reversed in the foreseeable future as the Group controls the time of disposal of the remaining equity investment. Therefore the Group did not recognise the deferred tax liabilities of the gain caused by the remeasurement of faire value mentioned above.

15 Other non-current assets

Item	2013	2012
Prepayment for construction	**65,300**	—
Prepayments for purchase of raw materials	**10,350**	21,150
Prepaid land use right premiums	**—**	522,089
Guarantee monies for finance lease	**46,900**	63,350
Others	**1,500**	—
Total	**124,050**	606,589

Prepayment for construction is prepaid to San Feng Logistics by the Group. Prepayments for the purchase of raw materials will be settled between 2009 and 2015, of which the part of prepayment to be settled in a year was reclassified to Prepayment. Guarantee monies for finance lease will be refunded from the lessor when the finance lease ends.

No amount of other non-current assets 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 in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

16 Provisions for impairment

Item	*Note*	Balance at the beginning of the year	Charge for the year	Decrease during the year		Balance at the end of the year
				Reversal	Write-off	
Accounts receivable	V.3	156,437	3,680	5,466	—	154,651
Other receivables	V.5	16,958	—	—	—	16,958
Inventories	V.6	380,788	146,436	—	357,058	170,166
Long-term equity investment	V.8	500	—	—	—	500
Fixed assets	V.9	2,336	—	—	857	1,479
Total		557,019	150,116	5,466	357,915	343,754

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

17 Restricted assets

As at 31 December 2013, the assets with restrictions placed on their ownership were as follows:

Item	*Note*	Balance at the beginning of the year	Additions during the year	Decrease during the year	Balance at the end of the year
Assets pledged as collateral					
Cash at bank and on hand	V.1	406,353	2,111,033	1,483,097	1,034,289
Bills receivable	V.2	—	193,248	131,123	62,125
Assets secured as mortgage					
Plant and building	V.9(5)	48,833	47,305	48,833	47,305
Land use rights	V.13	230,214	314,405	230,214	314,405
Finance leases					
Fixed assets	V.9(2)	3,395,347	789,713	222,087	3,962,973
Construction in progress	V.10(4)	870,151	1,059,568	476,981	1,452,738
Construction materials	V.11(2)	801,550	—	801,550	—
Total		5,752,448	4,515,272	3,393,885	6,873,835

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

18 Short-term loans

(1) The Short-term loans by category

Item	2013	2012
Loans with pledge	**44,313**	56,586
Loans with mortgage	**274,361**	286,000
Loans with guarantee	**3,682,487**	5,027,630
Loans on credit	**704,573**	250,000
Total	**4,705,734**	5,620,216

For loans with guarantee are guaranteed by the Parent Group solely, see Note VI.6(4).

The pledges for the loans with pledge are the bank acceptances provided by the Company (Notes V.2).

The mortgages for the loans with mortgage are the plants and land use rights of the Group (Notes V.17).

(2) As at the balance sheet date, no short-term loans were overdue.

19 Financial liabilities at fair value through profit or loss

Item	2013	2012
Interest rate derivatives	—	1,556
Total	—	1,556

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

20 Bills payable

(1) *Bills payable by category:*

Item	2013	2012
Commercial acceptance bills	**436,000**	—
Bank acceptance bills	**2,147,300**	861,000
Total	**2,583,300**	861,000

(2) *All the bills mentioned above are due within one year*

(3) *No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of Bills payable in the current reporting year. Bills payable to other related parties see Note VI. 7(8).*

21 Accounts payable

(1) *Accounts payable by category:*

Item	2013	2012
Accounts payable for raw material	**6,814,486**	4,182,812
Accounts payable for construction and equipment	**6,692,012**	3,303,367
Total	**13,506,498**	7,486,179

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

Creditor	*Note*	2013	2012
Parent Company	VI.7(6)	**944,082**	—

For other related party creditors see Note VI.7(6).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

21 Accounts payable *(continued)*

(3) Ageing analysis of accounts payable:

	2013		2012	
Aging	Amount	Percentage	Amount	Percentage
Within 1 year (inclusive)	**12,015,426**	**89%**	6,816,241	91%
Over 1 year but within 2 years (inclusive)	**1,150,924**	**8%**	444,743	6%
Over 2 years but within 3 years (inclusive)	**244,612**	**2%**	170,615	2%
Over 3 years	**95,536**	**1%**	54,580	1%
Total	**13,506,498**	**100%**	7,486,179	100%

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

As at 31 December 2013, payables aged over 3 years mainly represented payables for construction equipment, which means project quality deposit. As at the date of approval of these financial statements, the above payables remained unsettled.

22 Advances from customers

(1) Advances are payments prepaid by customers of the Company.

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties in the balance of advances from customers in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

23 Employee benefits payable

Item	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the end of the year
Salaries, bonus, allowances	4,002	719,828	692,769	31,061
Staff welfare fees	14,415	65,967	60,883	19,499
Social insurances				
Including:				
1. Basic medical insurance premium	—	73,934	73,934	—
2. Large quantity medical insurance premium	—	7,153	7,153	—
3. Supplementary medical insurance premium	—	21,455	21,455	—
4. Basic pension insurance premium	120,937	162,351	155,929	127,359
5. Supplementary pension insurance premium	—	19,270	19,270	—
6. Unemployment insurance premium	1,549	10,402	9,857	2,094
7. Work injury insurance premium	—	4,635	4,635	—
8. Maternity insurance premium	—	6,251	6,251	—
Housing fund	—	66,354	66,354	—
Termination benefits (including early retirement expenses)*	14,552	13,923	16,173	12,302
Labour cost	—	135,472	135,472	—
Others	2,449	30,843	28,502	4,790
Including: union fund and employee education fund	2,448	20,866	18,525	4,789
Total	157,904	1,337,838	1,298,637	197,105

* As at 31 December 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	2013	2012
Deed tax	**293,356**	—
Stamp duty	**13,726**	2,256
Value added tax	**1,163**	714
Business tax	**60**	2,181
Others	**74**	467
Total	**308,379**	5,618

25 Interests payable

Item	2013	2012
Interest payable for long-term loans with interest paid in installments and principal repaid on maturity	**58,039**	11,840
Interest payable for debentures	**10,333**	10,333
Total	**68,372**	22,173

26 Other payables

(1) Other payables by category:

Item	*Note*	2013	2012
Payables to third party		**128,360**	118,450
Payables to related parties	VI.7(7)	**1,371,852**	590,190
Total		**1,500,212**	708,640

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

26 Other payables *(continued)*

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

Name of enterprises	Note	2013	2012
Parent Group	VI.7(7)	**935,320**	224,498

(3) As at 31 December, no significant other payable of the Group is ageing of more than one year.

27 Non-current liabilities due within one year

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

Item	Note	2013	2012
Long-term loans due within one year	(2)	**953,364**	1,591,933
Long-term payables due within one year	(3)	**1,402,090**	2,270,741
Tota		**2,355,454**	3,862,674

(2) Long-term loans due within one year

Item	2013	2012
Loans with guarantee	**938,364**	1,506,933
Loans on credit	**15,000**	85,000
Total	**953,364**	1,591,933

Guaranteed loans are guaranteed by the Parent Group solely, Chongqing Yu Fu Assets Management Group Co., Ltd ("Yu Fu") solely or jointly guaranteed by the Parent Group and Yu Fu, of which, the amount are RMB 181,000,000, RMB 720,783,000 and RMB 36,581,000 respectively (see Note VI.6(4)).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

27 Non-current liabilities due within one year *(continued)*

(2) Long-term loans due within one year (continued)

(a) As at 31 December 2013, the five largest long-term loans due within one year:

Lender	Inception date	Maturity date	Currency	Interest rate *(%)*	2013 Original currency	2013 RMB equivalent	2012 Original currency	2012 RMB equivalent
1. China Development Bank	06/09/2011	21/08/2014	USD	6 month LIBOR+3.20%	**50,000**	**304,845**	50,000	314,275
2. Agriculture Bank of China	04/08/2009	03/08/2014	RMB	6.40%	**–**	**270,000**	–	–
3. China Development Bank	06/09/2011	10/04/2014	USD	6 month LIBOR+3.20%	**16,000**	**97,550**	16,000	100,568
4. Industrial Bank	30/11/2011	29/11/2014	RMB	6.77%	**–**	**50,000**	–	50,000
5. Agriculture Bank of China	25/02/2011	24/02/2014	RMB	6.15%	**–**	**47,500**	–	47,500
Total						**769,895**		512,343

(b) As at the balance sheet date, no long-term loans due within one year were overdue.

(3) Long-term payables due within one year

As at 31 December 2013, the closing balance of long-term payables due within one year are net obligations under finance leases of RMB 1,402,090,000 (total amount of RMB 1,467,860,000 net of unrecognised finance charges of RMB 65,770,000). As at 31 December 2012, the closing balance of long-term payables due within one year are net obligations under finance leases of RMB 2,270,741,000 (total amount of RMB 2,455,475,000 net of unrecognised finance charges amounted to RMB 184,734,000).
As at 31 December 2013, for the amounts of long-term payables due within one year which were guaranteed by the Parent Group solely or jointly guaranteed by the Parent Group and Yu Fu, see Note VI.6(4).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

27 Non-current liabilities due within one year *(continued)*

(3) Long-term payables due within one year

(a) As at 31 December 2013, the five largest long-term payables are as follows:

		2013					
Lender	Maturity period	Amount	Unrecognised finance charge	Ending balance	Less: amounts within a year	Interest rate *(%)*	Borrowing terms
CCB Financial Leasing Co, Ltd.	29/09/2009~ 29/09/2014	384,568	19,976	364,592	364,592	12.21%	Guarantee
Kun Lun Financial Leasing Co., Ltd	12/10/2011~ 11/10/2015	538,989	22,412	516,577	268,120	6.52%	Guarantee
Hua Rong Leasing Co., Ltd	24/11/2011~ 10/12/2016	340,348	40,117	300,231	162,009	11.45%	Guarantee
Unismart International Leasing Co., Ltd	07/04/2011~ 06/04/2016	412,765	33,634	379,131	158,305	5.78%	
Unismart International Leasing Co., Ltd	31/01/2011~ 30/01/2016	353,079	27,104	325,975	135,967	5.21%	
Total		2,029,749	143,243	1,866,506	1,088,993		

(b) As at the balance sheet date, no long-term payables due within one year were overdue.

(c) 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 in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

28 Other current liability

Item	2013	2012
Deferred income — government allowance	**2,580**	922
Deferred income — unrealised income of sale and leaseback transactions	**6,865**	6,790
Total	**9,445**	7,712

Other current liabilities are the deferred income expected to be realised in one year (Note V.32).

29 Long-term loans

(1) *Long-term loans by category:*

Item	2013	2012
Loan with guarantee	**7,348,938**	784,408
Loan on credit	**—**	15,000
Total	**7,348,938**	799,408

Loan with guarantee are guaranteed by the Parent Group solely, Yu Fu solely or jointly guaranteed by the Parent Group and Yu Fu, of which, the amount are RMB 100,000,000, RMB 7,127,000,000 and RMB 121,938,000 respectively (see Note VI.6 (4)).

(2) *As at 31 December 2013, the five largest long-term loans:*

					2013		2012	
Lender	Inception date	Maturity date	Currency	Interest rate *(%)*	Original currency	RMB equivalent	Original currency	RMB equivalent
1. China Development Bank	02/05/2013	20/11/2020	RMB	6.55%	**–**	**713,000**	–	–
2. China Development Bank	20/12/2012	20/11/2019	RMB	6.55%	**–**	**700,000**	–	–
3. China Development Bank	30/10/2012	20/05/2018	RMB	6.55%	**–**	**650,000**	–	–
4. China Development Bank	20/12/2012	20/05/2019	RMB	6.55%	**–**	**510,000**	–	–
5. China Development Bank	17/10/2013	20/11/2021	RMB	6.55%	**–**	**437,000**	–	–

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

30 Debentures payable

Item	Balance at the beginning of the year	Additions during the year	Decreases during the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	1,971,617	5,082	—	1,976,699

The analysis of debentures payable is set out as follows:

Debenture	Face value	Issuance date	Maturity period	Issuance amount	Interests payable at the beginning of the year	Interest accrued during the year	Interest paid during the year	Interests payable at the end of the year	Balance at the end of the year
Chongqing Iron and Steel Company Limited 2010 Company Debentures	2,000,000	9 December 2010	7 years	2,000,000	10,333	124,000	124,000	10,333	1,976,699

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payables

Item	*Note*	**2013**	2012
Obligations under finance leases	(2)	**2,485,283**	3,905,766
Less: Obligations under finance leases due within a year		**1,402,090**	2,270,741
Total		**1,083,193**	1,635,025

(1) As at 31 December 2013, the five largest long-term payables are as follows:

		2013					
Lender	Maturity period	Amount	Unrecognised finance charge	Ending balance	Less: amounts within a year	Interest rate *(%)*	Borrowing terms
Kun Lun Financial Leasing Co., Ltd	12/10/2011~11/10/2015	538,989	22,412	268,120	248,457	6.52%	Guarantee
Unismart International Leasing Co., Ltd	07/04/2011~06/04/2016	412,765	33,634	158,305	220,826	5.78%	
Unismart International Leasing Co., Ltd	31/01/2011~30/01/2016	353,079	27,104	135,967	190,008	5.21%	
Hua Rong Leasing Co., Ltd	12/07/2013~10/07/2016	267,167	22,666	87,221	157,280	6.97%	Guarantee
Hua Rong Leasing Co., Ltd	24/11/2011~10/12/2016	340,348	40,117	162,009	138,222	11.45%	Guarantee
Total		1,912,348	145,933	811,622	954,793		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

31 Long-term payable *(continued)*

(2) Details of obligations under finance leases included in long-term payables

The total future minimum lease payments under finance leases after 31 December 2013 are as follows:

Minimum lease payments	2013	2012
Within 1 year (inclusive)	**1,467,860**	2,455,475
Over 1 year but within 2 years (inclusive)	**965,255**	915,175
Over 2 years but within 3 years (inclusive)	**239,320**	783,978
Over 3 years	**—**	172,158
Sub-total	**2,672,435**	4,326,786
Less: Unrecognised finance charges	**187,152**	421,020
Total	**2,485,283**	3,905,766

For 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) As at 31 December 2013, for the amounts of long-term payables which were guaranteed by the Parent Group solely or jointly guaranteed by the Parent Group and Yu Fu, see Note VI.6(4)

(4) 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 in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

32 Other non-current liabilities

Item	*Note*	2013	2012
Other financial liabilities	(1)	**428,512**	410,122
Less: part expected to be realised in one year		**428,512**	410,122
Sub-total		**—**	—
Deferred income - government grants	(2)	**62,749**	17,848
Deferred income - unrealised income of sale and leaseback transactions	(3)	**109,775**	116,614
Less: expected to realised in one year	V.28	**9,445**	7,712
Sub-total		**163,079**	126,750
Total		**163,079**	126,750

(1) According to relevant agreements, the Company received an advance from customers totaling RMB 500,000,000 in 2009. Such amounts were settled on a monthly basis during the period from February 2009 to December 2013. The customer was entitled to a certain amount of discount in selling prices every month. Such long-term advance was recognised as financial liabilities, and subsequently measured on the basis of the post-amortization costs by adopting the interest rate in agreement. In 2013, the interest rate was 5.40% (2012: 5.40%); interest expense for financial liabilities has been recognised at RMB 18,390,000 (2012: RMB 18,951,000). At present, the Company was in negotiation with the customers about new contract for the amount which had not been settled and the remaining advances from customers were listed as current liabilities in the balance sheet.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

32 Other non-current liabilities *(continued)*

(2) Government grants

Subsidised project	Balance at the beginning of the year	Additions during the year	Recognised In non-operating income	Other changes	Ending balance at the end of the year	Relevant to asset/ profit
Grants due for construction of environmental protection equipment and facilities	17,848	—	892	—	16,956	Asset
Grants for recycle heat power station	—	45,000	—	—	45,000	Asset
Others	—	793	—	—	793	Profit
Total	17,848	45,793	892	—	62,749	

(3) The Company entered into sale and leaseback finance leasing transactions with several financial leasing companies respectively from 2009 to 2011(see Note V.9(2)), and the difference between the selling prices and the book value of the assets is deferred, amounted to RMB 137,125,000 (2012: RMB 137,125,000). This difference is amortised in accordance with the depreciation progress of these assets under finance leasing, as an adjustment to the depreciation cost, and the amortization amounted to RMB 6,839,000 in 2013 (2012: RMB 6,790,000).

33 Share capital

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
RMB — denominated ordinary share — domestically listed A shares	1,195,000	2,702,896	—	3,897,896
Overseas listed foreign shares — Hong Kong listed H shares	538,127	—	—	538,127
Total	1,733,127	2,702,896	—	4,436,023

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

33 Share capital *(continued)*

The Company received "the reply of approval to the Material Assets Reorganisation of the Company and issuing shares to the Group to purchase assets and fundraising" (Zheng jian xu ke [2013] No 1412), "Approve the Company to issuing 1,996,181,600 A shares to the Group to purchase assets", "approve the company to carry out fundraising by way of non—public issue of not more than 706,713,780 A shares to purchase assets".

The issued and paid—in share capital of the Company in 2013 had been verified by Ruihua Certified Public Accountants (Special General Partnership), which issued capital verification reports (Ruihua Yan Zi [2013] No. 90650001 and Ruihua Yan Zi [2013] No. 90650002) on 18 November 2013 and 18 December 2013 respectively.

34 Capital reserve

Item	Note	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Share premiums		825,980	5,515,115	—	6,341,095
Transfer from items under previous standards		270,127	—	—	270,127
Other capital reserves	(1)	13,056	24,605	—	37,661
Total		1,109,163	5,539,720	—	6,648,883

(1) The additions of other capital reserves during the year due from the net value of donations amounting to RMB 21,605,000 from the Parent Group (Note VI.6(9)(d)) and allowances amounting to RMB 3,000,000 from the government as capital investment (Note VI.6(9)(b)) after income tax deductions.

35 Specific reserve

Item	Balance at the beginning of the year	Additions during the year	Reductions during the year	Balance at the end of the year
Specific reserve	1,615	25,120	25,391	1,344

The specific reserve is provided for production safety expenses and other similar expenses based on operating income arising from transportation service and metallurgy, construction and installation project costs. The year—end balance of this account represents unutilized safety production expenses and other similar expenses.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

36 Surplus reserve

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

37 Retained earnings

Item	*Note*	Amounts
Retained earnings at the beginning of the year		723,080
Add: net profits for the year attributable to shareholders of the Company		(2,499,018)
Less: Appropriation of statutory surplus reserve	(1)	—
Dividends payable on ordinary share	(2)	—
Undistributed deficit At the end of the year	(3)	(1,775,938)

As at 31 December 2013, the Company's undistributed deficit amounted to RMB 1,775,938,000, which shall be shared on a pro-rata basis among all shareholders after the completion of the issuance of A shares in 2007. H shares and A shares rank pari passu in all aspects with each other.

(1) Appropriation to surplus reserves

According to the Company Law of the PRC, the original Company's Articles of Association and resolutions of the board of directors, the Company is required to appropriate 10% of its net profit to statutory surplus reserve until the reserve reaches 50% of the registered capital. Statutory surplus reserves may be used to make up losses or to increase the capital of the Company upon the approval of related authorities. Except for those used to make up losses, the balance of the statutory surplus reserve must not be less than 25% of the registered capital after being converted into capital.

The Company appropriate no statutory surplus reserve. (2012: RMB 1,358,000).

The amount appropriated to discretionary surplus reverse is proposed by the board of directors and subject to the approval by the General Meeting of shareholders. Discretionary surplus reserve may be used to make up losses or to increase the capital of the Company upon relevant approval. As at 31 December 2013, the Company appropriated no discretionary surplus reserve.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

37 Retained earnings *(continued)*

(2) Distribution of ordinary share dividends

During the board of directors meeting on 27 March 2014, the directors of the Company declare no dividend in respect of 2013 (2012: Nil).

(3) Retained earnings at the end of the year

The surplus reserve of the Company attributable to the Group for the year is RMB 1,152,000 (2012: RMB 863,000).

As at 31 December 2013, the consolidated retained earnings attributable to the Company included an appropriation of RMB 4,092,000 to surplus reserve made by the subsidiaries (2012: RMB 2,940,000).

38 Operating income and operating costs

(1) Operating income and operating costs

Item	2013	2012
Operating income from principal activities	**17,518,052**	18,356,326
Other operating income	**45,394**	102,450
Operating income	**17,563,446**	18,458,776
Operating costs from principal activities	**17,859,520**	18,343,877
Other operating costs	**24,942**	58,832
Operating costs	**17,884,462**	18,402,709

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Operating income, operating costs *(continued)*

(2) Principal activities (by industry)

	2013		2012	
Industry	**Operating income from principal activities**	**Operating costs from principal activities**	Operating income from principal activities	Operating costs from principal activities
Iron and steel	**17,424,371**	**17,784,039**	18,275,271	18,276,544
Electronic engineering design, construction and installation	**44,982**	**35,952**	32,679	27,466
Transportation	**48,699**	**39,529**	48,376	39,867
Total	**17,518,052**	**17,859,520**	18,356,326	18,343,877

(3) Principal activities (by product)

	2013		2012	
Product	**Operating income from principal activities**	**Operating cost from principal activities**	Operating income from principal activities	Operating cost from principal activities
Steel plates	**7,698,979**	**8,050,674**	9,500,328	9,506,060
Hot-rolled coil	**8,314,441**	**8,490,221**	7,090,337	7,147,541
Steel billets	**158,766**	**173,393**	499,341	522,388
Steel sections	**—**	**—**	49,401	55,352
Wire rods	**—**	**—**	23,549	24,726
Cool-rolled sheets	**247,582**	**286,092**	257,021	301,526
By-product	**1,004,603**	**783,659**	855,294	718,951
Others	**93,681**	**75,481**	81,055	67,333
Total	**17,518,052**	**17,859,520**	18,356,326	18,343,877

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

38 Operating income, operating costs *(continued)*

(4) Operating income from the top five customers in 2013

Name of customer	Operating income	Percentage of operating income from principal activities (%)
Customer 1	1,892,230	11%
Customer 2	1,685,313	10%
Customer 3	1,409,013	8%
Customer 4	1,348,890	7%
Customer 5	1,255,963	7%
Total	7,591,409	43%

39 Business taxes and surcharges

Item	2013	2012
Business tax	**5,018**	8,834
City maintenance and construction tax	**1,320**	1,996
Education surcharge	**616**	924
Local education surcharge	**342**	514
Total	**7,296**	12,268

40 Selling and distribution expenses

Item	2013	2012
Labour cost	**22,028**	20,275
Transportation fee	**196,208**	234,727
Ship inspection fee	**85,987**	113,815
Others	**44,987**	54,534
Total	**349,210**	423,351

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

41 General and administrative expenses

Item	2013	2012
Labour cost	**221,571**	177,101
Repair fee	**457,697**	324,804
Assets usage fee	**35,358**	30,022
Others	**139,304**	118,690
Total	**853,930**	650,617

42 Financial expenses

Item	2013	2012
Interest expenses from loans and payables	**1,097,261**	1,170,016
Less: Borrowing costs capitalised	**186,942**	149,856
Net interest expenses	**910,319**	1,020,160
Interest income from deposits and receivables	**(17,205)**	(34,820)
Net exchange (gains)/loses	**(61,796)**	18,735
Other financial expenses	**9,275**	1,946
Total	**840,593**	1,006,021

The capitalization rate used by the Group for determining the annual capitalization interest is 5.21%~11.45% (2012: 5.21%~11.45%).

43 Impairments losses

Item	2013	2012
Account receivable	**(1,786)**	(244)
Inventories	**129,763**	379,987
Total	**127,977**	379,743

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

44 Gains from changes in fair value ("( )" for losses)

Item	2013	2012
Financial liabilities held for trading		
— Changes in fair value during the year	**—**	(855)
— Transfer to investment income for derecognised financial liabilities held for trading	**1,556**	23,012
Total	**1,556**	22,157

45 Investment income ("( )" for losses)

Investment income by item

Item	2013	2012
Investment income from disposal of long-term equity investments	**—**	381,699
Investment income from disposal of financial assets held for trading	**(1,518)**	(12,425)
Income from long-term equity investments accounted for using equity method	**13**	7
Total	**(1,505)**	369,274

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

46 Non-operating income

(1) Non-operating income by item is as follows:

Item	Note	2013	2012	Amount recognised in extraordinary gain and loss in 2013
Gains on disposal of fixed assets		**225**	646	225
Government grants	(2)	**3,932**	2,001,616	3,932
Received tax refunds, exemptions and reductions		**3,779**	150	3,779
Relocation compensation	(3)	**—**	162,739	—
Others		**4,086**	3,171	4,086
Total		**12,022**	2,168,322	12,022

(2) Government grants

Item	Note	2013	2012	Relevant to asset/profit
Government environmental relocation grants		**—**	2,000,000	Profit
Special appropriation for environmental protection	V.32(2)	**892**	1,134	Asset
Land use tax refunds amortisation		**—**	482	Asset
Land use tax refunds		**1,933**	—	Profit
Others		**1,107**	—	Profit
Total		**3,932**	2,001,616	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

46 Non-operating income

(3) Details of tax refunds, exemptions and reductions

Item	2013	2012
Business tax exemptions and reductions	**2,743**	—
Others	**1,036**	150
Total	**3,779**	150

47 Non-operating expenses

Item	2013	2012	Amount recognised in extraordinary gain and loss in 2013
Losses on disposal of fixed assets	**4,357**	41,044	4,357
Donations provided	**—**	450	—
Others	**3,585**	501	3,585
Total	**7,942**	41,995	7,942

48 Income tax expenses

Item	*Note*	2013	2012
Current tax expense for the period based on tax law and corresponding regulations		**3,067**	1,587
Changes in deferred tax	(1)	**26**	5,636
Difference in final settlement		**34**	(4,241)
Total		**3,127**	2,982

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

48 Income tax expenses *(continued)*

(1) The analysis of changes in deferred tax assets is set out below:

Item	2013	2012
Origination and reversal of temporary differences	**26**	(16,884)
Change in unrecognised deductible temporary differences	**—**	22,520
Total	**26**	5,636

(2) Reconciliation between income tax expense and accounting profits is as follows:

Item	2013	2012
Profit before taxation ("( )" for losses)	**(2,495,891)**	101,825
Expected income tax expense at a tax rate of 15%	**(374,384)**	15,274
Add: Difference in tax rates of subsidiaries	**397**	—
Tax effect of unused tax losses not recognised	**346,240**	63,105
Unrecognised temporary differences	**(15,366)**	(72,159)
Non-deductible expenses	**5,443**	1,003
Difference in final settlement	**34**	(4,241)
Tax rate difference at the future reversal of temporary differences	**40,763**	—
Income tax expense	**3,127**	2,982

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

49 Basic earnings per share and diluted earnings per share

(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:

	2013	2012
Consolidated net profit of the Company attributable to ordinary shareholders ("( )" for losses)	**(2,499,018)**	98,813
Weighted average number of ordinary shares outstanding *('000 shares)*	**1,995,401**	1,733,127
Basic earnings per share (Renminbi Yuan) ("( )" for losses)	**(1.252)**	0.057

The weighted average number of ordinary shares is calculated as follows:

	2013	2012
Issued ordinary shares at 1 January	**1,733,127**	1,733,127
Shares issued during the year	**262,274**	—
Weighted average number of ordinary shares at the 31 December 2013	**1,995,401**	1,733,127

(2) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit of the Company attributable to ordinary shareholders by adjusted weighted average number of ordinary shares outstanding. As at 31 December 2013, there were no issuance of dilutive potential ordinary shares (2012: Nil), the diluted earnings per share equal to basic earnings per share.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

50 Supplement to income statement

Expenses are analysed by their nature as follows:

Item	2013	2012
Operating income	**17,563,446**	18,458,776
Add: Government grants	**3,932**	2,001,616
Investment Income	**(1,505)**	369,274
Less: Changes in inventories of finished goods and work in progress	**(75,081)**	705,522
Raw materials and consumables used	**15,559,869**	16,266,679
Employee benefits expenses	**1,208,285**	1,011,011
Depreciation and amortisation expenses	**443,987**	372,567
Assets usage fee	**617,394**	524,203
Impairment losses	**127,977**	379,743
Financial expenses	**840,593**	1,006,021
Others	**1,338,740**	462,095
Profit before income tax ("( )" for losses)	**(2,495,891)**	101,825

51 Notes to cash flow statement

(1) Cash paid relating to other operating activities

Item	Amount
Bank charges	9,275
Others	3,112
Total	12,387

(2) Cash received relating to other investing activities

Item	Amount
Interest income on deposits of bank	17,205
Others	3,000
Total	20,205

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

51 Notes to cash flow statement *(continued)*

(3) Cash paid relating to other financing activities

Item	Amount
Rent for finance leases	1,910,843

52 Supplementary information on cash flow statement

(1) Supplement to cash flow statement

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

Item	2013	2012
Net profit ("( )" for losses)	**(2,499,018)**	98,843
Add: Impairment provisions for fixed assets	**127,977**	379,743
Depreciation of fixed assets	**418,034**	361,011
Amortization of intangible assets	**25,953**	11,556
Losses on disposal of fixed assets (gains denoted with "( )")	**4,132**	40,398
Losses on change in fair value (gain denoted with "( )")	**(1,556)**	(22,157)
Financial expenses (income denoted with "( )")	**812,931**	985,126
Investment losses (gain denoted with "( )")	**1,505**	(369,274)
Decrease in deferred tax assets (increase denoted with "( )")	**26**	5,636
Decrease in gross inventories (increase denoted with "( )")	**(1,683,229)**	(973,451)
Decrease in operating receivables (increase denoted with "( )")	**1,872,424**	307,796
Increase in operating payables (decrease denoted with "( )")	**3,561,056**	4,604,959
Increase in safety fees	**(271)**	55
Decrease in restricted cash (increase denoted with "( )")	**(684,633)**	(115,628)
Net cash flow from operating activities	**1,955,331**	5,314,613

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplementary information on cash flow statement *(continued)*

(1) Supplement to cash flow statement *(continued)*

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

(i) Finance lease activities not requiring the use of cash or cash equivalents

Item	2013	2012
Acquisition of construction in progress and construction materials under finance leases	**256,410**	486,782

(ii) In 2013, the Company completed the material asset reorganization with the Parent Group, acquiring the assets, supporting and auxiliary facilities used for steel and iron production of the Parent Group in Changshou district by issuing shares, bearing liabilities and paying cash. See Note VI.6(6).

(c) Change in cash and cash equivalents:

Item	2013	2012
Cash at the end of the year	**519,061**	3,394,564
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 "( )")	**(2,875,503)**	2,093,141

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

52 Supplementary information on cash flow statement *(continued)*

(2) Information on disposal of subsidiaries and other business units during the year

Item	2013	2012
Consideration of disposing subsidiaries and other business units	**—**	430,000
Cash and cash equivalents received for disposing subsidiaries and other business units	**—**	430,000
Less: Cash and cash equivalents held by disposed subsidiaries and other business units	**—**	143,641
Net cash and cash equivalents received for disposing subsidiaries and other business units	**—**	286,359
Non-cash assets and liabilities held by the disposed subsidiaries and other business units		
— Current assets	**—**	279,008
— Non-current assets	**—**	1,091,045
— Current liabilities	**—**	293,423
— Non-current liabilities	**—**	776,553

(3) Details of cash and cash equivalents

Item	2013	2012
Cash and cash equivalents	**519,061**	3,394,564
Including: Cash on hand	**1,062**	693
Bank deposits available on demand	**517,500**	3,393,558
Other monetary fund available on demand	**499**	313
Cash equivalents	**—**	—
Closing balance of cash and cash equivalents	**519,061**	3,394,564

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

53 Available-for-sale financial assets

(1) Available-for-sale financial assets

Item	2013	2012
Available-for-sale equity instrument		
Xiamen Shipbuilding Industry Co, Ltd. ("Xiamen Shipbuilding")	**5,000**	5,000
Chongqing Incon Intelligence Control Engineering Co, Ltd ("Incon Company")	**500**	500
Subtotal	**5,500**	5,500
Less: Provision for impairment	**500**	500
Total	**5,000**	5,000

The Group does not have control, joint control or significant influence over the investees to Xiamen Shipbuilding and Incon Company, and the investments are not quoted in an active market and their fair value cannot be reliably measured. The company stated the investments in the balance sheet at cost less accumulated impairment loss.

According to the financial position of Incon Company, the Group made full provision for the investment in 2006.

(2) Movements of available-for-sale financial assets for the year are as follows:

Investee	Investment cost	Balance at the beginning of the year	Increase/ Decrease	Balance at the end of the year	Share-holding percentage *(%)*	Voting rights percentage *(%)*	Provision for impairment	Provision made during the year	Cash dividend for the year
Xiamen Shipbuilding	5,000	5,000	–	5,000	2%	2%	–	–	–
Incon Company	500	500	–	500	5%	5%	500	–	–
Total	5,500	5,500	–	5,500			500	–	–

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 (%)	Percentage of voting right (%)	Ultimate controlling party of the company	Organisation code
Chongqing Iron & Steel Group Limited Company	The parent	Company Limited	Chongqing	Liu Jiacai	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	63%	63%	Chongqing State-owned Assets Supervision and Administration Bureau	202803370

Neither the parent nor the ultimate controlling party publishes financial statement.

2 Information on the subsidiaries of the Company

For details of information on the subsidiaries of the Company, see Note IV.

3 Information on the associate 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	Jingjiang district, Jiangsu province	Jin Zili	Logistics	300,000	10%	10%	Associate	55025866-3

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Information on other related parties

Name of other related parties	Related party relationship	Organization code
Chongqing Iron & Steel Group Export and Import Company Limited	Under the same parent company	20280613-3
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Under the same parent company	62190279-5
Chongqing Iron & Steel Group Yingsite Mould Company Limited	Under the same parent company	00928742-3
Chongqing Iron & Steel Group Mining Company Limited	Under the same parent company	20299276-5
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Under the same parent company	20287686-0
Chongqing Iron & Steel Group Iron Company Limited	Under the same parent company	20355285-X
Chongqing Iron & Steel Group Steel Pipe Company Limited	Under the same parent company	20343945-1
Chongqing Iron & Steel Group Refractory Materials Company Limited	Under the same parent company	20305150-2
Chongqing Iron & Steel Group Doorlead Realty Company Limited	Under the same parent company	20298850-4
Chongqing San Gang Steel Company Limited	Under the same parent company	75624734-5
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited	Under the same parent company	20288163-5
Chongqing Si Gang Steel Company Limited	Under the same parent company	75009293-6
Chongqing Iron & Steel Group Design and Research Institute	Under the same parent company	20288616-1
Chongqing Sanhuan Construct Supervision Consultant Company Limited	Under the same parent company	20328978-0
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Under the same parent company	75623445-6
Chongqing Iron & Steel Group Xingang Loading and Transportation Company Limited	Under the same parent company	20298610-3
Chongqing Iron & Steel Group Industrial Company Limited	Under the same parent company	20298762-4
Chongqing Donghua Special Steel Company Limited	Under the same parent company	75622782-X
Chongqing Iron &Steel Research Institute	Under the same parent company	45038430-4
Chongqing Iron &Steel Group TV	Under the same parent company	20298426-3
Chongqing Wuxia Mining Industry Incorporated Company	Under the same parent company	67612426-5
Chongqing Huanya Construction Materials Company Limited	Under the same parent company	70936427-4
Chongqing Hongfa Real Estate Development Company	Under the same parent company	20288082-7
Chongqing Iron & Steel (Hong Kong) Company Limited ("Chonggang HK")	Under the same parent company	16393102-000-10-08-0
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	Under the same parent company	75929686-3
Chongqing Chonggang Mining Exploitation and Investment Company Limited	Under the same parent company	69656683-7
Chongqing Mining Investment Overseas Company Limited	Under the same parent company	1599001
Chongqing Xin Gang Chang Long Logistics Company Limited	Under the joint control of same parent company	66641868-1
Asia Iron & Steel Shareholding Co., Ltd	Under the joint control of same parent company	34244066-000-01-12-4

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Transactions with its key management personnel

Remuneration of key management personnel	Note	Fees	Basic salaries, bonuses and other allowances	Insurance fees	2013 Total
Director					
Mr. Deng Qiang	(6)(7)	—	—	—	—
Mr. Yuan Jinfu	(6)(9)	—	—	—	—
Mr. Chen Hong	(8)	—	223	53	276
Mr. Sun Yijie	(5)	—	150	29	179
Mr. Li Renshengg		—	190	53	243
Mr. Guan Zhaohui	(4)	—	189	53	242
Mr. Ran Maosheng		71	—	—	71
Mr. Liu Tianni		71	—	—	71
Mr. Zhang Guolin		71	—	—	71
Supervisors					
Mr. Zhu Jianpai	(2)(6)	—	—	—	—
Ms Chen Hong		—	147	53	200
Mr. Li Zheng	(6)	—	—	—	—
Mr. Li Meijun	(6)	—	—	—	—
Mr. Dou hui		—	158	52	210
Mr. Xia Tong	(2)(4)	—	212	41	253
Key management personnel					
Mr. You Xiao'an		—	148	53	201
Ms Gong Jun		—	157	53	210
Mr. Zhang Liquan	(3)	—	80	36	116
Total		213	1,654	476	2,343

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

5 Transactions with its key management personnel *(continued)*

Remuneration of key management personnel	Note	Fees	Basic salaries, bonuses and other allowances	Insurance fees	2013 Total
Director					
Mr. Deng Qiang	(6)(7)	—	—	—	—
Mr. Yuan Jinfu	(6)(9)	—	—	—	—
Mr. Chen Hong	(8)	—	221	53	274
Mr. Xia Tong	(2)(4)	—	107	44	151
Mr. Sun Yijie	(5)	—	196	53	249
Mr. Li Rensheng		—	193	53	246
Mr. Liu Xing	(1)	30	—	—	30
Mr. Ran Maosheng		42	—	—	42
Mr. Liu Tianni		71	—	—	71
Mr. Zhang Guolin		71	—	—	71
Supervisors					
Mr. Zhu Jiangpai	(2)(6)	—	—	—	—
Ms. Chen Hong		—	144	53	197
Mr. Li Zheng	(6)	—	—	—	—
Mr. Li Meijun	(6)	—	—	—	—
Mr. Dou Hui		—	153	53	206
Key management personnel					
Mr. Wu Zisheng		—	92	12	104
Mr. You Xiao'an		—	145	53	198
Mr. Guan Zhaohui	(4)	—	187	53	240
Ms. Gong Jun		—	155	53	208
Total		213	1,593	481	2,287

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

5 Transactions with its key management personnel *(continued)*

(1) The Board of Directors announced on 13 June 2012 that due to the eappointment is expired at 31 May 2012, Mr. Liu Xing resigned from the duties of Independent Directors of the Company.

(2) On 2 April 2013, Mr. Zhu Jianpai resigned as Chairman of the Board of Supervisors and Representative Supervisor for shareholders due to job change. On the same day, Mr. Xia Tong resigned as Director, Vice Board Chairman, and Member of Strategy Committee due to work commitment.

(3) On 23 April 2013, the appointment of Mr. Zhang Liquan as Vice General Manager was given to pass in the 30th written resolution at the meeting of the 6th Board of Directors.

(4) The appointment of Mr. Guan Zhaohui as Director and Mr. Xia Tong as Supervisor was approved at the General Meetings of Shareholders 2012 convened on 13 June 2013.

(5) On 11 July 2013, Mr. Sun Yijie resigned as Director and Member of Strategy Committee due to work commitment.

(6) According to contracts entered with the Company in 2012, the salaries of Mr. Deng Qiang, Mr. Yuan Jinfu, Mr. Zhu Jianpai , Mr Li Zheng and Mr. Li Meijun will be paid by the Parent Group.

(7) On 24 January 2014, Mr. Deng Qiang resigned as Director, Chairman of Board of Directors, Chairman of Strategy Committee and Chairman of Nominating Committee due to job change.

(8) On 12 February 2014, Mr. Chen Hong resigned as Director, General Manager and Member of Strategy Committee and Chairman of the Nominating Committee due to age.

(9) On 17 March 2014, Mr. Yuan Jinfu resigned as Director, Member of Remuneration and Appraisal Committee due to job change. The number of the members of Board of Directors will be lower than statuary requirement due to the resignation of Mr. Yuan Jinfu. As a result, Mr. Yuan Jinfu will continue to act as a director on the basis of laws, administrative regulations, department regulations and “Company’s Articles of Association” until a new director appointed.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties

(1) Purchase of goods

(a) The Group

		2013		2012	
Name of related party	**Purchase of products**	**Amount**	**Percentage of the same type of transaction** *(%)*	Amount	Percentage of the same type of transaction *(%)*
Chongqing Iron & Steel (Hong Kong) Company Limited ("Chonggang HK") *(note (i))*	Ore and Coal	**5,173,379**	**39.88%**	2,343,637	24.99%
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**1,576,817**	**17.23%**	1,333,059	14.45%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**521,641**	**94.59%**	458,289	97.72%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**233,124**	**4.64%**	150,658	3.25%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**62,538**	**2.02%**	85,005	4.96%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and scrap steel	**44,595**	**3.14%**	6,443	0.41%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**43,288**	**3.07%**	36,157	3.09%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**39,478**	**1.77%**	8,901	1.43%
Chongqing Iron & Steel Research Institute	Alloy and accessories	**5,698**	**0.34%**	12,993	0.87%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**1,790**	**0.67%**	4,289	1.48%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**—**	**—**	54,893	5.03%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**—**	**—**	23,218	1.36%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**—**	**—**	682	0.06%
San Feng Logistics	Ore	**3,177**	**0.04%**	—	—
Others		**4,927**		9,369	
Total		**7,710,452**		4,527,593	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(1) Purchase of goods (continued)

(b) The Company

Name of related party	Purchase of products	2013 Amount	2013 Percentage of the same type of transaction (%)	2012 Amount	2012 Percentage of the same type of transaction (%)
Chongqing Iron & Steel (Hong Kong) Company Limited ("Chonggang HK")*(note (i))*	Ore and Coal	**5,173,379**	**40.43%**	2,343,637	25.61%
Chongqing Iron & Steel Group Mining Company Limited	Ore and accessories	**1,576,817**	**17.19%**	1,333,059	14.45%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy	**521,621**	**94.58%**	458,258	97.71%
Chongqing Wuxia Mining Industry Incorporated Company	Coal	**233,124**	**4.64%**	150,658	3.25%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Fixed assets and scrap steel	**62,538**	**2.02%**	85,005	4.96%
Chongqing Iron & Steel Group Industrial Company Limited	Energy and scrap steel	**44,513**	**3.14%**	6,403	0.41%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts and energy	**43,128**	**3.04%**	36,052	3.08%
Chongqing Iron & Steel Group Design and Research Institute	Fixed assets	**39,478**	**1.77%**	8,901	1.43%
Chongqing Iron & Steel Research Institute	Alloy and accessories	**5,698**	**0.34%**	12,993	0.87%
Chongqing Iron & Steel Group Refractory Materials Company Limited	Refractory materials	**1,763**	**0.66%**	4,289	1.48%
Chongqing Donghua Special Steel Company Limited	Scrap steel	**–**	**–**	54,893	5.03%
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	Fixed assets and accessories	**–**	**–**	23,042	1.35%
Chongqing Iron & Steel Group Iron Company Limited	Iron	**–**	**–**	682	0.06%
East China Trading	Ore	**19,245**	**0.25%**	–	–
Chongqing Electronics	Spare parts	**13,811**	**1.74%**	21,017	3.00%
Chongqing Transportation	Scrap steel	**2,004**	**0.23%**	14,491	1.33%
San Feng Logistics	Ore	**3,177**	**0.04%**	242,143	2.98%
Others		**4,608**		5,716	
Total		**7,744,904**		4,801,239	

(i) As at year ended 2013 the Chonggang HK purchased iron ore from third party on behalf of the Company at RMB 5,173,379,000 (2012: RMB 2,343,637,000). The cumulative service fee charged is RMB 23,762,000 (2012: RMB 8,996,000).

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

The price of raw materials and spare parts purchased from related parties were determined with reference to the price for similar transactions between such related and other third parties, sum of costs and profit premium or the bidding price of suppliers. Purchasing price from related party or project price contracted to be built by related parties is defined by the biding price of supplier.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(2) Sale of goods

(a) The Group

Name of related party	Sale of Products	2013 Amount	2013 Percentage of the same type of transaction *(%)*	2012 Amount	2012 Percentage of the same type of transaction *(%)*
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy and spare parts	**337,224**	**71.64%**	309,145	70.90%
Chongqing Iron & Steel Group Mining Company Limited	Energy and spare parts	**85,611**	**18.19%**	85,828	19.69%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**57,379**	**0.35%**	23,583	0.14%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and spare parts	**32,405**	**0.20%**	32,330	0.19%
Chongqing San Gang Steel Company Limited	Steel products	**30,318**	**0.19%**	16,478	0.09%
Parent Group	Spare parts	**10,775**	**2.28%**	16,650	7.89%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and spare parts	**11,943**	**0.07%**	7,690	0.04%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts	**5,119**	**1.10%**	4,578	2.17%
Chongqing Si Gang Steel Company Limited	Steel products	**—**	**—**	42,530	0.24%
Others		**3,055**		3,097	
Total		**573,829**		541,909	

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(2) Sale of goods (continued)

(b) The Company

		2013		2012	
Name of related party	**Sale of Products**	**Amount**	**Percentage of the same type of transaction *(%)***	Amount	Percentage of the same type of transaction *(%)*
East China Trading *(note (i))*	Steel products	**6,070,507**	**27.12%**	766,210	4.40%
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Energy and Spare parts	**337,203**	**71.62%**	309,114	70.90%
Chongqing Iron & Steel Group Mining Company Limited	Energy and Spare parts	**84,761**	**18.08%**	83,092	19.06%
Chongqing Iron & Steel Group Industrial Company Limited	Steel products and Spare parts	**23,235**	**0.10%**	24,124	0.14%
Chongqing Iron & Steel Group Steel Pipe Company Limited	Steel products	**57,379**	**0.26%**	23,583	0.14%
Chongqing San Gang Steel Company Limited	Steel products	**30,318**	**0.14%**	16,472	0.09%
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Steel products and Spare parts	**11,091**	**0.05%**	7,110	0.04%
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Spare parts	**4,912**	**1.05%**	4,439	2.10%
Parent Group	Energy and Spare parts	**603**	**0.13%**	1,728	0.40%
Chongqing Si Gang Steel Company Limited	Steel products	**–**	**–**	42,530	0.24%
San Feng Logistics	Steel products	**–**	**–**	136,288	0.78%
Others	Spare parts	**4,251**		3,664	
Total		**6,624,260**		1,418,354	

(i) As at 2013, East China Trading sold steel to third party on behalf of the Company at RMB 6,070,507,000 (2012: RMB 766,210,000).

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(2) Sale of goods (continued)

Save for the sales stated aforesaid, the Group and the Company had no sales to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

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

(3) Leases

In 2013, the Group paid lease rental fees of leasing land and offices to Parent Group and its subsidiaries totalling RMB 632,000 (2012: RMB 590,000).

In 2013, the Company paid rental fees of offices to the Parent Group and its subsidiaries totalling RMB 595,000 (2012: RMB 553,000).

Save for the lease stated aforesaid, the Group and the Company had no lease to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

Lease rental fees paid to the Parent Group and its subsidiaries is still according with Parent Group and its subsidiaries signed rental agreement.

(4) Guaranty

(a) The Group

	Note	Name of guarantor	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty completed (Y/N)
Providing guaranty	(i)	The Company	San Feng Logistics	739,038	17/04/2012	30/08/2022	N
Guaranty secured	(ii)	Parent Group	The Company	4,928,721	29/09/2009	11/11/2016	N
Guaranty secured	(ii)	Parent Group and Yufu.	The Company	675,096	12/10/2011	29/11/2015	N

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(4) Guaranty

(b) The Company

	Note	Name of guarantor	Name of guarantee	Amount of guaranty	Inception date of guaranty	Maturity date of guaranty	Guaranty completed (Y/N)
Providing guaranty	(i)	The Company	San Feng Logistics	739,038	17/04/2012	30/08/2022	N
		The Company	Chongqing Transportation	5,000	21/06/2012	20/06/2013	Y
		The Company	East China Trading	60,000	29/08/2012	28/08/2013	Y
Total				804,038			
Guaranty secured	(ii)	Parent Group	The Company	4,928,721	29/09/2009	11/11/2016	N
Guaranty secured	(ii)	Parent Group and Yufu	The Company	675,096	12/10/2011	29/11/2015	N
Total				5,603,817			

(i) As at 31 December 2013, the bank loans and finance leases of San Feng Logistics amounting to RMB 739,038,000 were guaranteed by the Company (2012: RMB 765,000,000).

(ii) As at 31 December 2013, the short-term and long-term bank loans (including long-term borrowings due within one year) amounting to RMB 3,682,487,000 and RMB 281,000,000 were guaranteed by the Parent Group individually. The long-term bank loans (including long-term borrowings due within one year) amounting to RMB 158,519,000 were jointly guaranteed by the Parent Group and Yufu (2012: RMB 4,962,630,000 and RMB 2,291,341,000 were respectively guaranteed by the Parent Group individually and jointly guaranteed by the Parent Group and Yufu).

Liabilities under the lease agreement between the Company and several Financial Leasing companies (Note V.27 (3), V.31 (1)) amounting to RMB 965,234,000 and RMB 516,577,000 were respectively guaranteed by the Parent Group individually and jointly guaranteed by the Parent Group and Yufu (2012: RMB 2,491,860,000 were guaranteed by the Parent Group individually and jointly guaranteed by the Parent Group and Yufu. The guaranteed liabilities include but are not limited to unpaid due rent, default fines, agreed loss amounts (if applicable) and other payables.

The Parent Group and Yufu did not charge the Company in respect of the above pledges and guarantees.

Save for the guarantees stated aforesaid, the Group and the Company had no guarantee to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(5) Related party funding

The Group and the Company

Name of related party	Amount of funding	Start date	Maturity date	Interest income/ expense recognised in 2013	Remarks
Funds received					
Chongqing Iron & Steel Group Mining Company Limited	300,000	25/06/2013	24/06/2014	8,494	Interest rate is agreed loan period corresponding to the People's Bank of China grade benchmark lending rate
Parent Group *(note (i))*	500,000	25/11/2013	25/12/2013	2,302	Interest rate is agreed loan period corresponding to the Peoples Bank of China grade benchmark lending rate

(i) As at balance sheet date, the company has returned the funds borrowed from related parties.

Save for the related party funding stated aforesaid, the Group and the Company had no related party funding to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

(6) Transfer of related-party assets and debt restructuring

(a) Transaction summary

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"). 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 Zone (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").

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring (continued)

(a) Transaction summary *(continued)*

As at the Transaction Reference Date, the total appraised value of the Target Assets amounted to RMB19,632,705,000, the expected Fixed Assets Impairment of the Old District amounted to RMB 2,695,753,000, on this base, the Company and the Parent Group determined the compensate for Fixed Assets Impairment of the Old District amounted to RMB 2,695,753,000, the Target Assets transaction price amounted to RMB 16,936,952,000 (final valuation of the Target Assets deducting the audited Fixed Assets Impairment); the Acquisition Consideration shall be satisfied by issue approximately 1,996,181,600 A shares to the Parent Group at a price of RMB 3.14/share, assuming liabilities of the Target Assets amounted to RMB 10,463,455,000, paying cash to the Parent Group amounted to RMB 205,487,000. According to the Acquisition Agreements, the Company should pay the cash to the Parent Group with 24 months from the date of the Completion Date.

As part of the Acquisition Agreements, the Parent Group made an undertaking to the Company that it would compensate the Company for the Fixed Assets Impairment resulting from the Environmental Relocation with part of the Target Assets. As at the Completion Date, the Parent Group had compensated the Fixed Assets Impairment resulting from the Environmental Relocation with the valuation of the target assets amounted to RMB 2,695,753,000.

As the Company shut down its iron and steel production facilities in the Old District in the end of September 2011, the Parent Group stop collecting rental fee of the land of Old District in Da Du Kou district from 1 October 2011. From the settlement date of the Fixed Assets Impairment of the Old District according to the Acquisition Agreements, the Company and the Parent Group automatically terminate the land use right and its supplementary agreement ("lease agreement") stated aforesaid, and give up all rights stipulated in lease agreement.

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring (continued)

(b) Transaction pricing and pricing basis

(i) Target Assets pricing

The Target Assets pricing is based on the valuation results from the qualified and State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") recorded valuation agency. According to the Chongqing SASAC "State-owned Assets valuation project record sheet" (Yu Ping Bei [2012] No.62), "Valuation project" (Chong Kang Ping Bao Zi [2012] No. 54) issued by Huakang, as at the Transaction Reference Date, appraised value of the Target Assets amounted to RMB 19,632,705,000, including fixed assets amounted to RMB 16,408,531,000, construction in process amounted to RMB 296,003,000, intangible assets amounted to RMB 2,001,423,000 and deductible input VAT of Machinery and equipment amounted to RMB 926,748,000.

As at the Completion Date, the Parent Group received unused certified deductable input VAT RMB 944,812,000. According to the official reply of the Chongqing Da Du Kou District State Administration of Taxation, it allowed the Parent Group to transfer the input VAT RMB 944,812,000 related to the Machinery and equipment constructed for environmental relocation to the Company as the input VAT for future deduction. The Company regarded the deductible input VAT exceeding the original transaction pricing RMB 18,064,000 transferred by the Parent Group as the capital input by the Parent Group and recognised as the capital reserve.

(ii) Fixed Assets Impairment of the Old District compensating and pricing

Pursuant to the Acquisition Agreements, the Parent Company made an undertaking to the Company that it would compensate the Company for the Fixed Assets Impairment resulting from the Environmental Relocation with part of the Target Assets, the Fixed Assets Impairment of the Old District is based on the audited results from a qualified audit agency.

Pursuant to the verification report of the asset losses of the Old District of the Company (Zhong Rui Yue Hua Zhuan Shen [2012] No. 2319) issued by RSM China Certified Public Accountants (Special General Partnership) ("RSM"), as at the Transaction Reference Date, the audited Fixed Assets Impairment of the Old District that the Parent Company undertook to compensate was estimated to be approximately RMB 2,695,753,000.

As at the balance sheet day, the disposal of the assets of the Old District has been completed. According to the verification report of the asset losses of the Old District of the Company (Rui Hua Zhuan Sheng Zi [2014] No. 50020001) issued by RSM, Fixed Assets Impairment of the Old District is amounted to RMB 2,625,853,000. The Company has recognised the difference as the accounts payable to the Parent Group.

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring (continued)

(b) Transaction pricing and pricing basis *(continued)*

(iii) Liabilities resumed and pricing

Pursuant to the Acquisition Agreements, as part of the consideration, the Company would assume the specific amount of liability formed in constructing Target Assests. The liabilities to be assumed by the Company are based on the audited results of a qualified audit agency. According to the special audit report on the Parent Company (RSM Zhuan Shen [2012] No.2307 issued by RSM, as at the Transaction Reference Date, the audited total liabilities of the target assets to be assumed by the Company amounted to approximately RMB 10,463,455,000.

As at the Completion time, according to the project progress of the Target Assets that the subsidiaries of the Company contract to build, the Company reduced the book value of accounts payable and fixed assets under these contracts by RMB 121,063,000.

(iv) Shares issued to the Parent Company for Acquisition of Assets pricing

The Issue Price the Company paid to the Parent company is the average price calculated with the total turnover of A Shares of the Company for the 20 trading days prior to the price determination date, i.e. the date of the First Board Meeting, divided by the total trading volume, i.e. RMB 3.14/ Share.

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring *(continued)*

(c) Arrangements for the Transition Period

(i) Use of the Target Assets during the Transitional Period

Pursuant to the Acquisition Agreements, during the period from the Transaction Reference Date to the Completion Date ("Transitional Period"), the Target Assets have been handed over to the Company for operation and use. 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. During the Transitional Period, the Company shall not pay any usage fees to the Parent Group in respect of the Company's use of the Target Assets. Upon Completion, the Acquisition Consideration will not be adjusted due to depreciation or amortisation of the Target Assets occurred during the Transitional Period. Pursuant to the above terms, the Company shall accrue usage fees payable to the Parent Group based on the depreciation and amortization calculated by the fair value of the Target Assets during the Transitional Period, and shall not settle and pay any usages fees to the Parent Group and offset the book value of the Target Assets accordingly. During the year 2013, the Company accrued usage fees of RMB 617,394,000 payable to the Parent Group (2012: RMB 524,203,000). As of the Completion Date, the accumulative usage fees based on the fair value of the Target Assets accrued by the Company is RMB 1,141,597,000. As at the Completion date, based on the accumulative usage fee during the Transitional Period the Company offsets the book value of the Target Assets of RMB 1,141,597,000, including the accumulated depreciation of RMB 1,076,217,000 and accumulated amortization of RMB 65,380,000.

(ii) Profit or loss in the Transitional Period attributable to the Target Assets

As the Target Assets are not integrated iron and steel production lines and their profit cannot be assessed independently. Since the Transaction Reference Date, the Target Assets have been handed over to the Company for operation and use. The Company shall be entitled to the profit or loss generated by the operation of the Target Assets in conjunction with the Company's assets during the Transitional Period as agreed under the Acquisition Agreements.

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring (continued)

(c) Arrangements for the Transition Period *(continued)*

(iii) Follow-up investments in relation to the uncompleted construction in progress of the Target Assets in the Transitional Period

Since the Target Asses involves construction in progress during the Transitional Period, the Parent Group shall continue to construct the Target Assets and pay in accordance with the agreed construction costs in the relevant construction contracts as agreed under the Acquisition Agreements. Commencing from the Completion Date, all the rights of credit and liabilities in relation to such construction in progress (or fixed assets already completed at that time) shall be assumed by the Company. The construction costs for such construction in progress including the construction costs paid by the Parent Group and the interests capitalised in the construction in progress shall be settled by the Company in accordance with the Acquisition Agreements.

(iv) Ongoing obligations during the transitional period in respect of the liabilities relating to the Target Assets to be assumed by the Company

During the Transitional Period, any Target Assets' liabilities to be assumed by the Company pursuant to the Acquisition Agreements shall continue to be repaid by the Parent Group in accordance with the relevant agreements. The principal of the bank borrowings, trust loan(s) and the finance leases and construction costs paid by the Parent Group during the Transitional Period shall be settled by the Company as agreed under the Acquisition Agreements. The interests on bank borrowings, trust loan(s) and finance leases paid by the Parent Group for the performance of obligations during the Transitional Period, except for the interests capitalised in the construction in progress which shall be borne by the Company as agreed with the Acquisition Agreements, shall be borne by the Parent Group.

According to the Acquisition Agreements, if the Parent Group obtains additional borrowings from other financial institutions ("Additional Borrowings from Financial Institutions") and repays the debts agreed in the agreement with Additional Borrowings from Financial Institutions to perform relevant obligations in relation to the Target Assets during the transition period, the Company shall be entitled to carry out settlement with assumption of liabilities over Additional Borrowings from Financial Institutions with the Parent Group given the annual interest rate of the Additional Borrowings from Financial Institutions shall not exceed the highest annual interest rate of the prevailing financial borrowings of the Company on the Completion date ("Replacement of Liabilities").

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring *(continued)*

(d) Assets delivery

The Company	Transaction Reference Date	Transitional period	Relevant taxes	Carrying amount at Completion Date
The Target Assets				
Fixed assets-cost	16,408,531	—	239,078	16,647,609
Fixed assets-accumulated depreciation	—	(1,076,217)	—	(1,076,217)
Deductible input VAT	926,748	—	—	926,748
Construction in process	296,003	142,263	—	438,266
Intangible assets-cost	2,001,423	25	61,043	2,062,491
Intangible assets-accumulated amortisation	—	(65,380)	—	(65,380)
Sub-total	19,632,705	(999,309)	300,121	18,933,517
Accounts receivable of the parent Group from Fixed Assets Impairment of the Old District	(2,695,753)	—	—	(2,695,753)
Usage fees of Target Assets recognised	—	1,141,597	—	1,141,597
Total	16,936,952	142,288	300,121	17,379,361
Acquisition consideration				
Share capital	1,996,182	—	—	1,996,182
Capital reserve	4,271,828	—	—	4,271,828
Assumed liabilities	10,463,455	142,263	—	10,605,718
Including: Accounts receivable	3,741,990	(309,713)	—	3,432,277
Short-term loan	855,000	(855,000)	—	—
Long-term loan	2,487,000	4,540,500	—	7,027,500
Long-term payable	3,379,465	(3,233,524)	—	145,941
Cash consideration	205,487	25	—	205,512
Tax payable	—	—	300,121	300,121
Total	16,936,952	142,288	300,121	17,379,361

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

6 Transactions with related parties *(continued)*

(6) Transfer of related-party assets and debt restructuring *(continued)*

(d) Asset delivery *(continued)*

According to the Acquisition Agreements, the Company should invite the certified accounting firm recognised by the company and the Parent Group to conduct special audit on the principal of the bank loans, trust loan,and the finance leases and construction costs paid by the Parent Company during the Transitional Period and the interests on bank borrowings, trust loan(s) and finance leases paid by the Parent Group for the performance of obligations during the Transitional Period as agreed under the Acquisition Agreements shall be borne by the Parent Company. The settlement of the payment should be based on the foresaid special audit report accordance with the Acquisition Agreements.

According to the Special Audit Report (Rui Hua Zhuan Sheng Zi [2013] No. 90650001), during the Transitional Period, the assumed liabilities increased by RMB 142,263,000 (including capitalised interests RMB 16,147,000) due to the progress of the Project. As at the Completion Date, the liabilities assumed by the Company amounted to RMB 10,605,718,000 (except for reduced the book value of accounts payable according to the project progress constructed by Chongqing Electronics amounted to RMB 121,063,000 (Note VI.6(6)(b)(iii)), including the principal of the bank borrowings, trust loan(s) and the finance leases and construction costs and the capitalised interests paid on behalf of the Company amounted to RMB 970,999,000 according to the Acquisition Agreements.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(7) Rendering of service

(a) The Group

		2013		2012	
	Note	**Amount**	**Percentage of the same type of transaction *(%)***	Amount	Percentage of the same type of transactio *(%)*
Fees received for supporting services	(i)	**25,500**	**11.19%**	21,101	12.07%

(b) The Company

		2013		2012	
	Note	**Amount**	**Percentage of the same type of transaction *(%)***	Amount	Percentage of the same type of transactio *(%)*
Fees received for supporting services	(i)	**61**	**100.00%**	—	—

(i) A supporting service income mainly represented interior sporadic leasing services fees charged to the Parent Group and its subsidiaries. The price is determined by reference to a profit mark-up above the cost of providing such services as agreed with the Company and the Parent Group.

Save for the transaction stated aforesaid, the Group and the Company had no transaction to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Transactions with related parties *(continued)*

(8) Receiving services

(a) The Group

	Note	**2013** Amount	**2013** Percentage of the same type of transaction *(%)*	2012 Amount	2012 Percentage of the same type of transactio *(%)*
Fees paid for supporting services	(i)	**571,718**	**39.63%**	536,043	24.99%

(b) The Company

	Note	**2013** Amount	**2013** Percentage of the same type of transaction *(%)*	2012 Amount	2012 Percentage of the same type of transactio *(%)*
Fees paid for supporting services	(i)	**573,407**	**42.32%**	535,317	18.23%
Transportation fee	(ii)	**104,327**	**29.47%**	136,152	34.38%
Labor cost	(ii)	**94,896**	**7.00%**	92,417	3.15%
Total		**772,630**		763,886	

(i) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, labor fee, transportation and imports and exports agency services provided by the 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 government.

(ii) Transportation fee and labor cost mainly included the transportation fee, Metrology inspection fee, equipment maintenance fee and etc. 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 government.

Save for the transaction stated aforesaid, the Group and the Company had no transaction to shareholders holding 5% or more of its shares with voting rights in the current reporting year.

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

6 Transactions with related parties *(continued)*

(9) *Other transactions between the Company and the Parent Group and its subsidiaries:*

(a) The Company has joined the Parent Group's supplementary pension insurance and made contributions accordingly. The total amount of contribution to pension insurance is based on the total salaries/wages paid to the Company's employees and the applicable benchmarks and rates for basic pension insurance stipulated by the government. After deducting the contributions to relevant social security agencies for basic pension insurance, the remaining amount is transferred to the Parent Group for centralised management and the Parent Group will be responsible for paying the supplementary retirement benefits to the Company's employees. Pursuant to the "Entrusted Retired Staff Management Agreement" signed between the Company and the Parent Group, the Company contributes to the supplementary pension insurance managed by the Parent Group to allow the Company's retired staff to enjoy additional retirement benefits. The benefits provided by the Parent Group include: food subsidy, subsidy for water and electricity bills, seniority payments, birthday expenses, living expenses of surviving family members of deceased retired employees, Spring Festival bonuses, etc. These benefits are paid by the Parent Group using the Company's contributions, with any shortfall borne by the Parent Group.

Pursuant to the relevant requirements, the Company makes contributions to the supplementary medical insurance centrally managed by the Parent Group. Such contributions are used to pay for medical expenses of the Company's employees with great financial burden and retired employees.

Pursuant to the relevant requirements, the Company pays for labour union fees centrally managed by the Parent Group. Such contributions are used to pay for the expenses of labour union activities.

In 2013, the Company's contributions to the supplementary pension insurance, supplementary medical insurance and part of labour union fees amounted to RMB 49,190,000 (2012: RMB 25,236,000).

According to the "Reply to the Request of Chongqing Iron & Steel (Group) Co., Ltd. Regarding Split Medical Insurance Premiums" issued by Chongqing Medical Insurance Management Center in October 2008, the Company and the Parent Group do not split their medical insurance premiums for the time being. According to the "Agreement on Withholding and Remitting Large-Amount Medical Insurance Premiums and Agreement on Withholding and Remitting Large Amount of Basic Medical Insurance Premiums" signed between the Company and the Parent Group, the Company makes its contributions to the basic medical insurance and large-amount medical insurance based on the amount of salaries/wages accrued to the Company's employees and the applicable benchmarks and rates stipulated by the government, the Parent Group then pays the amount to the Chongqing Medical Insurance Management Center. In 2013, the Company's contributions in this regard withheld and remitted by the Parent Group amounted to RMB 81,055,000 (2012: RMB 55,481,000). The Parent Group did not charge any fees on the above transactions.

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

6 Transactions with related parties *(continued)*

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

(b) After the application filed by the Parent Group, the Company received RMB 45,000,000 of government grant to subsidise its recycle heat power station. On 28 September 2013, the Parent Group transferred the amount of special financial grant received to the Company.

After the application filed by the Parent Group, the Company received RMB 3,000,000 of government grant to subsidise its environmental relocation pertaining the technology upgrade for the production of 4100mm broad plank. On 9 September 2013, the Parent Group transferred the amount of special financial grant received to the Company.

The Parent Group did not charge any fees on the above transactions.

(c) During the Transitional Period, the Parent Group obtained credit facilities of RMB 8.3 billion from the China Development Bank ("CDB") for its energy conservation and environmental relocation projects. The Company has obtained the CDB's consent to take over these credit facilities on the same conditions. On the Transfer Date, the Company will assume the liability of the special loans provided by the CDB by way of debt swap, with any balance of funds not withdrawn by the Parent Group.

The Company, the Parent Group and the CDB signed the three-party debt transfer agreement on 2 January 2014. In December 2013, the Company authorised the Parent Group to apply to the CDB to withdraw syndicated loans amounting to RMB 400,000,000, and to pay for liabilities related to its material asset reorganisation on its behalf. The Parent Group received the above loans and used the full amount in paying for construction and finance lease expenses at December 2013.

(d) In 2013, the Parent Group agreed that the Company did not need to pay for the property tax and land use tax of underlying assets in the material asset reorganisation from the Completion Date to 31 December 2013 assumed by the Parent Group on behalf of the Company amounting to RMB 3,541,000, and the amount of RMB18,064,000 which is the excess of the actual transfer of deductible input VAT of underlying assets over the agreed amount.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Receivables from and payables to related parties

(1) Bills receivable

The Group and the Company

Related Party	2013	2012
Chongqing Iron & Steel Group Steel Pipe Company Limited	—	2,403
Chongqing San Gang Steel Company Limited	**1,986**	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	—	50
Total	**1,986**	2,453

(2) Accounts receivable

(a) The Group

Related Party	2013	2012
Chongqing Si Gang Steel Company Limited	**154,577**	156,285
Chongqing San Gang Steel Company Limited	**91,587**	95,133
Chongqing Iron & Steel Group Steel Pipe Company Limited	**74,967**	70,571
Parent Group	**160**	9,750
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**2,213**	4,961
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	2,756
Chongqing Sanfeng Huashen Steel Structure Engineering Company Limited	**2,273**	2,273
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**1,256**	1,251
San Feng Logistics	—	88,500
Chongqing Iron & Steel Group Mining Company Limited	**135**	3,836
Others	**579**	915
Sub-total	**330,503**	436,231
Less: Provision for bad and doubtful debts	**2,756**	2,756
Total	**327,747**	433,475

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Receivables from and payables to related parties *(continued)*

(2) Accounts receivable

(b) The Company

Related Party	2013	2012
Chongqing Si Gang Steel Company Limited	**153,935**	155,643
Chongqing San Gang Steel Company Limited	**91,587**	95,133
Chongqing Iron & Steel Group Pipe Company Limited	**74,967**	70,571
Chongqing Iron & Steel Group San Feng Industrial Company Limited	**2,213**	4,682
Chongqing Iron & Steel Group Yingsite Mould Company Limited	**2,756**	—
Chongqing Iron & Steel Group Mining Company Limited	**—**	3,498
Others	**10**	3,130
Sub-total	**325,468**	332,657
Less: Provision for bad and doubtful debts	**2,756**	2,756
Total	**322,712**	329,901

(3) Other receivables

The Group and the Company

Related Party	2013	2012
Parent Group	**—**	1,703,385
Total	**—**	1,703,385

(4) Prepayments

The Group

Related Party	2013	2012
San Feng Logistics	**11,901**	—
Total	**11,901**	—

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Receivables from and payables to related parties *(continued)*

(5) Other non-current liabilities

The Group

Related Party	2013	2012
San Feng Logistics	**65,300**	—
Total	**65,300**	—

(6) Accounts payables

(a) The Group

Related Party	2013	2012
Chonggang HK	**1,344,190**	346,566
Parent Group	**994,082**	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**572,672**	—
Chongqing Iron & Steel Group Design and Research Institute	**88,475**	—
Chongqing Sanhuan Construct Supervision Consultant Company Limited	**59,837**	—
Chongqing Iron & Steel Group Mining Company Limited	**63,062**	—
Chongqing Wuxia Mining Industry Incorporated Company	**2,467**	—
Total	**3,124,785**	346,566

(b) The Company

Related Party	2013	2012
Chonggang HK	**1,344,190**	346,566
Parent Group	**994,082**	—
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**572,358**	—
Chongqing Iron & Steel Group Design and Research Institute	**88,475**	—
Chongqing Iron & Steel Group Mining Company Limited	**62,808**	—
Chongqing Sanhuan Construct Supervision Consultant Company Limited	**59,837**	—
East China Trading	**33,586**	—
Chongqing Wuxia Mining Industry Incorporated Company	**2,467**	—
Total	**3,157,803**	346,566

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Receivables from and payables to related parties *(continued)*

(7) Other payables

(a) The Group

Related Party	2013	2012
Parent Group	**985,320**	224,498
Chongqing Chonggang Mining Exploitation and Investment Company Limited	**300,000**	—
San Feng Logistics	**28,685**	20,794
Chongqing Iron & Steel Group Industrial Company Limited	**24,329**	142,111
Chongqing Donghua Special Steel Company Limited	**20,658**	20,673
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**11,184**	129,983
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**—**	28,850
Chongqing Xin Gang Chang Long Logistics Company Limited	**171**	11,574
Chongqing Iron & Steel Group Design and Research Institute	**—**	6,854
Chongqing Iron & Steel Group San Feng Science & Technology Company Limited	**—**	2,697
Others	**1,505**	2,156
Total	**1,371,852**	590,190

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

7 Receivables from and payables to related parties *(continued)*

(7) Other payables (continued)

(b) The Company

Related Party	2013	2012
Parent Group	**985,320**	224,498
Chongqing Chonggang Mining Exploitation and Investment Company Limited	**300,000**	—
Chongqing Electronics	**44,663**	33,389
Chongqing Transportation	**29,263**	18,216
San Feng Logistics	**25,626**	20,393
Chongqing Iron & Steel Group Industrial Company Limited	**24,159**	141,941
Chongqing Donghua Special Steel Company Limited	**20,658**	20,673
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	**11,184**	129,983
Chongqing Xin Gang Chang Long Logistics Company Limited	**171**	11,574
Chongqing Iron & Steel Group Construction and Engineering Company Limited	**—**	28,850
Others	**1,501**	9,635
Total	**1,442,545**	639,152

(8) Bills payable

The Group and the Company

Related Party	2013	2012
Chongqing Iron & Steel Group Mining Company Limited	**100,000**	—
Total	**100,000**	—

(9) 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. CONTINGENCIES

1 Contingent liabilities arising from outstanding litigations and arbitration and related financial effect

No contingent liabilities arose from outstanding litigations and arbitration and related financial effect in 2013.

2 Contingent liabilities arising from guarantees provided for other enterprises and related financial effect

At the balance sheet date, the Company did not provide any guarantee for the bank loans of its subsidiaries (2012: RMB 65,000,000). The Company provided guarantees for the bank loans and finance lease of its associate amounted to RMB 739,038,000 (2012: RMB 700,000,000).

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

VIII. COMMITMENTS

1 Capital commitments

Item	2013	2012
Significant construction contracts entered into under performance or preparation of performance	**3,111,219**	3,720,393
Significant construction contracts authorized but not yet contracted for	**1,536,321**	—
Finance leases contracts entered into under performance or preparation of performance	**2,672,434**	4,326,786
Total	**7,319,974**	8,047,179

(1) During the year 2013, the Group paid RMB 1,331,004,000 for settlement of construction contracts and equipment which has been disclosed in capital commitment of 2012.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

VIII. COMMITMENTS *(CONTINUED)*

2 Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of land use right were payable as follows:

Item	2013	2012
Within 1 year (inclusive)	**25**	25
Over 1 year but within 2 years (inclusive)	**25**	25
Over 2 years but within 3 years (inclusive)	**25**	25
Over 3 years	**200**	893
Total	**275**	968

IX. POST BALANCE SHEET DATE EVENTS

1 Material post balance sheet date events

As at 18 march 2014 and 21 march 2014, the Company borrowed RMB 150,000,000 and 250,000,000 from the Group respectively. The term of the loan is within one year since the withdrawal date. The interest rates are agreed with the People's Bank of China benchmark lending rate in same term.

The Company received government allowance from Chongqing Changshou District Finance Bureau amounting to RMB 354,605,000 on 26 March 2014.

2 Profit appropriation after the balance sheet date

During the Board of Directors meeting on 27 March 2014, the directors of the Company declare no dividend in respect of 2013 (2012: Nil).

X. OTHER SIGNIFICANT ITEMS

1 Leases

For details of finance lease, see Note V. 9(2), 10(4), 11(2) and 31.

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)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

2 Segment reporting *(continued)*

(2) Reportable information on the Group's reporting segments in 2013 is set out as follows:

Item	Iron and steel 2013	Iron and steel 2012	Electronic construction and installation 2013	Electronic construction and installation 2012	Logistics 2013	Logistics 2012	Elimination among segments 2013	Elimination among segments 2012	Total 2013	Total 2012
Operating income from external customers	**17,469,461**	18,377,343	**44,982**	32,679	**49,003**	48,754	**—**	—	**17,563,446**	18,458,776
Inter-segment operating income	**20,834**	1,031	**104,888**	109,774	**110,431**	533,946	**(236,153)**	(644,751)	**—**	—
Interest in the profit or loss of associate and joint ventures	**13**	7	**—**	—	**—**	—	**—**	—	**13**	7
Impairment for the year	**128,089**	379,814	**(112)**	(71)	**—**	—	**—**	—	**127,977**	379,743
Depreciation and amortization	**436,764**	360,384	**902**	973	**6,321**	11,210	**—**	—	**443,987**	372,567
Interest income from bank deposits	**17,191**	34,777	**6**	30	**8**	13	**—**	—	**17,205**	34,820
Interest expense	**910,161**	1,015,760	**—**	—	**158**	4,400	**—**	—	**910,319**	1,020,160
Profit before income tax ("( )" for losses)	**(2,476,136)**	17,246	**8,064**	10,183	**(20,049)**	(295)	**(7,770)**	74,691	**(2,495,891)**	101,825
Income tax expense	**1,794**	1,201	**1,184**	1,550	**149**	231	**—**	—	**3,127**	2,982
Net profit ("( )" for losses)	**(2,477,930)**	16,045	**6,880**	8,633	**(20,198)**	(526)	**(7,770)**	74,691	**(2,499,018)**	98,843
Total assets	**48,015,441**	31,024,236	**92,117**	91,808	**162,083**	156,819	**(223,664)**	(166,464)	**48,045,977**	31,106,399
Total liabilities	**38,119,833**	26,893,313	**31,530**	30,061	**67,116**	41,654	**(108,805)**	(51,605)	**38,109,674**	26,913,423

(3) Major customers

The Group has two customers (2012: one) from which the operating income is over 10% of the Group's total operating income. The operating income from the customers represents approximately 21% of the Group's total operating income (2012: 10%), which is listed in the table below:

Customer	2013	2012
Customer 1	**1,892,230**	Below 10% of the Group's total operating income
Customer 2	**1,685,313**	Below 10% of the Group's total operating income
Customer 3	**Below 10% of the Group's total operating income**	1,810,856

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include:

— Credit risk

— Liquidity risk

— Interest rate risk

— Foreign currency risk

This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is primarily attributable to cash at bank and receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Group is mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

The Group requires prepayment by cash or bills from most of its clients prior to delivery. In respect of receivables, the Group has established a credit policy under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers. Normally, the Group does not obtain collateral from customers, and has made adequate bad debt provision for accounts receivable and other receivables with limited possibility of retrieval. The ageing analysis and bad debt provision for accounts receivable and other receivables are set out in Note V. 3 and Note V. 5 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Except for the guarantees provided by the Group mentioned in Note VII, the Group did not provide any other guarantees which would expose the Group to credit risk. At the balance sheet date, the maximum exposure to credit risk of financial guarantee mentioned above was recorded.

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(2) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Company and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's liquidity management is to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity was carried out on a regular basis by the Group to ensure adequate liquidity. Meanwhile, in order to control liquidity risk, the Group held negotiation with financial institutions for enough banking facilities. The Group's banking facility was granted by several financial institutions in the PRC. As at 31 December 2013, the Group's current liabilities exceeded current assets by RMB 14,186,208,000 (2012: current liabilities exceeded current assets by RMB 6,390,025,000). As at 31 December 2013, the Group had an undrawn standby credit of RMB 5,572,777,000 (see Note. X 3(2)). From the balance sheet day to the approval date of the financial statement, the company has obtained the credit of extension or renewal accumulated to RMB 1,073,000,000, obtaining RMB 1,000,000,000 standby credit. And the Company has oral agreements with several financial agencies that at the maturity date of the short-term loan in 2014, extension or renewal is permitted according to the credit requirement of the Company. Meanwhile, the Parent group promised to provide financial support to the Group for at least 12 months since 13 December 2013 to guarantee the going concern of the Group.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's financial assets and financial liabilities, which are based on contractual cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(2) *Liquidity risk* *(continued)*

	2013 Contractual undiscounted cash flow					
Item	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
Financial assets						
Cash at bank and on hand	1,553,350	–	–	–	1,553,350	1,553,350
Bills receivable	340,783	–	–	–	340,783	340,783
Accounts receivable and other receivables	587,765	–	–	–	587,765	587,765
Sub -total	2,481,898	–	–	–	2,481,898	2,481,898
Financial liabilities						
Short-term loans	(4,827,910)	–	–	–	(4,827,910)	(4,705,734)
Bills payable	(2,583,300)	–	–	–	(2,583,300)	(2,583,300)
Accounts payable and other payables	(15,006,710)	–	–	–	(15,006,710)	(15,006,710)
Employee benefits payable	(197,105)	–	–	–	(197,105)	(197,105)
Taxes payable	(308,379)	–	–	–	(308,379)	(308,379)
Interest payable	(68,372)	–	–	–	(68,372)	(68,372)
Non-current liabilities due within one year	(2,447,558)	–	–	–	(2,447,558)	(2,355,454)
Long-term loans*	(479,276)	(682,881)	(3,564,370)	(5,346,273)	(10,072,800)	(7,348,938)
Debentures payable	(124,000)	(124,000)	(2,248,000)	–	(2,496,000)	(1,976,699)
Long-term payables	–	(965,255)	(239,319)	–	(1,204,574)	(1,083,193)
Sub-total	(26,042,610)	(1,772,136)	(6,051,689)	(5,346,273)	(39,212,708)	(35,633,884)
Net amount	(23,560,712)	(1,772,136)	(6,051,689)	(5,346,273)	(36,730,810)	(33,151,986)

* As part of the long-term loan agreements / exemption letter contains requirements on the financial ratio for the Group in the future, the analysis of above contractual cash flow was based on the reasonable estimate that the Group would satisfy the financial ratio in the future.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(2) *Liquidity risk* (continued)

Item	2012 Contractual undiscounted cash flow: Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total	Carrying amount at balance sheet date
Financial assets						
Cash at bank and on hand	3,800,917	–	–	–	3,800,917	3,800,917
Bills receivable	779,131	–	–	–	779,131	779,131
Accounts receivable and other receivables	2,859,860	–	–	–	2,859,860	2,859,860
Sub -total	7,439,908	–	–	–	7,439,908	7,439,908
Financial liabilities						
Short-term loans	(5,785,775)	–	–	–	(5,785,775)	(5,620,216)
Bills payable	(861,000)	–	–	–	(861,000)	(861,000)
Accounts payable and other payables	(8,194,819)	–	–	–	(8,194,819)	(8,194,819)
Employee benefits payable	(157,904)	–	–	–	(157,904)	(157,904)
Taxes payable	(5,618)	–	–	–	(5,618)	(5,618)
Interest payable	(22,173)	–	–	–	(22,173)	(22,173)
Non-current liabilities due within one year	(4,106,884)	–	–	–	(4,106,844)	(3,862,674)
Long-term loans*	(37,063)	(695,275)	(130,526)	–	(862,864)	(799,408)
Debentures payable	(124,000)	(124,000)	(2,372,000)	–	(2,620,000)	(1,971,617)
Long-term payables	–	(915,175)	(956,136)	–	(1,871,311)	(1,635,025)
Sub-total	(19,295,236)	(1,734,450)	(3,458,662)	–	(24,488,348)	(23,130,454)
Net amount	(11,855,328)	(1,734,450)	(3,458,662)	–	(17,048,440)	(15,690,546)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(3) Interest rate risk

Interest-bearing financial instruments at fixed rates and at variable rates expose the Group to fair value interest risk and cash flow interest rate risk, respectively. The Group adopts an interest rate policy of ensuring that interest rate risk is under control. In light of its interest policy, the Group has achieved an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. Interest rates for short-term and long-term liabilities are set out in Note V. 18, 27, 29, 30, 31 and 32. The derivative financial instruments of the interest rate swap contract is expired at 30 August 2013. The changes in the fair value of derivative financial instruments is recognised in profit and loss, see Note V.44.

(a) As at 31 December, the Group held the following interest-bearing financial instruments:

Fixed rate instruments:

	2013		2012	
Item	**Annual interest rate**	**Amount**	Annual interest rate	Amount
Financial assets				
Cash at bank and on hand	**—**	**—**	—	—
Financial liabilities				
Short-term loans	**2.74%~7.22%**	**(2,397,161)**	5.95%~7.22%	(925,160)
Debentures payable	**6.20%**	**(1,976,699)**	6.20%	(1,971,617)
Total	**(4,373,860)**	**(2,896,777)**		

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(3) Interest rate risk (continued)

(a) As at 31 December, the Group held the following interest-bearing financial instruments *(continued)*

Variable rate instruments:

Item	2013 Annual interest rate	2013 Amount	2012 Annual interest rate	2012 Amount
Financial assets				
Cash at bank and on hand	**0.35%~0.385%**	**517,500**	0.35%~0.50%	3,393,558
Financial liabilities				
Short-term loans	**LIBOR +1.40%~6.60%**	**(2,308,573)**	LIBOR +1.40%~7.22%	(4,695,056)
Non-current liabilities due within one year	**1 month LIBOR +3.00%~6.77%**	**(2,355,454)**	1 month LiBOR +3.00%~7.32%	(3,862,674)
Long-term loans	**6 month LIBOR +3.20%~6.77%**	**(7,348,938)**	6 month LIBOR +3.2%~7.32%	(799,408)
Long-term payables	**5.21%~12.21%**	**(1,083,193)**	6.08%~7.25%	(1,635,025)
Total		**(12,578,658)**		(7,598,605)
The total effect on net profit of the Company when interest rate increased by 1%:		**(125,787)**		(64,588)

(b) Sensitivity analysis

As at 31 December 2013, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's net profit and equity by RMB 125,787,000 (2012: RMB 64,588,000).

The sensitivity analysis above indicates the instantaneous change in the net profit and equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the previous year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(4) Foreign currency risk

As the Group's sales of products and purchases of raw material for production are mainly carried out in Renminbi, foreign currency risk is primarily attributable to the foreign currency deposits and loans. In order to avoid foreign currency risk related to US dollar loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. As at 31 December 2013, all the forward exchange contracts recognised as derivative financial instruments were expired. The changes in the fair value of derivative financial instruments is recognised in profit and loss, see Note V.44.

(a) As at 31 December, the Group's exposure to currency risk arising from recognised assets or liabilities denominated in foreign currencies is presented in the following tables. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

	2013		2012	
Item	**USD**	**EUR**	USD	EUR
Cash at bank and on hand	**116,239**	**—**	958,589	—
Short-term loans	**(630,848)**	**—**	(1,376,541)	(136,305)
Non-current liabilities due within one year	**(463,364)**	**—**	(334,389)	—
Long-term loans	**(121,938)**	**—**	(603,408)	—
Gross balance sheet exposure	**(1,099,911)**	**—**	(1,355,749)	(136,305)
Notional amounts of forward exchange contracts used as economic hedges	**—**	**—**	—	—
Net balance sheet exposure	**(1,099,911)**	**—**	(1,355,749)	(136,305)

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(4) Foreign currency risk *(continued)*

(b) The following are the exchange rate for Renminbi against foreign currencies applied by the Group:

	Average rate		Reporting date mid-spot rate	
	2013	2012	**2013**	2012
USD	**6.1912**	6.2932	**6.0969**	6.2855
EUR	**8.3683**	8.2401	**8.4189**	8.3176

(c) Sensitivity analysis

Assuming all other risk variables remained constant, a 5% strengthening of the Renminbi against the US dollar, Euro and HK dollar as at 31 December would have increased (decreased) the Group's equity and net profit by the amount shown below, whose effect is in Renminbi and translated using the spot rate at the year-end date.

	Equity	Net profit
As at 31 December 2013		
USD	**(46,746)**	(46,746)
As at 31 December 2012		
USD	**(57,619)**	(57,619)
EUR	**(5,793)**	(5,793)
Total	**(63,412)**	(63,412)

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements denominated in foreign currency. The analysis is performed on the same basis for the previous year.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(5) Other price risks

As the Group sells steel and iron products at market prices, it is exposed to market price fluctuations.

(6) Fair value

(a) Financial instruments carried at fair value

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs the asset or liability that is not based on observable market data (unobservable inputs).

The derivative financial instruments (Note V.19) measured by the Group measures on the basis of the fair value belong to Level 2.

In 2013, there were no changes in valuation technique of fair value.

(b) Fair value of other financial instruments (carried at other than fair value)

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2013 and 2012 except as follows:

	2013		2012	
	Carrying amount	**Faire value**	Carry amount	Faire value
Debentures payable	**1,976,699**	**1,856,000**	1,971,617	2,030,000

X. OTHER SIGNIFICANT ITEMS *(CONTINUED)*

3 Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(7) Estimation and assumption of fair value

The following summarises the major methods and assumptions used in estimating the fair value of financial assets, financial liabilities and items set out in Note X.3 (6) above that measured at fair value on the balance sheet date.

(a) Receivables

The fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

(b) Loans, debentures payable, long-term payables and other non-derivative financial liabilities

The fair value of loans, long-term payables and other non-derivative financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases, the market rate of interest is determined by reference to similar lease agreements. The fair value of debentures payable is determined by market price at balance sheet date.

(c) Derivatives

The fair value of forward exchange contracts is either based on their listed market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar interest rate instrument at the measurement date.

(d) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows are based on the market interest rate of bank loans at the balance sheet date and adjust the interest rates according to the specific nature of the project.

Fair value is estimated according to relevant market information and information about financial instruments at a specific point in time. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Group's other long-term equity investments without public quotations do not have a significant impact on the financial condition and operating result of the Group.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable

(1) Accounts receivable by customer type:

Type	Note	2013	2012
Third party		**295,222**	752,648
Related party	VI.7(2)	**325,468**	332,657
Sub-total		**620,690**	1,085,305
Less: Provision for bad and doubtful debts		**152,368**	154,042
Total		**468,322**	931,263

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

Ageing	2013	2012
Within 1 year (inclusive)	**249,175**	720,079
Over 1 year but within 2 years (inclusive)	**82,751**	217,158
Over 2 years but within 3 years (inclusive)	**140,821**	2,308
Over 3 years	**147,943**	145,760
Sub-total	**620,690**	1,085,305
Less: Provisions for bad and doubtful debt	**152,368**	154,042
Total	**468,322**	931,263

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

(3) Accounts receivable by category:

Category	*Note*	2013 Carrying amount Amount	2013 Carrying amount Percentage *(%)*	2013 Provision for bad and doubtful debts Amount	2013 Provision for bad and doubtful debts Percentage *(%)*	2012 Carrying amount Amount	2012 Carrying amount Percentage *(%)*	2012 Provision for bad and doubtful debts Amount	2012 Provision for bad and doubtful debts Percentage *(%)*
Individually significant and assessed individually for impairment		–	–	–	–	–	–	–	–
Individually insignificant but assessed individually for impairment	(4)	2,756	0%	2,756	100%	2,756	0%	2,756	100%
Collectively assessed for impairment*									
Group 1	(5)	295,222	48%	149,612	51%	752,648	69%	151,286	20%
Group 2		322,712	52%	–	–	329,901	31%	–	–
Sub- total		617,934	100%	149,612	24%	1,082,549	100%	151,286	14%
Total		620,690	100%	152,368	25%	1,085,305	100%	154,042	14%

* 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.

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

Content	Carrying amount	Provision for bad and doubtful debts	Percentage
Accounts receivable from related parties	2,756	2,756	100%

As at 31 December 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.

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

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

	2013			2012		
	Balance			Balance		
Ageing	Amount	Percentage	Provision for bad and doubtful debts	Amount	Percentage	Provision for bad and doubtful debts
Within 1 year						
Including:						
Within 3 months	**100,165**	**34%**	**—**	529,197	70%	—
Within 4 to 12 months	**43,828**	**15%**	**2,191**	72,260	10%	3,613
Sub-total	**143,993**	**49%**	**2,191**	601,457	80%	3,613
Over 1 year but within 2 years (inclusive)	**4,534**	**2%**	**1,133**	3,152	1%	788
Over 2 year but within 3 years (inclusive)	**813**	**0%**	**406**	2,308	0%	1,154
Over 3 years	**145,882**	**49%**	**145,882**	145,731	19%	145,731
Total	**295,222**	**100%**	**149,612**	752,648	100%	151,286

(6) *Reversal or recovery of provision for bad and doubtful debts during the year:*

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

Accounts receivable	Reason for reversal or recovery	Reason for original provision	Accumulated provision for bad and doubtful debts before reversal or recovery	Amount reversed or recovered
Accounts receivable due from third parties	Amounts received	Full provision was made due the overdue based on ageing analysis method	1,083	1,083

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

1 Accounts receivable *(continued)*

(7) 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 3 year (inclusive)	25%
2. Chongqing San Gang Steel Co., Ltd	Related party	91,587	within 3 year (inclusive)	15%
3. Chongqing Iron & Steel Group Steel Pipe Co., Ltd	Related party	74,967	within 2 year (inclusive)	12%
4. Customer 1	Third party	63,278	within 1 year (inclusive)	10%
5. Costomer 2	Third party	32,122	within 1 year (inclusive)	5%
Total		415,889		67%

(8) No amount due from shareholders who hold 5% or more of the voting rights of the Company was included in the above balance of accounts receivable in the current reporting year. For accounts receivable due from other related parties, see VI.7(2).

2 Other receivables

(1) Other receivables by customer type:

Type	*Note*	**2013**	2012
Third party		**63,229**	107,672
Related party	VI.7(3)	**—**	1,703,385
Sub-total		**63,229**	1,811,057
Less: Provision for bad and doubtful debts		**16,958**	16,958
Total		**46,271**	1,794,099

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

2 Other receivables *(continued)*

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

Ageing	2013	2012
Within 1 year (inclusive)	**15,292**	1,771,405
Over 1 year but within 2 years (inclusive)	**14,344**	13,583
Over 2 year but within 3 years (inclusive)	**7,808**	2,179
Over 3 years	**25,785**	23,890
Sub-total	**63,229**	1,811,057
Less: Provision for bad and doubtful debts	**16,958**	16,958
Total	**46,271**	1,794,099

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

(3) Other receivables by category:

	2013				2012			
	Carrying amount		Provision for bad and doubtful debts		Carrying amount		Provision for bad and doubtful debts	
Category	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and assessed individually for impairment	**31,922**	**50%**	**16,958**	**53%**	1,770,615	98%	15,827	1%
Individually insignificant but assessed individually for impairment	**31,307**	**50%**	**–**	**–**	40,442	2%	1,131	3%
Total	**63,229**	**100%**	**16,958**	**27%**	1,811,057	100%	16,958	1%

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

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

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	2013 Carrying amount	2013 Provision for bad and doubtful debt	2012 Carrying amount	2012 Provision for bad and doubtful debt
Parent Group	—	—	1,703,385	—

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

(5) Other receivables due from the top five debtors

Debtor	Relationship with the Company	Amount	Ageing	Percentage of total other receivable (%)
1. Business related unit 1	Third party	11,958	Within 2 years	19%
2. Business related unit 2*	Third party	10,240	Over 3 years	16%
3. Business related unit 3*	Third party	5,587	Over 3 years	8%
4. Business related unit 4	Third party	3,006	Within 1 year	5%
5. Business related unit 5*	Third party	1,131	Over 3 years	2%
Total		31,922		50%

* These amounts have been fully provided for.

3 Long-term equity investments

(1) Long-term equity investments by category:

Item	2013	2012
Investments in subsidiaries	**189,589**	189,589
Investments in associates	**30,021**	30,008
Total	**219,610**	224,597

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

3 Long-term equity investments *(continued)*

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

Investee	Investment cost	Balance at the beginning of the year	Increase/ decrease	Balance at the end of the year	Shareholding percentage (%)	Voting Rights percentage (%)	Provision for impairment	Provision made during the year	Cash dividend for the year
Cost method-subsidiaries									
Chongqing Electronics	29,745	41,290	—	41,290	100%	100%	—	—	7,770
San Feng Steel	51,000	51,000	—	51,000	73%	73%	—	—	—
Chongqing Transportation	47,299	47,299	—	47,299	100%	100%	—	—	—
East China Trading	50,000	50,000	—	50,000	100%	100%	—	—	—
Subtotal	178,044	189,589	—	189,589			—	—	7,770
Equity method-associates									
San Feng Logistics	30,000	30,008	13	30,021	10%	10%	—	—	—
Total	208,044	219,597	13	219,610			—	—	7,770

For details of information on the subsidiaries of the Company, see Note IV.

(3) Details of major associate

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Net assets at the end of the year	Total operating income for the year	Net profit for the year
San Feng Logistics	1,327,488	1,027,277	300,211	217,123	133

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income and operating costs

(1) Operating income and operating costs

Item	2013	2012
Operating income from principal activities	**17,322,356**	18,269,803
Other operating income	**45,478**	102,472
Operating income	**17,367,834**	18,372,275
Operating costs from principal activities	**17,706,474**	18,317,596
Other operating costs	**25,201**	59,494
Operating costs	**17,731,675**	18,377,090

(2) Principal activities (by product)

	2013		2012	
Product	Operating income from principal activities	Operating cost from principal activities	Operating income from principal activities	Operating cost from principal activities
Steel plates	**7,641,814**	**8,007,959**	9,494,230	9,506,060
Hot-rolled coil	**8,268,390**	**8,444,170**	7,090,337	7,147,541
Steel billets	**158,766**	**173,393**	499,341	522,388
Steel sections	**—**	**—**	49,401	55,352
Wire rods	**—**	**—**	23,549	24,726
Cool-rolled sheets	**247,582**	**286,092**	257,021	301,526
By-product	**1,005,804**	**794,860**	855,924	760,003
Total	**17,322,356**	**17,706,474**	18,269,803	18,317,596

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

4 Operating income, operating costs *(continued)*

(3) Operating income from top five customers

Name of customer	Operating income	Percentage of operating income from principal activities
1. Customer 1	1,892,230	11%
2. Customer 2	1,685,313	10%
3. Customer 3	1,409,013	8%
4. Customer 4	1,348,890	8%
5. Customer 5	1,255,963	7%
Total	7,591,409	44%

5 Investment income

Item	**2013**	2012
Investment income from disposal of long-term equity investments	**—**	307,000
Investment income from disposal of financial liabilities held for trading	**(1,518)**	(12,425)
Income from long-term equity investments accounted for using cost method	**7,770**	—
Income from long-term equity investments accounted for using equity method	**13**	7
Total	**6,265**	294,582

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Supplement to cash flow statement

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

Item	2013	2012
Net profit ("( )" for losses)	**(2,480,100)**	13,577
Add: Impairment provisions for fixed assets	**128,089**	379,814
Depreciation of fixed assets	**410,911**	353,218
Amortisation of intangible assets	**25,853**	7,166
Losses on disposal of fixed assets (gains denoted with "( )")	**2**	39,579
Loss on change in fair value (gains denoted with "( )")	**(1,556)**	(22,157)
Financial expenses (income denoted with "( )")	**810,077**	979,589
Investment losses (gains denoted with "( )")	**(6,265)**	(294,582)
Decrease in deferred tax assets (increase denoted with "( )")	**—**	5,404
Decrease in gross inventories (increase denoted with "( )")	**(1,685,536)**	(995,508)
Decrease in operating receivables (increase denoted with "( )")	**1,505,504**	1,048,393
Increase in operating payables (decrease denoted with "( )")	**3,846,441**	4,036,995
Increase in safety fees	**—**	—
Decrease in restricted cash (increase denoted with "( )")	**(684,633)**	(115,628)
Net cash flow from operating activities	**1,868,787**	5,435,860

(Expressed in thousands of Renminbi Yuan unless otherwise indicated)

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

6 Supplement to cash flow statement *(continued)*

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

(a) Finance lease activities not requiring the use of cash or cash equivalents

Item	2013	2012
Acquisition of construction in progress and construction materials under finance leases	**256,410**	486,782

(b) In 2013, the Company complete the material asset reorganization with the Parent Group, acquiring the assets, supporting and auxiliary facilities used for steel and iron production of the Parent Group in Changshou district by issuing, bearing liabilities and paying cash together. See Note VI.6(6).

(3) *Change in cash and cash equivalents:*

Item	2013	2012
Cash at the end of the year	**502,366**	3,364,836
Less: Cash at the beginning of the year	**3,364,836**	1,181,593
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 "( )")	**(2,862,470)**	2,183,243

1 EXTRAORDINARY GAIN AND LOSS IN 2013

Item	*Note*	**2013**	2012
Disposal of non-current assets		**(4,132)**	(40,398)
Tax refunds, exemptions and reductions without proper approved or without formal approval document		**3,779**	150
Government grants recognised through profit or loss	V.46(2)	**3,932**	2,001,616
Fees for reorganization		**(5,506)**	(17,157)
Reversal of provision for bad and doubtful debts		**1,786**	—
Investment income		**(1,505)**	369,274
Actual additional expenditure incurred in relation to the environmental relocation		**—**	(163,739)
Fees for free use of the Parent Group's assets		**—**	162,739
Other non-operating income and expenses other than the above items		**2,057**	2,220
Less: Amount of effect on taxation		**111**	347,244
Total		**300**	1,967,461

Note: 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 and earnings per share are calculated as follows:

Profit for the reporting period	Weighted average return on net assets *(%)*	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary equity Shareholders ("()"for losses)	(72.46%)	(1.252)	(1.252)
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity Shareholders ("()"for losses)	(72.46%)	(1.253)	(1.253)

3 EXCEPTIONS AND REASONS 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 repayment of large amounts of loans by the Group in 2013.

(2) Accounts receivable

The decrease in the balance of accounts receivable was mainly due to the greater effort in collecting accounts receivables made by the Group in 2013.

(3) Prepayment

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

(4) Other receivables

The decrease in the balance of other receivables was mainly due to the compensation for the impairment losses of assets related to environmental relocation paid by the Parent Group in 2013.

(5) Inventories

The increase in the balance of inventories was mainly due to the increase in the year-end balance of the Group's raw materials in 2013.

(6) Fixed assets

The increase in the balance of fixed assets was mainly due to the fixed assets in the material asset reorganisation in 2013 acquired by the Group, and the assets transferred from construction in progress to fixed assets during the period.

(7) Construction in progress

The increase in the balance of construction in progress was mainly due to the Group's further investment and development of the Product restructuring project in 2013.

3 EXCEPTIONS AND REASONS FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(8) Construction materials

The decrease in the balance of construction materials was mainly due to the transfer from the equipment and materials in construction materials to construction in progress made by the Group in 2013

(9) Fixed assets to be disposed of

The decrease in the balance of fixed assets to be disposed is mainly due to the disposal of old district assets basically complete.

(10) Intangible assets

The increase in the balance of intangible assets was mainly due to the acquisition of land use right in connection with the material asset reorganisation in 2013.

(11) Other non-current assets

The decrease in the balance of other non-current assets was mainly due to transferring the prepayments of land use right to intangible assets after the Group obtained the ownership certificate of land use right.

(12) Short-term loans

The decrease in the balance of short-term loans was mainly due to the repayment of some loans by the Group in 2013.

(13) Bills payable

The increase in the balance of bills payable was mainly due to the increasing use of bills as the settlement method by the Group in 2013.

3 EXCEPTIONS AND REASONS FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(14) Accounts payable

The increase in the balance of accounts payable was mainly due to the increase of purchase of goods, the increase of accounts payable for raw material resulting from the extension of Group's credit period provided by suppliers and increase of accounts payable for construction and equipment resulting from the material asset reorganization.

(15) Advances from customers

The decrease in the balance of advances from customers was mainly due to decreased balance of advances from third parties in 2013.

(16) Taxes payable

The increase in the balance of taxes payable was mainly due to the provision for the stamp duty and deed tax related to the acquisition of assets in the material asset reorganisation in 2013.

(17) Other payables

The increase in the balance of other payables was mainly due to the Group's new related party funding RMB 300,000,000 in 2013 and the payable of Parent Group's advances by the Company.

(18) Long-term loans

The increase in the balance of long-term loans was mainly due to acquisition of approximately RMB 7 billion of long-term loans in the material asset reorganisation in 2013.

(19) Long-term payables

The decrease in the balance of long-term payables was mainly due to the payment of the rent of finance leases by the Group in 2013.

3 EXCEPTIONS AND REASONS FOR THE GROUP'S MAJOR ITEMS IN THE FINANCIAL STATEMENTS *(CONTINUED)*

(20) Share capital

The increase in share capital was mainly due to the shares issued by the Company to the Parent Group to purchase assets in the material asset reorganisation and privately placed shares to raise funds in 2013.

(21) General and administrative expenses

The increase in general and administrative expenses was mainly due to the increase in the Group's repair fees in 2013.

(22) Financial expenses

The decrease in the balance of financial expenses was largely due to the decrease in the amortisation of finance lease and foreign exchange gains of the Group in 2013.

(23) Impairment loss

The decrease in loss from changes in fair value was mainly due to the decrease in provision for diminution in value of inventories in 2013.

Documents Available for Inspection

1. The financial statements signed and stamped by Legal Representative, Chief Financial Officer and Chief Accountant.

2. The original copy of the auditor's report stamped by the accounting firm and signed and stamped by certified public accountant.

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

Head of the Company: **Li Rensheng**
Chongqing Iron & Steel Company Limited

28 March 2014